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Background Information

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THE ENTERPRISE DIRECTOR IN COMMUNIST COUNTRIES,  
As Seen in the Examples of the USSR, Albania,  
Yugoslavia, Communist China and East Germany

The shattering of the communist monolith, which is seen most dramatically in the Sino-Soviet schism and the rapid progress of disintegration in the world communist movement, has so changed the communist world that many of the clichés which have been applied to it for 45 years, and particularly since World War II, increasingly fail to provide an adequate description. The irrelevancy of the term "Soviet satellite" to Yugoslavia, Albania, Communist China, North Korea, and North Vietnam hardly requires documentation, and to varying degrees the term fails to convey an accurate picture of the role of Rumania, Poland, and Hungary. Equally inadequate are the terms "monolith," "international communist movement," and "socialist camp," to say nothing of the term "communist" itself. The absolute failure of communists to understand and come to grips with the problem of nationalism is of course the basic cause of this disintegration and rampant diversity -- a process which may be dated from the Soviet-Yugoslav dispute in the summer of 1948.

If nationalism and national self-interest is the profound historical force which has brought about the current dramatic political disarray, there is another historical force, equally profound if less dramatic, which is progressively diversifying the face of each communist country from that of its fellows. This force is economic progress, i.e. the progress toward a mature, industrialized society which is the stated and actual aim of every communist regime. To the extent that a communist country builds a basic heavy

industry and embarks upon more sophisticated economic development, the pressures for abandoning or modifying primitive administrative patterns (i.e. rigid central control by the Party) increase. The rate of growth in maturing communist economies slows down, and new methods are required to attain the efficiency needed for further advance. Without attempting to establish a new "dialectic," one can understand the increasingly varied pattern of industrial management in communist societies in terms of the level of their economic development. Other special national problems must be considered, but this one is the most important. Thus we see that industrial management in Albania is in a particularly primitive stage, whereas in the Soviet Union and in East Germany (in spite of inherent political pressures to the contrary) a profound process of rationalization and decentralization is getting under way. The control pattern remains and similarities among communist countries can of course be observed; however, national interests will increasingly override ideological considerations. The case of Yugoslavia serves primarily to illustrate how far a country can go (and will continue to go) toward abandoning Marxist and Leninist dogmas while still calling itself a communist state.

There are many levels on which studies of the changing pattern of industrial management in communist societies can be focused -- the upper echelons such as Ministries, Planning Commissions, or Supreme Economic Councils; intermediate levels such as the VVBs in the GDR and regional economic councils (sovnarkhozy) in the USSR; or the working level of individual enterprises, including such positions as the enterprise Party secretary, trade union representative, workers' council chairman, secret police representative, or the enterprise director. Studies in this field have usually combined all these levels, including problems of the workers' themselves. In the following studies on the USSR, Albania, Yugoslavia, Communist China, and East Germany, and in subsequent studies by RFE's Target Area Analysis Department, the problems of communist industrial management will be examined from the single focal point of the enterprise director; other elements in the picture will be considered, but from the standpoint of the enterprise director. To a certain extent this may seem an arbitrary selection, but not entirely. It is in the person and role of the enterprise director that the clash of interests between Party control and economic efficiency (i.e. greater independence for the managerial elite) is most



clearly visible. As Professor Fainsod says in the new (1963) edition of How Russia is Ruled (pp. 503 - 504):

"Industrialization imposes its own discipline wherever it spreads. It requires the creation of a trained labor force which will work in subordination to the rhythm of the assembly line. The complex division of labor of the industrial order puts a special premium on skill in planning and directing a multitude of minute interdependent relationships. Since management plays a key role in providing such direction, the inevitable effect of a program of intensive industrialization is to lift the commanding staffs of factories and enterprises to positions of great importance and responsibility. The leaders of the Soviet regime have perforce been driven to adapt their structure of authority to absorb the new elite created by the industrial revolution. The preoccupation of the top leadership with problems of production has made the technical and managerial intelligentsia an indispensable adjunct of power and given its members an increasingly significant role in the directive apparatus of the Soviet state.

"The dependence of the regime on the industrial elite presents the Soviet ruling group with difficult problems. The leadership must be concerned both with the efficiency and loyalty of its managerial and technical cadres. It cannot dispense with efficiency since the productive potentialities of its industrial machine hinge on the quality of management. At the same time, it must also command the undivided loyalties of its managers and technicians if its own position of supreme authority is not to be gradually undermined. The effort to guarantee both efficiency and loyalty produces ambivalent and contradictory organizational pressures. The drive for efficiency leads to emphasis on one-man management and a reinforcement of the authority and perquisites of the managerial class. The anxiety about loyalty induces strenuous efforts to assimilate the technical and managerial intelligentsia into the Party and involves reliance on Party and police controls to hold the power of the managerial elite in check. The distribution of authority in the Soviet factory registers the effect of these cross pressures."

As will be shown in the following analyses, different communist regimes have resolved and are resolving this problem of distribution of managerial authority in quite different ways. The Albanian enterprise director, who has so little decision-making power that one may question the applicability of his title, has almost as little in common with his Yugoslav "counterpart" as with Western managers. The variations among the other communist countries are also striking. It is, however, important to bear in mind that these divergencies are growing and that in a few years' time the lack of monolithic communist unity in this sphere will be even greater than it is today. To the extent that the "Liberman" discussions in the USSR, East Germany and other countries are introduced in practice, and to the extent that the Yugoslav and Western patterns influence developments in certain communist countries, the forms of industrial management will continue to evolve and to reflect the economic realities of individual communist countries.

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Although Target Area Analysis will provide a detailed study of the enterprise director in Poland, Czechoslovakia, Hungary, Rumania, and Bulgaria -- we include below for purposes of general reference the following brief summary by Harry Shaffer, currently Visiting Professor at RFE.

In Czechoslovakia, economic revisionism is still mainly in the discussion stage. Under the pressure of increasing economic failures during the 1960s, forthright proposals à la Liberman found their way into the Party-controlled press early in 1963. By fall, support for decentralization was rising. In January, 1964, the Party Central Committee set up a special commission to study the proposals and present its findings to the Central Committee. None of the proposals has so far been translated into action, so that the enterprise director, for the time being anyhow, continues to remain merely the local executive in charge of supervising the execution of the plans prepared at the center.



In Bulgaria decentralization has passed the discussion stage. Encouraged by the success of an experiment in local autonomy at the Lilliana Dimitrova Textile Factory in Sofia, the Council of Ministers decided on February 3, 1964 to carry out a large scale experiment which is to involve one sixth of Bulgaria's 30 districts. Only the broad outlines of the Plan are to be determined at the center. Details are to be decided upon by each enterprise for itself, with profit as the guiding motive to influence the decisions of each enterprise's chief executive.

In Poland a good deal of economic power was delegated to the enterprise during a brief period from the late fall of 1956 to mid-1958. Enterprise directors not only had authority to make certain economic decisions (such as the allocation of the depreciation fund) but could even produce some "sideline" commodities for sale on the market; workers' councils were legalized; and an Economic Council staffed primarily by revisionist economists was set up to deliberate upon a Polish model of socialism. In late 1958 the trend was reversed. The powers of the enterprise director and of the enterprise proper were greatly curtailed (including, even, the power to dispose of its own profits); the workers' councils were incorporated into newly formed workers' self-government conferences in which Party-controlled or influenced local groups played major roles; and finally, in 1963 the Economic Council was officially abandoned. Yet, there is evidence that decentralization is still being considered, since an experiment with great local autonomy involving 30 enterprises engaged in the export business was initiated in January, 1963.

In Hungary, the workers' councils that had sprung up spontaneously in 1956 were transformed into "factory" councils, devoid of any specific authority, after the failure of the Hungarian revolution. In 1961, the open discussion of revisionism was renewed. Since then Hungary has introduced an interest levy on fixed and working capital at the enterprise level, has experimented with profit-sharing incentive plans, has somewhat "democratized" the factory councils (they are now elected by the workers, not appointed from above), and has delegated economic powers to the enterprises. The increased authority of the enterprise director, however, is now somewhat circumscribed by the obligation to consult with the factory council on most economic and administrative matters under his jurisdiction.

In Rumania open discussion of economic revisionism is negligible, and experimentation or legislation aimed at economic decentralization is minimal. Rumania seems to have adopted a "let them try it first" attitude. The enterprise director, therefore, carries out his assigned share of the national plan as best he can, with few independent decisions left to his discretion.



"WINDS OF CHANGE FOR SOVIET MANAGERS"

It would take a book to describe the administrative changes affecting Soviet directors since 1917, and therefore this paper will only attempt to outline the major developments since the death of Stalin.

Beginning in 1955, and continuing until 1957, the control over some 15,000 enterprises was "decentralized" by transferring them from the jurisdiction of the All-Union ministries in Moscow to that of the Republican Governments. Clearly this made it easier for the manager of a coal-mine in the Ukraine, for example, to negotiate and consult with his superiors for extra machinery or a reduced plan. When the higher authority is located in Kiev instead of in Moscow, contact becomes more direct.

In 1957 the process of decentralization was carried much further, by dividing the USSR into about 100 "national economic councils", and making enterprises subordinate to them, instead of to ministries of the Republican Governments. This operation had a similar beneficial effect from the point of view of improving liaison between factories and the heads of councils, since for a mine manager in Stalino Oblast, it was then necessary only to go as far as the Oblast capital instead of to Kiev to begin his lobbying. But the 1957 reform had a number of undesirable effects. It encouraged far too much parochialism, as a result of which the manager, the head of the national economic council, and the oblast party secretary would conspire to further local interests against those of Moscow, and it invited daily interference by local party officials in the affairs of the council and factories.

Consequently in November 1962, a measure of recentralization was introduced, by reducing the number of national economic councils to only 47, which in turn are grouped in 18 economic regions. Thus for the purpose of negotiation with his superiors, the Soviet manager is now far better placed than under the Stalinist system of extreme centralization, but not so well situated as he was during the 1957-62 heyday of decentralization.

Another important change in 1957 was the abolition of the industrial ministries, and their replacement by "state committees." Since the latter do not have the same power and status as the ministries, the influence of enterprise directors on their superiors was proportionately increased.

As regards the enterprise Party secretary, the abolition of terror in the past decade has led to a marked reduction in the

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tensions existing between the manager and the local Party representative. Whereas prior to 1953 it was by no means unusual for an unlucky or inefficient manager to end up in the forced labor camps on the basis of denunciation by the secretary, to-day such managers are more often either retired or transferred to a smaller enterprise with a reduction in pay.

The return to Khrushchev's version of "socialist legality" has also led to a decline in the power of the enterprise representative of the secret police - in fact in many cases the latter post has probably been abolished. While in the larger factories the KGB is still present, its functions to-day are mainly concerned with stamping out large-scale embezzlement and other economic crimes, and to that extent it is more an assistant than a threat to the average honest but hard-pressed director.

As regards the trade unions, the director's position has changed markedly for the worse since 1953. In those days he could hire and fire unimpeded (within the limits of his approved labor force), his workers were tied to their jobs, and he could use the enterprise fund for almost any purpose at his own discretion. Now trade union approval for dismissals is by no means automatic, and in many cases the unions win the right to reinstatement for their members. Workers can no longer be forced to stay on the job, since they are now entitled to seek better conditions in a neighbouring factory. Moreover the trade unions to-day frequently appeal successfully against a manager's attempt to transfer money earmarked for housing in the enterprise fund to the expansion of production facilities.

### Social Origin

In the mid-thirties less than one-third of Soviet directors had degrees. Yet twenty years later the proportion had risen to approximately two-thirds, with engineering showing the highest level of educational attainment (90 per cent of directors with degrees) and light industry the lowest (45 per cent). This quantitative change illustrates the qualitative movement from the early years of the "Red Directors", who were revolutionaries first and mainly became managers by virtue of their party loyalty, to the technocrats of to-day, with their semi-bourgeois habits and "new class" status.

Whereas under Stalin "reliability" was often more important than ability, now that the Brezhnevs, Kosygin and Kirilenkos represent the technocracy at the Presidium level it is almost certain that professional qualifications outweigh party devotion in the decision to promote or appoint a manager.



### Extra-Legal Practices

There is little doubt that the closing of most of the forced labor camps led to a considerable increase in economic crimes, and particularly to such practices as bribery to obtain additional raw materials. In theory the Party-State Control Committee (A.N. Shelepin) is supposed to prevent these extra-legal operations, but in practice they continue and very few directors are punished as a result. This is probably due to the tendency of control officials to "look the other way" when the operation seems likely to benefit their factory, as long as it is not too ostentatiously conducted. The great reduction in the number of "funded" (i.e. centrally rationed) commodities in 1953-6 from 1600 to about 800 to-day also helped materially to reduce the need for bribery and corruption on behalf of the plant.

### Public Relations

As in the West, factory managers in the USSR are actively attempting to influence public and official opinion in their favor by a sustained campaign of letters to the press, broadcasts, articles in the scholarly economic magazines, etc. At present it is particularly intense because the new "Law on the Socialist Enterprise" is due to be published soon, and directors hope to persuade the drafters and legislators to give them the maximum room for manoeuvre.

### Labor Force

At present directors have no control over the size of their labor force engaged on production, but recently they have been given the right to determine the size of their administrative staff. This is extremely important due to the universal tendency for the ratio of white-collar workers to grow while the proportion of production workers tends to decline due to automation and modernization. As long ago as 1958, about 15 per cent of the average factory staff were administrative personnel, and by now it is probably nearer 20 per cent.

Directors have full control over the promotions and appointments of their subordinates, but not over the use of the enterprise fund, in which both higher authority and the trade union have a say. Under the new law they will also probably be able to lay down wage categories and bonuses for engineers, technicians and employees, although not for production workers, whose wages will continue to be fixed from Moscow.

Directors of a small enterprise with about a thousand employees probably earn about 500 rubles a month, or six times the wage of his average worker. At this rate he is earning more in real terms than he would in almost any other profession, with the exception of the outstanding artists, writers and scientists.

One of his major difficulties is that he is virtually unable to influence his factory's annual plan. Although in theory this is drawn up at enterprise level, in fact it is usually fixed by the State Planning Commission in Moscow, which tends to add a substantial increment to the previous years gross output figure, and hand it down as a target. The director cannot amend the plan once it has been handed down, and even when higher authority arbitrarily changes one major part of it, for example the accumulation plan, he has not the right independently to change the target for production costs which is directly connected with the level of accumulation. This is one of the negative features which is expected to be changed in the new "Law of the Socialist Enterprise."<sup>1</sup>

### Raw Material Supplies

Raw materials reach the average factory from three sources: firstly, there are the 800 "funded" commodities, i.e. materials in short supply centrally allocated by a rationing system. Secondly, there is direct purchase in the normal way of all non-funded goods, and thirdly there are - in exceptional circumstances - the extralegal purchases described above (p. 9), which are intended to eliminate bottlenecks or enable the plant to overfulfill its plan, thereby providing a better bonus for management. As in most scarcity-ridden economies, the latter type of activity is widespread, often as a result of the failure of Gosplan to ensure the delivery of sufficient materials under the first two (legal) supply channels.

At present there is no charge for hoarding raw materials, since no interest is paid on the capital used, but this is likely to change before long. Professor Liberman's revisionist proposals, which seem likely to be adopted in one form or another, aim at linking bonuses with profit made in proportion to capital employed. A system of this type would provide an incentive to economize on raw material stocks.

Directors can and do regularly refuse to accept defective or poor-quality goods. If the supply plant disputes the refusal, the case is submitted to independent arbitration.

### Success Criteria

It is in this field that the Soviet management system is weakest. At present a manager is judged primarily on fulfillment of his gross output plan, a system already obsolescent in an economy slowly moving from scarcity to surplus in an increasingly wide range of products. There are numerous other criteria, such as the size of the wage fund and production cost levels, but they are subsidiary. Professor Liberman's proposals aim to change this situation by making profitability the primary cri-

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1) See "Soviet State and Law," No. 5, 1963



terion of success, and there is much evidence that everywhere from Khrushchev downwards through Gosplan, via the national economic councils and finally the managers themselves, most of the USSR's industrial system is becoming increasingly profit-conscious, if not yet profit-motivated.

Whereas at present directors tend to favor the minimum assortment in order to produce maximum output, the central press (e.g. Izvestia Jan. 11th 1964, p. 3) states bluntly:

"The time has come to replace the present procedure by the free buying and selling of goods."

This phrase simply means the introduction of a socialist market economy, at least for consumer goods, to which Izvestia's article was restricted. To the extent that "free buying and selling" makes headway against Gosplan's interest in self-perpetuation, life for the manager of a consumer goods factory must become more and more complex, since only by increasing the assortment and quality of his goods will he succeed in selling them.

#### Non-Material Rewards

Soviet directors are like Western factory managers in not being motivated solely by material interest. In the main they seek prestige, have a real desire to serve their country (more often than "communism"), and feel that the best way to do so is to run an efficient factory. Since the death of Stalin, they have been able to identify themselves more fully with the aims of the CPSU as a result of Khrushchev's increasing insistence on the priority of economics over politics - a theory to which they whole-heartedly subscribe.

#### Restraints on Production

Most directors try to produce more than Gosplan expects, because their bonuses rise with overfulfillment of the plan. But they also tend to avoid maximum output, because they know that Gosplan may then hand down an extremely difficult plan for the subsequent year. Here again Professor Liberman's proposals are designed to overcome this disincentive, by substituting a profit plan for the present one based on gross output, and leaving the director free to maximize profit by a wide variety of methods.

#### New Equipment and Techniques

Since there is at present no charge on capital, there is a tendency for directors to overinvest in new machinery.

This has recently been reinforced by the introduction of higher amortization rates, so that equipment can be written off more quickly than in the Stalin era. But where plans are taut, many directors avoid the use of new methods because they fear that the change-over period will lead to a loss of output, and consequently of their bonus. This tendency to conservatism has been partly offset by a decree (Izvestia, Feb. 2nd 1963) giving the Union Republic Governments the right to fix temporary and higher prices for new products, with a view to covering both the additional production costs and the necessary bonuses for management.

### Non-Enterprise Activity

Outside agencies, such as agitprop, at present cause a surprisingly large loss of working time in the average factory and for this reason the Party itself is at present campaigning<sup>2</sup> to have such extra-plant work transferred to after-duty hours. For example, in Estonia it is calculated that 35,000 man-days of work time were lost last summer due to the "Folk Dance Festival", and therefore managers at present are cooperating with the Party and the Party-State Control Committee to try to reduce abuses of this kind. They are unlikely to be wholly successful, to judge by the recent record. Ten years ago the Estonian type of slackness would have been inconceivable.

### Management Schools

Within the past year the first genuine management school has been founded in the USSR, as an imitation of (and tribute to) the Harvard Business School. Associations of managers in the western sense are not necessary, since the local national economic council provides a meeting point where managerial experience can be exchanged and mutual interests (e.g. anti-labour manoeuvring) can be furthered. Periodicals for management such as Problems of Economics, Planned Economy, etc., abound. They represent the managerial point of view to a large extent, in that they tend to discuss real problems in pragmatic, economic terms, with a low proportion of ideological claptrap. But they are not in any real sense opposed to the Party (the vast majority of their editors and contributors are Party members). They simply have a different conception of the world from the agitprop one, since their functions are different. As they see it, it is their job to build communism, while the agitprop type of functionary talks about building it.

The social status of enterprise directors is appreciably higher than in the West, because of the power attached to their jobs and the relative smallness of the upper strata of the new

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2) e.g. Pravda, 7th Feb. 1964



class. The Soviet factory manager, at least in the case of large plants, is often responsible for the provision of housing, schools, clubs etc., for his workers - duties usually performed by the municipal authorities in the West. Moreover in the West successful night-club owners, grocers, or psychiatrists often earn as much as a plant director. Their equivalents do not exist in the USSR - yet.

Soviet factory directors, like Khrushchev, tend to be philistine in their cultural tastes. The few who buy abstract paintings, as with their Western equivalents, do so for investment purposes rather than for artistic satisfaction. Soviet writers constantly discuss the director's problems in literature, but this is firstly because "socialist realism" requires books about production, and secondly because, as in the West, authors find it easier to sell books about the new class than about the proletariat. The reading public has little desire to read about the lives of workers or peasants - it knows enough about the subject and finds it dull and monotonous.

In conclusion it may be worth recording that the weekly Economic Gazette frequently carries articles discussing the problems of directors in the East European states for the benefit of its Soviet readers. In this way the views of Hungarian, East German, Polish and Czechoslovak managers are frequently conveyed to the technocracy in the USSR.

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### THE ALBANIAN ENTERPRISE DIRECTOR

The aim of the 1961-1965 Third Five-Year-Plan is to transform Albania from its present agrarian-industrial level into a semi-industrialized state. Based on this goal, one may deduce that the industrial level of the country is at present very low compared to that of most other Communist states. Furthermore, in addition to its small capacity, Albanian industry also has a relatively short history, the emergence of this economic sector having taken place primarily during the past ten years.

As an illustration of the industrial capacity of the country, the figures of the 1961 Statistical Yearbook show that at the end of 1961 Albania had 330 economic enterprises. Of these, 170 were in the industrial sector, and the remaining ones in the fields of construction, transportation, and commerce. Today, the total number of these enterprises in the country is estimated to be slightly over the 400 mark. Albanian industrial plants are predominantly small. In 1961 there were only four enterprises which employed more than 2,500 workers. Of these, the "Stalin" textile plant in Tirana (the largest industrial plant in the country) employed approximately 5,000 people. In 1961, there were in addition 16 enterprises employing between 1,000-2,500 people, 35 factories employing 500-1,000 workers, 131 plants with 200-500 workers, and so on down the line. At present there are 25 large industrial projects under construction. They include a textile plant named "Mao Tse-Tung," two chemical plants, two metal-smelting plants, both with an eventual employment capacity of between 1,000-2,000 workers, and other smaller factories.

The smallness and newness of Albanian industry is automatically reflected in the role of enterprise management -- industrial management in Albania is far less complicated than it is in other communist countries with long-established industries. For example, there are no special management schools, associations, periodicals, etc., in Albania, and one finds no evidence of the decentralization trends set in motion by the approach of industrial maturity in some communist countries. As is the case with other facets of Albanian life, there is no evidence of any loosening of rigid central controls; any moves in the opposite direction would run counter to Albanian communist ideology which is firmly based on Stalinist principles.



In Albania, control over the approximately 400 enterprises, and consequently control over the same number of managers, (there are a few large enterprises which have one general director and factory directors subordinate to him) is firmly in the hands of the central authorities.

In Albania, the checks and restraints on management are reminiscent of the Stalinist period in the Soviet Union. The Albanian Party ideologists do not make any secret of the existence in their country of Stalinist methods of management. On the contrary, they frequently attack the "winds of change" which have begun to blow in other communist countries of Eastern Europe. Thus on 25 March 1964, Jorgji Sota, director of the Party school V.I. Lenin, in an article published in the Zeri i Popullit, stated: "Under the deceptive and hypocritical slogan of creative Marxim, the revisionist leaders use various new forms and methods, from the infamous course of the Titoist clique in the so-called workers' self-management and down the line to the reforms of organization in the leadership of industry and agriculture pronounced by Khrushchev." [Emphasis supplied]

#### The Administrative-Operative Directorate

Enterprises in Albania come under two distinct categories: State Industrial Enterprises and Local Industrial Enterprises (hereafter SIE and LIE). In 1954, when the Ministry of Industry and Mines<sup>1</sup> was founded, the State Legislative Code<sup>2</sup> stated that the Ministry "administers, organizes, aids and directs all dependent enterprises."

The SIE come under the complete control of ministerial authority by way of the office of the Administrative-Operative Directorate (hereafter AOD), and in some cases also under the authority of the directorates of other unspecified government institutions. The LIE instead are controlled by the AOD of the executive committees of the local people's councils. The appointment of directors to SIE are designated by ministerial

<sup>1</sup>In January of 1960 the Ministry was separated into two different ministries: The Ministry of Industry and the Ministry of Mines and Geology.

<sup>2</sup>The country's legislative laws were published in book form during 1958-1959 under the title: General Codification of the Legislative Power of the Albanian People's Republic.

authority, whereas the directors of LIE are appointed by the local executive committees.

Ministerial authority, which is delegated to the AOD, is direct and total. Among some of its important prerogatives authorized by state legislation are: to appoint enterprise directors; to take necessary measures for the fulfillment of plans; to propose and to assign positions to employees within the enterprise when such a right is not delegated to the enterprise director; to annul, to impose, to change or to reject the orders or decisions of the director of the enterprise; and to take disciplinary measures against the director. The restricted role of the enterprise manager in Albania is further revealed by the sanctions of the State Code which state that the director of the enterprise administers his subordinates on orders, decisions and instructions of the AOD. On this basis the director can enter work agreements, make loans and dispose of goods and services, except in cases when these rights are subject to the direct authority of the AOD. The same procedure is followed in hiring, transferring, laying-off and fixing of salaries of the enterprise personnel. These centralistic controls over management lead to a proliferation of bureaucracy. As is the case in all communist societies, the Albanian authorities are aware of the tendency toward bureaucracy, and make efforts to eliminate it, but without much success. On 20 December 1962, for example, Zeri i Popullit reported the case of a worker in the leather factory in the city of Gjirokastra who had been employed for four years as a 5th classification worker even though he had been registered as a 2nd classification worker. To his repeated requests during this entire period for a change in his work classification, the factory director's reply was: "We have made a written request to the Ministry. You must wait until we create the commission of categorization."

Disciplinary actions against the workers of the enterprise are determined by the AOD, although in some instances, through its authorization, by the director himself. The AOD also appoints the chief accountant of the enterprise. This official is responsible to the director concerning the financial problems of the enterprise; however, he receives directives and instructions only from his superiors in the Ministry of Finance. As an illustration, on 16 March 1963 Zeri i Popullit reported how the management of a furniture plant in the city of Elbasan had complained that the finished products were being damaged as



a result of improper warehouse facilities. The reply noted that the respective ministry had not approved the required funds for the repair or for the construction of the warehouse.

If management in fact has its hands tied by the numerous controls of the AOD, thus limiting considerably the director's initiative, it is in addition subject to serious punishment for allowing the production of defective goods. On 28 February 1964 the Tirana daily Bashkimi published an article entitled, "Who is Responsible for Producing Defective Goods?" The author, a legal expert, replied: "The production of goods which do not meet the standards, is, according to paragraph 87 of the Penal Code, punishable by corrective work and up to five years in jail. Those responsible are the director, the chief engineer and the head of the enterprise's Technical Council." It was also explained that if the product's defectiveness is caused by the poor quality of the raw materials, the management is still responsible for accepting and using the faulty raw materials. This illustrates the dilemma of Albanian management: on the one hand it is forced to rely docilely on the AOD while on the other hand it is punished for not exerting the proper initiative. Bashkimi's reminder to the enterprise directors about paragraph 87 of the Penal Code may have been prompted by the frequent cases of production of inferior goods, as was the case with the SIE of Porcelain and Glass which, out of the 120,000 plates produced, discarded 70,000 because of defects, (Zeri i Popullit, 5 March 1964).

### Trade Unions

The trade union organization within the enterprise is another organ with which the director must share some of his limited managerial authority. The TU organization has the "right," for example, to propose to the director of the enterprise suggestions on production increases, socialist incentives, work effectiveness, improvement of work conditions, work organization, personnel problems, etc. The TU organization has the "right" and the duty to inform the AOD and other higher state organs of any discrepancies in the enterprise and of any negative aspects of the director's work performance. It goes without saying that the trade unions in fact have no independent rights as representatives of the workers and are "transmission belts of authority." They do provide, however, an additional check on the authority of managers.

### Technical Council

The director also shares some of his tasks with the Technical Council of the enterprise, the purpose of which is to advise him on the enterprise's technical problems. The Technical Councils are appointed by the AOD. The trade union organization appoints one of its members to the Council. The Technical Council must notify the AOD when the director of the enterprise is uncooperative.

### Party Base Organization

If in Albania the administration of the enterprise is controlled by the ministries, and the director must in varying degrees share his duties with trade union organizations, Technical Councils and so on, this by no means completes the list of controls. The role of the Party in the enterprise, through its base organization, is practically unlimited. First, the deputy director of the enterprise is in most instances the secretary of the base organization. In some cases, the director himself is a high member of the local party organization.

The Party Statute<sup>3</sup> states that it is the duty of the base organization to direct the work of the entire enterprise, and that the task of the Party Committee is to hold the reins of such directing work. The following statutory provision illustrates clearly the powerful influence of the base organization over the enterprise:

"The right of control of the base organization over the administration of the enterprise is not at all in contradiction to the rules for managing.... The base organization does not replace or neglect the administration of the enterprise, it does not replace the director. On the other hand, the director, who is a comrade with great responsibilities, must in his work rely completely on the base organization by carrying out its instructions.... The director must give account to the base organization, and he cannot direct

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<sup>3</sup>About the Statute of the Albanian Workers Party, Tirana, 1959.



"without the control and support of the base organization. In this respect there should be no misunderstanding whatsoever. If the director is to maintain a principle stand and conscientiously defend the state interests, he must depend on the base-organization."

From time to time, press articles stress the prerogatives of the base organization, thereby reaffirming the grip of the Party over management. In fact there have been cases when the base organization has completely transcended the authority of the director of an enterprise by direct intervention. An article in the Rruga e Partise of October 1963 disclosed that the base organization of the State Industrial Fishing Enterprise, with the support of the Party Committee of the city of Durrës, took the "necessary" measures to improve the production performance of the enterprise which in 1962 had fulfilled the annual plan by only 77 per cent. According to the theoretical monthly, the base organization "proposed" that the management prolong the fishermen's time at sea by 15-20 days without interruption. It further "proposed" a change in the forms of salary compensation according to which fixed salaries would be replaced by forms of incentive pay.

The Albanian Party organ Zeri i Popullit regularly publishes reports dealing with the role of the base organization, and how it influences the director's work. On 16 May 1963, ZIP expressed considerable irritation with the manner in which reports had been presented at the Party Plenum of the city of Tirana by various Party base organizations of the city's economic enterprises. The Tirana daily noted that comrade Ramazan Uzuri, secretary of the base organization of the Glass and Ceramic State Industrial Enterprise, and member of the Party Committee of the city of Tirana had read his report to the Plenum not only in the capacity of secretary of the base organization, which he was, but also in the capacity of enterprise director, which he was not. ZIP charged that comrade Uzuri had consulted beforehand with the director of the enterprise on questions to be raised at the Plenum. This had been demonstrated by Uzuri's reminder to the Plenum that the Ministries of Industry and Trade should fulfill their obligations to the enterprise. ZIP's correspondent, a sort of influential Party informer-reporter, maintained that Uzuri's report dealing with these demands had been drafted by the director of the enterprise.

The director furthermore had added the following remarks along the margin of the text:

"Comrade Ramazan!

This question is of great importance, therefore, I believe you should use it toward the end of your report. Read it twice, when you come to it, don't rush, speak slowly. Each word and sentence in this chapter should make the desired effect -- Skender."

Cases of collusion between the enterprise director and the enterprise Party secretary are as old as the communist system itself and are by no means found only in Albania. The career of the Party base organization secretary, no less than that of the enterprise director, depends upon the fulfillment of the enterprise plan -- a common interest which frequently enables the enterprise director to enlist the support of the enterprise Party secretary against unreasonable demands and restrictions imposed by the Party higher command. (Although it has not been possible to determine all the échelons of Party control of the economy, it is clear that the enterprise and local Party bodies are subordinate to the Directorate for Industry and Construction of the Party's Central Committee.)<sup>4</sup>

ZIP of 16 May 1963 also criticized Vangjel Nikolla, director of another Tirana Industrial State Enterprise. Nikolla was accused of presenting an optimistic report on the enterprise's production performance, contrasting sharply with the report of the Party bureau which had reproved the base organization for the poor work of the enterprise. Asked the paper: "Did comrade Vangjel hear this? Did he accept it or not? And if so, why was this not reflected in his report? What happened to the principle of self-criticism?"

These are some of the humiliations and tribulations with which Albanian industrial management must cope. Nevertheless, the position of enterprise manager in Albania does have certain compensations.

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<sup>4</sup>Zeri i Popullit, 13 July 1963, "Greater Efforts for the Improvement of the Fishing Sector."



### Director's Profile

The professional background of the Albanian enterprise director is frequently that of an economist. In addition, however, many reports in recent years have indicated that managerial positions are offered to retired, high-ranking military personnel whose political reliability apparently qualifies them for such important and rewarding jobs. By Albanian standards, the managers' earnings are fairly high. Depending on the size of the plant the salary ranges from 8,000-12,000 lek a month,<sup>5</sup> or twice the wages of the average worker. This is, however, not much higher than the wages of a highly qualified engineer, a profession which is highly respected and valued in Albania today. In addition, both administrative and technical-engineering directors, who fulfill or overfulfill their plans, receive at the end of the year the equivalent of Christmas bonuses. According to Ekonomia Popullore of July-August 1963 these compensations have in recent years amounted to 20-25 per cent of the director's monthly base salary.

Lately, a campaign has been initiated to give the enterprise directors a more appropriate education by urging them to attend night classes at higher institutes of education.

In contrast to his counterparts in the more developed East European countries, the Albanian enterprise director has little to show in extra privileges. The Albanian industrial level is still too low to enable an enterprise director to possess a car, for example. However, the managers of a few larger enterprises are known to have the privilege of using official company cars.

### Reliability Over Ability

Hand in hand with the development of industry, the role of the manager also tends to evolve. On 10 February 1962, an article in Zeri i Popullit dealing with the role of enterprise management pointed out that in larger and technically more complicated plants, the chief engineer of the enterprise is

<sup>5</sup>Using the market rate of exchange of 125 lek = US\$1, this would be \$64 and \$80 per month. The less realistic official rate of exchange is 50 lek = \$1.

the production director, and as such he is the right-hand of the principal director. The article also noted that ten years ago when the technological level of the country was still low, the slogan then was "general directing in production," whereas today it has become "concrete directing."

Fundamentally, the Party sees to it that the manager, as a leading authority, remains above all a Party faithful. An editorial in Zeri i Popullit of 20 December 1962 illustrates this Party concern: "The directors are above all political leaders and approach everything from the point of view of the Party's interests." An example of this Party preference for reliability over professional qualifications was contained in Zeri i Popullit of 11 May 1963. The article, entitled "The Enterprise Director is also a Party Worker," disclosed that a certain Xhevdet Mingomate was called into the offices of the Party Committee of the Elbasan district one day and was told: "You, Xhevdet, have worked for a long time as a Party worker; but the time has come for you to change your duties. We have decided to make you the director of the Local Industrial Enterprise of production." Xhevdet's answer was: "Wherever duty calls me!" ZIP also noted that because of his fine record in organizational work Xhevdet was also member of the bureau of the local Party organization.

However, at least one enterprise director is not such a Party stalwart as Xhevdet. On 18 October 1962, Zeri i Popullit reported that when the director of a Local Industrial Enterprise in the Dropulli district, Kristo Drako, was asked by the base organization to give a political talk, he objected, saying that a mistake had been made in assigning him this task for he was not the secretary of the base organization but only the director of the enterprise. The paper concluded merely by praising the base organization for criticizing comrade Drako's behavior.

In contrast to the new trends in several other East European countries where ability in management is beginning to outweigh pure politics, in Albania they are still trying to create industrial managers by training Party stalwarts -- on the job or in night schools. The pressures for economic rationalism which are beginning to transform Eastern Europe have not really begun to be felt in Albania.



## THE ENTERPRISE DIRECTOR IN YUGOSLAVIA

### INTRODUCTION

The role of the director in a Yugoslav enterprise<sup>1</sup> can be properly grasped only if the system of workers' self-management and its development in the course of the past 14 years, with all its ups and downs, is understood. Tito's conflict with Stalin in 1948 led to a revision by the Yugoslav leader of the role of State authorities in the internal development of a Communist-dominated country. According to Stalin, the phase of "capitalist encirclement" led to the sharpening of the class struggle, which, in turn, could only be carried through by strengthening the central State authorities. Only a strong State, Stalin claimed, could ensure its own ultimate withering away.

In opposition to Stalin's ideas, Tito and his colleagues came to the conclusion that the starting phase of socialist development in a country taken over by the Communist Party can be constructed only if the first stages in the withering away of the central State authorities are carried out.<sup>2</sup> In other words: through decentralization. In Tito's opinion, the first steps in the historically necessitated process of decentralization were the workers' councils by means of which the toilers should manage their own industries. Marx, Engels and Lenin were quoted in support of this thesis.

- 1) According to Belgrade daily Politika of 9 March 1964, there are today in Yugoslavia 84,000 directors. This figure includes plant directors in various "economic units" in over 6,000 enterprises, including about 800 "big" ones.
- 2) The Yugoslav leaders, however, held the position that strict state control in all spheres of life was necessary in the first years after the Communist assumption of power. Later, in the Yugoslav Party Program passed at the VII Party Congress in April 1958, it was said that "the socialist state is and must be a state of a specific type, a state that is withering away." (Page 123 of the English text of the Program published in 1958 by the Belgrade Publishing House "Jugoslavija.")

Yugoslavia was excommunicated by Stalin from the Communist family on 28 June 1948. On that day an historic document, known today under the name of the First Cominform Resolution, was passed in Bucharest by the Soviet bloc leaders. Two years later, almost to the day, (27 June 1950) Tito and his colleagues passed a different historic document, popularly known as the Workers' Councils Law.<sup>3</sup> The second (Yugoslav) document would not have been possible without the first (Soviet) one. However, while the Cominform Resolution died together with the Cominform itself, the Titoist Workers' Councils Law has remained until the present day a real revolutionary move the full consequences of which no one can yet foresee.

We cannot deal here in detail with all phases of the development of Yugoslavia's workers' self-management system, discussed by Tito on 26 June 1950 in a major speech and adopted by the National Assembly in Belgrade the next day, i.e. on 27 June 1950. Instead we would like to see what in the past was and what today is the role of the enterprise director within the Yugoslav self-management system. It does not seem that in June 1950 Tito was fully aware of what a revolutionary move the creation of the workers' councils in Yugoslavia really was. He only insisted that this step was in harmony with Marx, Engels and Lenin and in opposition to "State capitalism" and the "bureaucratic centralism" of Stalin. In his historic speech on 26 June 1950 in the National Assembly in Belgrade, Tito said:

"Even this decentralization alone, not only of the economy but also of political, cultural and other life, carries in itself not only a deep democratic character, but also the germs of the withering away not only of centralism as such, but also of the State in general, the State as a machine of compulsion."<sup>4</sup>

One should immediately add that, in spite of all the talk in favor of the withering away of the State (and even of the Party "as a section of the State machine for compulsion"), Tito did not intend to abolish the monopoly of the State apparatus in the management of enterprises. He said:

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3) The Law was enacted on 2 July 1950 and published in the Official Gazette on 5 July 1950. Its official name is "The Basic Law On The Management Of State Economic Enterprises And Higher Economic Associations By Working Collectives."

4) Borba, 27 June 1950.



"State functions in the management of the economy cannot fully cease to exist, but they are no longer complete and exclusive. These functions are to weaken through the fact that workers are being attracted to participate in management."<sup>5</sup>

[Emphasis supplied]

The above-mentioned State functions were in 1950 expected to be exercised by the enterprise directors, whom the workers at the very beginning were not allowed to appoint. Directors were proclaimed "operational chiefs" and were authorized to be almost omnipotent functionaries, in whose presence workers' self-management looked like a farce. On the other hand, the State central administrative machinery was very rapidly dismantled, so that, as a result of successive reorganizations, "over 200 ministries or other high-level economic administrative agencies were abolished."<sup>6</sup>

Observed from the present-day angle, the economic decentralization in general was a more important and significant development than the fact that the directors were allowed to remain powerful "commanders-in-chief." For it was precisely the process of decentralization which later automatically brought about the diminishing of the directors' power, in spite of the centralization of production, considered in Yugoslavia as a purely technological process freed of all the political considerations characteristic of the Stalinist type of economy.<sup>7</sup>

- 5) Ibid.
- 6) Workers' Management In Yugoslavia, a study by the International Labour Office, Geneva, 1962, p. 6.
- 7) The Marxist theoretician, Professor Dr. Rudi Supek of Zagreb University, said the following in a talk published in the Zagreb daily Vjesnik (22 March 1964): "It has already been demonstrated that the development of technology, a process which conditions the centralization of production, not only allows, but even demands decentralization of the distribution of income... We are entering to an ever increasing extent upon a phase of civilization which frees people and enables them to employ themselves in all those activities which we may call of secondary and tertiary value, when compared with basic production, but which [activities] bring about the enrichment and thoughtfulness of human life." [Emphasis supplied].

### "Socialist Market Economy"

Here we have reached the point where a short explanation of Yugoslavia's socialist market economy is needed. This term sounds strange even today, for it consists of two completely contradictory elements: the system of socialist planning, and the free market economy. This is precisely what Tito and his colleagues have been trying to introduce: on the one hand, to abandon everything that is wrong with the socialist economic system (while retaining all its' good features), and adopting everything from the free market economic system which may further the country's economy as a whole.

Of course, this Yugoslav idea of merging Eastern and Western economic elements was chiefly conditioned by the fact that, by the end of 1949, Tito was compelled to reorient Yugoslavia's trade from the Soviet bloc, which had introduced an economic blockade against Belgrade, to Western countries whose system of free market economy imposed on Yugoslavia various measures of decentralization. We have seen above that, in the course of this process, a great number of ministries and other economic administrative agencies were abolished. This Yugoslav idea is best reflected in the system of planning which, after 1949, lost some of its centralistic features and became something quite new. In the 1958 Party Program an explanation is given about the way plans are made in Yugoslavia:

"Yugoslavia's present social plan establishes the basic proportions of social production and distribution, taking into consideration, within that framework, the free initiative of economic enterprises under the prevailing market conditions and certain regulatory measures taken by the state... Planned economy, and socialism to boot, do not mean transformation of the entire society into a machinery in which each person is given concrete and detailed instructions as to what he should do. To the contrary, it should ensure the maximum possible liberty for the individual in the production and consumption of goods. In that sense, freedom of initiative by the socialist producer and citizens represents an incomparably greater economic force and higher consciousness than does capitalist private initiative, which is confined within a limited circle of owners of capital and their entourage. It is precisely for this reason that socialism in economic competition with capitalism must emerge triumphant."<sup>8</sup>

[Emphasis supplied]

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8) The Party Program, pp. 161, 162.



As we see there is much talk about "free initiative," "market conditions" and "certain regulatory measures taken by the state." The aim of such a system combined of capitalist and socialist elements is to ensure "the maximum possible liberty for the individual." For this reason "a whole system of social self-government of the working people in all spheres of life based on the direct management of the means of production" has been developed. Therefore the system presents the first step towards the complete "liberation of labor" because "the workers are freed not only from the yoke of exploitation by fellow man, but also from all restrictions imposed by political authority..." In this way "the workers become the protagonists of both political and economic authority in society."<sup>9</sup> The reason why it was possible to introduce all this in Yugoslavia, Professor Geršković of Belgrade University explains as follows:

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- 9) Dr. Leon Geršković: Social And Economic System In Yugoslavia, p. 15. (Mijalko Todorović, presently the Chairman of Yugoslavia's Federal Chamber, the most important of the National Assembly's five chambers, and until June 1963 Yugoslavia's economic boss, discussed the problem of the "socialist market economy" in an article published in the January 1963 issue of the quarterly Socialist Thought And Practice. Todorović emphasized that "the over-all regulator of the entire process of production in our country is the plan and planning, conceived of in the fullest sense of the words." On the other hand, the law of value which is the basis of the free market economy is also recognized because "the forms succeeding the capitalist ones must develop, at least in the beginning, from the capitalist forms, all the more so since it was in the very lap of capitalism that forms developed which are actually suitable for socialist relationships." All this, therefore, makes it "necessary for the enterprise to exist as an independent unit and its vital role in the economic life of contemporary socialist society that make price and value planning so imperative; of course along with planning in kind." In Todorović's opinion "the instruments of planning are also in the narrow sense elements of the market" and "such instruments and the market are component parts of a unified whole... That is what gives direction to our planning, and to our plan as a unity of contradictions.")

"Contemplated in terms of the level reached by the development of the productive forces, Yugoslavia is a country in which it is possible to fulfill the principle of distribution according to one's work within the limits set by commodity production and market trade. During the immediate post-war period, however, owing to the shortage of goods and the insufficiently developed productive forces, Yugoslavia was obliged to introduce a system of distribution [similar to that in the Soviet Union]. The preservation of this system was perhaps due rather to the ideological influence of Stalinism whose system of distribution precludes the existence of a market mechanism than to objective necessity. It is obvious today that only the principle of remuneration according to one's work can be accomplished through a system of market mechanism in Yugoslavia. If there are any tendencies to abolish the market they are due either to the need for satisfying certain definite social-political objectives...or to the insufficient clarity of the theoretical postulates on the social-economic system and its effects on practical economic policy."<sup>10</sup>

#### Directors -- Past And Present

We believe that all these explanations indicate rather clearly how complex the role of an enterprise director in Yugoslavia is. Because of the duality of the system, the director, too, performs a dual role: "He is at one and the same time an organ of the workers' self-management and a representative of the state."<sup>11</sup> In an enterprise this duality is apparent. "The two separate functions which are closely tied to one another are distinguishable: the management of the enterprise and the management of the production process."<sup>12</sup>

A review of the manner in which the role of the enterprise director has been regulated by the law is in order.

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10) Ibid, pp. 18, 19.

11) Jugoslovenski Pregled (Yugoslav Survey), an official statistical monthly, January 1957, p. 17.

12) Ibid.



Of the 50 Articles of the Workers' Councils Law of June 1950, five deal with the role of the directors. We shall reproduce all five here:<sup>13</sup>

Article 36

"The Director organizes the process of work in the enterprise and directly manages the realization of the Plan and the business of the enterprise by implementing laws and other regulations issued by the Management Board as well as the orders and directives of the competent State agencies, the Management Board and the Director of a higher association.

Article 37

"The Director of the enterprise, within the framework of the Economic Plan and in accordance with the decisions of the Management Board, concludes contracts and allocates the working capital. A contract becomes valid as soon as the Director signs it. The Director represents the enterprise before the State agencies and in legal actions with real and legal persons. He may authorize another person to represent the enterprise in particular legal actions.

Article 38

"The Director hires workers and appoints employees in the enterprise, except those for whom other provisions have been made, and makes decisions about their working relationships with the enterprise. The Director of the enterprise has the power to dismiss workers and employees, unless on the basis of general

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- 13) According to the text of the Law published in Borba of 29 June 1950. (There are three basic agencies of the workers' self-management in an enterprise: the Workers' Council composed of 15 to 120 members, the Management Board composed of 3 to 11 members and the Director. In his booklet The Yugoslav Constitution - What It Provides; What It Obliges, Belgrade, 1963, A. Deleon says that in 1961 there were 156,300 members of workers' councils in enterprises employing more than 30 workers and employees, and 60,871 members of workers' councils in enterprises with 7 to 29 workers and employees (p.11). Deleon also says that in the past 12 years 1,303,000 workers have passed through the bodies of workers' self-management (p.42).

regulations, this right is transferred to other persons in the enterprise. Against any decision on dismissal or re-assignment of work, the workers and employees have the right to object to the Management Board of the enterprise, which has the final authority.

#### Article 39

"The Director of the enterprise assigns workers and employees to individual jobs and defines their duties. Workers and employees are responsible to the Director for their work in the enterprise. The Director maintains the work and business discipline within the enterprise.

#### Article 40

"If the Director considers that a decision of the Management Board is in opposition to the law, legal regulations, plans or the orders of the competent State agencies, he is obliged to inform without delay, the Management Board of the higher economic association and the competent State organ respectively, and temporarily stops the implementation of the decision, until the Management Board of the higher economic association has made the final decision. The Management Board of the higher economic association and the competent State agency respectively are obliged to make their decision at once or not later than in 10 days. The Director of the enterprise may take measures necessary for the implementation of the Plan and for the correct work of the enterprise which are otherwise within the competence of the Management Board in case these measures have not been taken in time by the Management Board. The Director shall inform the Management Board at the very next session about the measures he took."

As we can see, the 1950 Law describes only the basic functions of the director, without elaborating on the details. Apparently the Party wanted to make the director, in theory, an arm of the workers' self-management, but in practice an instrument



of the state, i.e. of the Party. The director's responsibility, according to the Law, has been placed on two levels: (a) outside the enterprise, and (b) inside the enterprise. Under (a) he is responsible to the state, i.e. to the Party, while under (b) his responsibility is to the workers' council, i.e. to the Management Board. As we have seen in Article 40 of the Law, the director is authorized, even obliged, to stop the implementation of the decisions made by the Management Board if he believes these decisions are "in opposition to the law." Of course, the director, too, "in the capacity of the official representative of the enterprise, is responsible both materially and legally for all illegal acts."<sup>14</sup>

In other words, the director is, for reasons of his own security, obliged to call the attention of the workers' council and the Management Board to all illegal decisions. He is, therefore, compelled continually to balance between the two "lords," the state and the self-management bodies. The latter may only request his recalling; the former, however, may put him in prison. But in the enterprise the director's responsibility is still the greatest, because the results of his work there give evidence of his capability or incapability. He can prove his capacity as the director (a) by achieving the biggest possible profit for the enterprise, and (b) by lavishly providing the market with goods his factory produces. By achieving great profits for the enterprise, the director may become a "hero" in the eyes of the workers, who subsequently receive extra wages, but may spoil his relations with the state, which insists on increased labor productivity and quality production. In most cases it appears that enterprises in Yugoslavia achieve extra profits because of the director's capability as a businessman rather than a good organizer of production. Of course, a director can provide enough goods for the market, but still instead of obtaining a profit be forced to report a loss. In that case he might not necessarily be criticized by the state, but surely will be hated by the workers. The ideal situation is when both labor productivity and production have increased, and, at the same time, extra profits are made. This ideal situation is exceedingly rare in Yugoslavia.

The strength or weakness of the director can be best judged through the provisions for his appointment and dismissal. Since 1953, the director is appointed following public announcements soliciting applications. A special commission for the appointment of directors has a mixed composition. It includes representatives of the People's Committee and specialized organizations, depending upon the type of the enterprise in question. The workers' council of the enterprise to which the director is being appointed must make up one-third of the commission's membership. The commission considers the applications for the office of director, then selects

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14) Dr. Geršković, p. 62.

him, and his appointment is subject to confirmation by the appropriate People's Committee. In some special cases, involving exceptionally large and important enterprises, such applications may only be solicited by a commission nominated by the Federal and/or a Republican Government.<sup>15</sup>

This procedure of appointing directors has met with criticism not only in the West but also in Yugoslavia itself. The present Director of the Sisak Steel Plant in Croatia, Norbert Veber, recommended in 1953 that the director be elected by the working collective and be appointed by the workers' council, after applications were solicited,<sup>16</sup> in other words, a procedure similar to that provided in the December 1953 Decree.

Obviously the whole procedure involving the appointment of the director is non-democratic and in conflict with the general concept of workers' self-management. This procedure has remained until the present day for the already-mentioned reason, namely to enable the Party more easily to exercise control over the enterprises. In 1952, 92 per cent of the directors in Yugoslavia were members of the Party.<sup>17</sup> No statistical data about the present situation is available, but it goes without saying that nothing has basically changed -- as far as belonging to the Party is concerned. Some changes have, however, taken place in the field of the social structure of the directors. In the past 10 years a number of those who were appointed directors because of their war merits have been dismissed or sent into retirement, and new people, with "higher education," put in their places. Still, out of over 6,000 directors of big enterprises, only 518 in 1956 had "higher education," i.e. university degrees or some other high economic

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15) A Decree issued by the Yugoslav Government on 18 December 1953 deals with "The Foundation Of Enterprises And Establishments" (the Official Gazette, No. 51 of 24 December 1953 with certain corrections to the Decree published in the Official Gazette Nos. 8 and 11, 1954). The Decree has 111 Articles, eight of which (from 88 through 95) deal with the appointment of the director, and five (from 96 through 100) dealing with the dismissal of the director.

16) Borba, 21 January 1953. Veber, a Slovene by origin, occupied in the past high posts in Croatia and was one of the top Yugoslav TU leaders.

17) Borba, 13 February 1952: "Out of 763 directors of bigger enterprises, 708 are members of the Party. 186 of them are intellectuals (engineers and technicians), while 577 are workers, peasants and other participants in the National Liberation Struggle who are not engineers and technicians."



school diplomas. Following is the breakdown:<sup>18</sup>

With elementary school education only.....	1,309 directors
With intermediate school education	2,822 "
With high school education.....	1,430 "
With diplomas from universities or other institutes of higher education.....	518 "

The director's primacy in the enterprise has been stressed through the procedure regulating the relationship between the director and the workers' council in case of conflict. According to the Decree of December 1953,<sup>19</sup> the director may be dismissed at the request of either the workers' council or one of the inspection services. The workers' council can vote for the dismissal of the director only in the three following cases (Article 96):

1. "Provided the director did not adhere to prescriptions or acted contrary to prescriptions, in his work;
2. Provided the enterprise was unable to keep discharging its obligations to the social community;
3. Provided it was established that the total income that could objectively have been realized has not been realized, respectively if more considerable business losses have resulted due to the incompetence or negligence of the director."

The request for the dismissal of the director is studied by a commission of the People's Committee; the commission makes the decision but the very act of dismissal is proclaimed by the People's Committee.<sup>20</sup>

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18) Jugoslovenski Pregled, May 1957, p. 63.

19) Articles 96, 97 and 98 of this Decree deal with the problem of the relationship between the director and the workers' council.

20) Ibid. Also see the ILO study Workers' Management In Yugoslavia, p. 103.

All this means that a director may be arrogant, in contrast to the very spirit of the workers' self-management system and in opposition to the workers' desires, but if a director is managing his enterprise in accordance with the written laws he is almost omnipotent. Moreover, "if a vote by a workers' council to dismiss a director is found by the People's Committee commission to be unjustified, the workers' council may be dissolved by the People's Committee and new elections held."<sup>21</sup>

Still, even though the power of the director is almost unlimited, statistical data for 1956<sup>22</sup> indicate that 563 directors relinquished their posts in the 6,000 undertakings employing 30 workers or more; of these, 61 resigned, leaving 502 who were dismissed in accordance with the prescribed procedure. In most of these cases (314), the dismissal procedure was initiated by a public authority; 111 directors were dismissed at the request of a workers' management body and 55 at the request of the collective as a whole, while in 20 cases the initiative was taken by a "political organization." Among the grounds for dismissal, the Federal Statistical Institute notes 82 cases of "negligence or carelessness" and 59 cases of "economic offences."<sup>23</sup>

#### The Role Of The Trade Unions

Theoretically, "although it is nowhere laid down formally, ultimate seniority in an enterprise falls to the working collective."<sup>24</sup> We have seen, however, that the rights of the working collectives are for all practical purposes limited. Deleon himself admits that "the working collective is not free to annul, formally and directly, the decisions of the organs of management," i.e. of the directors, "since it would introduce insecurity in their work and handicap operations."<sup>25</sup> In comparison to the authority exercised by a director, the workers' self-management agencies (workers' councils and management boards) are also handicapped by the fact that they may make decisions only collectively at their sessions. "Beyond the sessions and aside from them, individually they have no rights greater than those of any other worker on the same job," Deleon says.<sup>26</sup>

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21) Ibid. (Article 98 of the mentioned law).

22) ILO study, p. 110.

23) Jugoslovenski Pregled, the issues of January and May 1957.

24) A. Deleon, 33 Questions - 33 Answers On Workers' Self-Management In Yugoslavia, Belgrade, 1956, p. 38.

25) Ibid.

26) Ibid.



In such a situation, one cannot assume that the trade union organizations exert any influence favorable to the workers and in opposition to the director. At the I Congress of the Yugoslav Trade Unions, held in October 1948, new statutes were passed in which the opening sentence read: "The Federation of the Trade Unions of Yugoslavia recognizes the leading role of the Communist Party of Yugoslavia, accepts its Program and stands up for its realization."<sup>27</sup> After the introduction of the workers' self-management system, the trade unions of Yugoslavia "remained one of the most powerful helpers of the state, not only in ideological matters, but also in the implementation of its economic aims."<sup>28</sup> On the other hand, through the introduction of the workers' self-management system, the trade unions in Yugoslavia were given the special role of educating workers to understand many of the economic and organizational problems involved in the system as such. In the Proclamation of the II TU Congress, held in Zagreb in October 1951, the following was emphasized as one of the most important tasks of the Yugoslav TU organizations:

"Trade union organizations should render all possible help to the workers' self-management organs in the realization and overfulfillment of plans..."<sup>29</sup>

In his report at the same Congress, the then Chairman of the TU Central Committee, Djuro Salaj (died in May 1958), said the following about the tasks of the TU in Yugoslavia:

"The creation of the workers' councils and management boards in enterprises has changed the economic function of the unions. The trade union organizations appear now as social organizations of the working collectives, which can and should help the workers' self-management organs and should especially strengthen the links between workers' councils and working collectives...Of course, if TU organizations find some decisions by workers' councils wrong, they must demand their change. In this way, the trade unions are actually organizing mass control by the working class over the activities of workers' councils and management boards."<sup>30</sup>

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- 27) As quoted in Dr. Harry Schleicher's book Das System der betrieblichen Selbstverwaltung in Jugoslawien, Berlin 1961, p. 280.
- 28) Ibid.
- 29) Borba, 10 October 1951.
- 30) Borba, 7 October 1951.

Salaj's words sound strange. In his opinion the trade union's task was to protect the workers against the self-management bodies they themselves elected! In fact in 1951 the trade unions were directed to control the workers in the name of the state.

Three years later, in June 1954, Salaj spoke about the changed role of the trade unions in Yugoslavia. In a leading article in Borba, based on Salaj's report to the Executive Committee of the Socialist Alliance in Belgrade on 9 June 1954, the following was said about the new role of the trade unions, a role which has remained unchanged until now:

"The creation of the workers' councils... has essentially changed the protective role of the trade unions in relation to the state. Because of this the trade unions have completely lost their character of a movement... Now their chief task is to wage a struggle against shortcomings and weaknesses in their own system of self-management. This means that they must now fight all anti-socialist phenomena appearing in the organs of the workers' self-management."<sup>31</sup>

[Emphasis supplied]

Consequently, the trade unions in Yugoslavia have, in the past, been considered more as instruments of the directors than of the workers. Of late, however, there have been certain signs indicating that the trade unions have been trying to protect the workers' interests. Thus, for instance, the Presidium of the Central Council of the Federation of Yugoslavia's Trade Unions discussed on 24 February 1964 the new Draft Law On The Election Of Self-Management Organs. According to a comment of Radio Belgrade on that day, the TU leaders criticized the provision in the Draft Law according to which the working collective (i.e. the workers' council) is allowed to appoint the director, but is not allowed to dismiss him "without the approval of the Communal Assembly," which is an agency very easily influenced by the state. (The text of the Draft Law is not yet available here, but, according to Yugoslav papers the new law "gives the director definite protection against any possible unjustified decisions made by the workers' councils; the law fixes the conditions and basis on which a director may be replaced.")<sup>32</sup>

Of course, being against the intention of the Party, this demand by the trade union leaders was rejected. At the end of March of this year, the National Assembly's Committee for Organizational Political Problems discussed the text of the Draft Law,

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31) Borba, 13 June 1954.

32) Politika, Belgrade, 23 February 1964.



especially Article 112 which deals with the re-appointment of the director in an enterprise. According to this article, incumbent directors, who after the new law has been enforced, are still in their first four years in office, will be approved as directors, so that for them a new term of four years will start from the day the new law is enforced, regardless of whether they had already served any part of their first four years of activity. The directors, however, who have already been directors for eight years when the new law is passed may occupy this position only for the next two years, after which term they will be subject to re-appointment. Reporting on this, the Belgrade daily Politika said the following:

"This article [112] was amended by a provision, according to which the workers' council may, in harmony with the Communal Assembly, decide to re-appoint a director even before the above-mentioned terms [of four and two years] have expired. In practice this means that the workers' council would be given discretionary right to replace the old director and appoint a new one -- always following its own judgment, even when there were no legal basis for such an act...It is precisely this provision which has provoked lively discussion [in the Committee] and has created differences of opinion. The representatives of the State Secretariat for Legislation have expressed their fear that such a regulation would make the director's position unstable. How could a director function if, above his head, this Sword of Damocles were hanging?...In order to prevent making the post of a director subject to the storms of passing moods, the Secretariat has proposed that this provision be amended so that the workers' councils would be given the right to exercise their authority [in replacing old and appointing new directors] only in the period of the first six months following the day when this new law has come into force. Several deputies opposed this amendment, claiming that more confidence should be placed on workers' councils and Communal Assemblies...but all other deputies

supported and approved the proposal made by the State Secretariat for Legislation."<sup>33</sup>

### Conclusion

From everything said thus far we have seen that the role of the enterprise director in Yugoslavia changed significantly after the system of the workers' self-management was introduced in 1950. The Party regime envisaged the role of the director as an instrument of the State rather than an organ of the workers' self-management, although, theoretically, his dual role has been recognized.<sup>34</sup> However, so long as the directors were responsible solely to the State for both production and the division of income, they did not need to pay any heed to what the workers were going to say. This usually was the duty of the Party and the Secret Police. At the moment, however, when the workers were given the right to have a say in the distribution of their own income (especially of the excess profits), they automatically found it necessary to help their directors make more profit, while the directors became more sensitive to the workers' desires. For, as we know from

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33) Politika, 28 March 1964. (In reporting on the same discussion in the National Assembly, Borba of 28 March 1964 said that the representatives of the State Secretariat for Legislation "very energetically" insisted on the acceptance of their idea. Politika of 31 March 1964 gave some more details about the discussion concerning the problem of directors' appointments. The author of the article, V. Mitrovic, admitted that "it is apparent that, according to the new law, the position of the director is not weakened in the system of the workers' self-management." He adds that "the director's role is only being changed in order to acquire new characteristics, new responsibilities, and even some different forms of relationships in the internal life of the enterprise." Mitrovic, however, reveals that the commission in charge of selecting a new director "may propose only three candidates." If the workers' council refuses to accept any of them, then a new public announcement soliciting applications must be made. In case the workers' council again rejects the proposed candidates, then a new commission must be formed. If the new commission, too, fails to propose candidates acceptable to the workers' council, then the commission should be extended to include some representatives of the state, but also some new members belonging to the workers' council).

34) Politika, 9 March 1964 said that "the director is 50 per cent a state organ and 50 per cent a social organ."



Slovenia,<sup>35</sup> and other sections of Yugoslavia, workers stage strikes ("the cessation of work") not because of the directors' insistence that a stricter centralization of production should be introduced, but because of low earnings. But low earnings, as the case of the industrially most advanced section of Yugoslavia, Slovenia, has demonstrated, are less the result of bad directors (workers in Slovenia are the best paid workers in Yugoslavia, with an average monthly salary of over 30,000 dinars, while in other parts of the country the average monthly salary is about 20,000 dinars),<sup>36</sup> and more one of the general economic policy. This policy in Yugoslavia is not decided by professional economists but rather by the Party apparatchiks.

Therefore, despite all the progressiveness of the Yugoslav system, especially if compared with the systems in other Communist countries, an ever present conflict exists in Yugoslavia between the people who have mastered the process of technology, and the Party people whose only strength is their loyalty to the Party. Professor Arnold Toynbee said recently that "one of the things that technology does is to create a professional class of people with special knowledge." He then continued:

"I suppose the ultimate test of a country's power is the number of technicians, scientists or even garagemen, it has per thousand head of population. You may flog a man who is digging earth to make him dig so many spade-fuls per day. But you can't make a scientist or high-powered technician do that. You have to give him an inducement and treat him properly."<sup>37</sup>

If this is true for Russia and the other Communist countries, this is even more true for Yugoslavia with its special road to socialism, with its system in which not only the high-powered technicians are to be treated gently and given an inducement to work, but in which even the ordinary workers are claimed to have

- 35) See Background Information Yugoslavia by s.s., 6 March 1964, "Support In Yugoslav National Assembly For Justifiable Strikes." (On the other hand, according to an article by Vljajko Begovic, a member of the Central Committee, published in Komunist of 2 April 1964, in some Yugoslav factories "the struggle is being waged between enterprise managements and workers over the setting of norms.")
- 36) According to official statistical data the average monthly salary of a director in Yugoslavia is between 80,000 and 100,000 dinars.
- 37) Professor Toynbee's interview published in the U.S. News And World Report, 30 March 1964.

been given the right to manage their own factories. It is here of small value to indulge in explanations of to what extent Yugoslavia's workers have really been managing their factories. It is certain that, in this respect, Titoist theories are far ahead of Titoist practices. Another point here seems to be of greater importance.

With workers at the same time "producers and managers," the technical staff in an enterprise becomes a component part of the working collective, rather than an auxiliary organ of the director. This in turn influences the consolidation of inner compactness in an enterprise, with the sense of collectivity becoming deeper and stronger (even the sense of collectivity to stage "justifiable strikes!"). Of course, this is true only as far as the sense of collectivity in an individual factory is concerned, and not in the state as a whole, nor even in individual national republics. Workers are chiefly interested in finding out how to earn more in their own factory and usually do not care about the situation in other factories. This is why the state and the Party have been doing their utmost to make the directors the chief architects of economic integration by again attempting to tie them closer to the state and its plan. The above-mentioned insistence of the representatives of the State Secretariat for Legislation to protect directors from the arbitrariness of the workers' councils serves this purpose.

For this reason the success or failure of an enterprise director has not been judged in Yugoslavia by real economic successes ("plan fulfillment"), but rather by his capability to harmonize the workers' wishes with the interests of the state. This means that the criterion employed by the Party apparatus has not been chiefly based on economic standards but rather on political considerations. This brings economically huge losses in individual enterprises, without bringing in political profits. As a final consequence all this has intensified the struggle between the "Economists" and the "Communists," as Tito revealed in his November 1959 speech at the Central Committee Plenum.<sup>38</sup>

We have seen from statistical data that less than 10 per cent of Yugoslavia's 6,000 directors of big enterprises have university degrees. More than 1,000 of them are only graduates of elementary

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38) Borba, 21 November 1959. (In order to stop current deterioration of the economy in Yugoslavia, the National Assembly in Belgrade on 31 March 1964 adopted "in principle" a proposal made by the Government to reduce tax revenues of the enterprises paid to the state so that greater financial means should remain at the disposal of factories. See Borba, 1 April 1964).



schools, while the majority of about 3,000 have only intermediate school education. This means that only a small percentage of them can be considered a real professional class in Toynbee's sense. Of course, people with a low education occupying directors' posts are easier to influence by the Party than are the real experts of a professional class, but the former usually produce losses instead of profits. In the era, however, in which the idea of the withering away of the Party is openly discussed, even the poorly educated directors are difficult to keep within bounds.

Only recently the above-mentioned director of the Sisak Steel Plant, Norbert Veber, stated that the "director today has to be more an organizer and collaborator and less a commander," although there are still directors in Yugoslavia "who remain commanders." Then he came out with the following assertion:

"Not even in capitalist countries can one man alone any longer manage an enterprise, still less is this possible in a socialist country."<sup>39</sup>

This idea is even better explained by the Belgrade University Professor, Jovan Djordjevic, who in his book The Constitutional System Of Yugoslavia said the following:

"...The self-management system has been, both in its own logic and its socialist and democratic sense contrary to any principle aimed at entrusting the right to make basic decisions in the enterprise or in any other basic cell to individuals (for instance, directors), as pre-determined standard-bearers of all interests, i.e. as standard-bearers of the State."<sup>40</sup>

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39) In an interview with the Zagreb weekly Vjesnik u srijedu, 18 March 1964. (Professor Eugen Pusic of Zagreb University said recently in a lecture, the shortened version of which appeared in the Zagreb daily Vjesnik of 3 April 1964, that the chief task of the people engaged in management should be "to increase [managers'] ability to anticipate people's behavior, by means of new methods, instead of the traditional monopolization of the use of physical force and straightforward command.")

40) The excerpts from Professor Djordjevic's book were published in the Yugoslav Party weekly Komunist of 6 February 1964. Also see Background Information Yugoslavia by s.s., 10 February 1964, "Yugoslav Professor Suggests Workers' Self-Management Incompatible With Party Monopoly."

If we add here that Professor Djordjevic's chief idea is that the system of workers' self-management is incompatible with Party monopoly, one can easily understand that in such a situation it becomes more difficult for the enterprise director to retain a power monopoly. For it is impossible for him to retain full power at a time when demands are made that even the Party power should wither away.

Being economically minded the highly educated directors (and many of the less educated ones) have always been in favor of their "commanding role" in enterprises; politically, however, they have constantly fought to free themselves from Party control, i.e. from the apparatchiks who have constantly insisted on the priority of Marxist theory. Consequently in Yugoslavia's factories top Party men (the Secretaries of the Party cells) have been those Communists whose strength consisted only in the fact that they had been placed in the enterprise by the Party as watchdogs.

Does the role of the enterprise director in Yugoslavia have any impact on the Soviet bloc countries?

In the course of his 1963 visit (August 20 - September 3) to Yugoslavia, Nikita Khrushchev showed great interest in the workers' self-management system. He even expressed the intention to send a group of Soviet leaders to Belgrade to study the system of workers' councils, which he hailed as "progressive and modern."<sup>41</sup> At one point, however, Khrushchev demonstrated his skepticism: he expressed doubts about whether the problem of the enterprise director in Yugoslavia has been properly resolved. After a major speech in the Rakovica factory near Belgrade, on 21 August 1963, the Soviet leader plunged into a discussion with factory workers and managers and stated that "Russia was now looking for new forms of factory management which would curb the powers of managers, but which would, at the same time, preserve the 'Leninist principles of unity of leadership'..." He did not conceal his suspicion that "the Yugoslav system of dual management, i.e. of factories run by the workers' councils and directors, did not guarantee that the 'unity of leadership' was sufficiently safeguarded."<sup>42</sup> He repeatedly asked whose opinion should prevail in the case of a conflict between the workers' councils and the director. The answers never seemed fully to satisfy him.

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41) London Times, 22 August 1963.

42) Ibid.



Following Khrushchev's suit, the Rumanian Party and State leader, Gheorghiu-Dej (who was in Yugoslavia between November 22 and December 3, 1963), also insisted on receiving information from the Yugoslavs about the role played by the enterprise director. In the course of a visit to a Zagreb factory, Gheorghiu-Dej held the following talk with the Yugoslav workers and leaders there:

"...It appears that you are collaborating well with the director. Or, perhaps, you are at odds? -- asked Gheorghiu-Dej.

Somebody answered: - The friction produces warmth!

Dej: - Only if it does not become too hot!

Krajacic [the Chairman of the Croatian National Assembly]: - Well, sometimes, too, the director burns up!

- And for whom are you, for the director, or for the workers' council? -- Comrade Spiljak [a top Yugoslav TU leader] was asked by President Dej.

Spiljak: - I am in favor of all friction which leads to progress..."<sup>43</sup>

And while Khrushchev and Gheorghiu-Dej were anxious to see whether in Yugoslavia the "Leninist principle of unity of leadership" has been respected, in Yugoslavia "frictions leading to progress" have been steadily developing. We shall end our analysis by quoting a recent interview of the Slovenian TU leader Franc Popit who said:

"I wonder whether the working man really needs any protector, regardless of whether it is the director or the workers' council, which some people usually claim is better than the director because the workers' council is 'more socialist'? Is it not essential that the working man in all phases of work and development has clear perspectives and the possibility to influence his position and the success of his enterprises?"<sup>44</sup>

Here the yearning for the withering away of any type of pressure and dictatorship is complete. The next step is the demand for real freedom and real democracy.

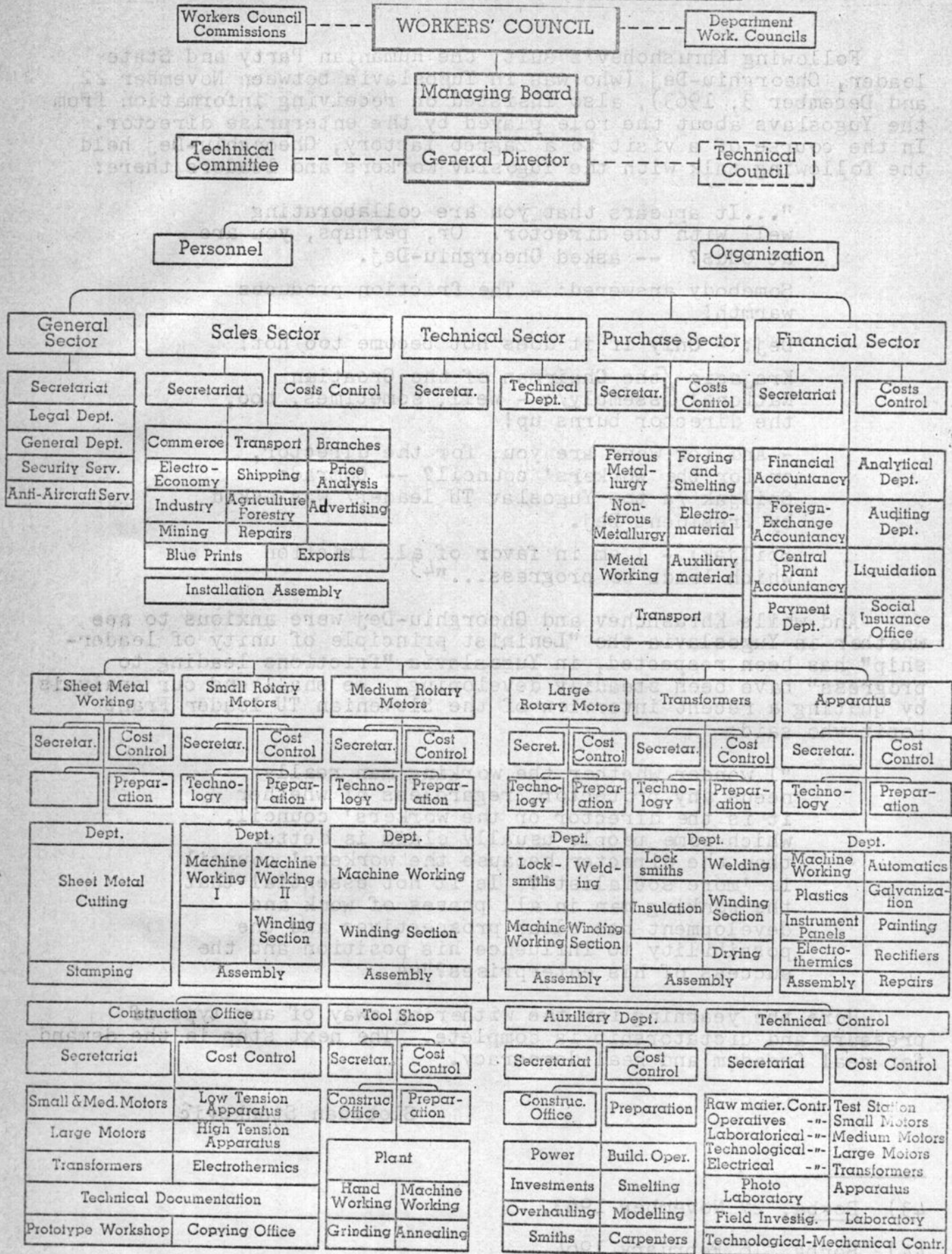
Slobodan Stanković

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43) Borba, 27 November 1963.

44) Borba, 16 February 1964.

# DEPARTMENT ORGANIZATION IN AN ENTERPRISE



Source: Workers' Management Of A Factory In Yugoslavia, A Monography About The "Rade Končar" Works in Zagreb; 1959.



## CHINA: THE CHANGING ROLE OF THE DIRECTOR

Although the communist regime in China is less than 15 years old, during this relatively short period, it has introduced a variety of economic policies which directly or indirectly affected the nature of industrial management.

Basically the entire tenure of the communist regime in the China Mainland can be divided into two distinct phases of economic development. The dividing line between the two can be drawn at the end of the first Five Year Plan period, in late 1957.

### I. The First Seven Years: The Soviet Economic Pattern

At the time of the communist takeover, China's new rulers found the country's economy in a state of almost complete devastation. The first three years were spent in an effort to get industrial production back to the pre-war level. At the same time, after a period of experimenting, annual plans were drawn up as preliminary to long-term planning which was to start later. Although the first Five Year Plan of the national economy had officially begun in 1953, details of the plan were published only in 1955. From what emerged at that time it was clear that China's communist leaders had decided to base their country's economic development on the Soviet pattern, using as a model the contemporary Soviet economic system (that of the early 1950's) with minor modifications necessary to meet the existing situation in China.

Thus, for the first seven or eight years (the period which also included the first Five Year Plan), the regime's economic strategy was based on the Soviet model. Consequently, emphasis was put on the rapid development of heavy industry, while savings were generated by other sectors of the nation's economy, primarily by agriculture. The regime introduced central economic administration and planning, the latter modeled on Soviet five year plans. Within the framework of the FYP for national economic development annual plans were drawn up. The annual state plans formed the basis for quarterly or monthly plans for enterprises belonging to the planned sector of the economy, which by 1953 included practically all major industrial enterprises in Communist China.

The communist takeover left in office most local administrators, including the managers of industrial enterprises. During the period of reconstruction (1950-1952) the main emphasis was put on having the construction work led by trained cadres without consideration of their social origin. The commencement of the first FYP, therefore, saw the major industrial enterprises led by directors who could be classified as members of the old-style technical intelligentsia, left over from the former political regime. Next to these men, however, there soon began to appear representatives of a new managerial elite, recruited either from the ranks of reliable old Party functionaries who had, during the civil war, fought in the communist ranks, or from among the workers of various enterprises who, after a short spell in school, were promoted into managerial positions.

### The Factory Director

During the entire phase of Soviet-inspired economic development, the role of the Chinese factory director was not unlike that of his Soviet colleague.<sup>1</sup> There was a great need for talent; managers were needed who could successfully cope with the complexities of demands made on the enterprises in the form of plan targets. The more experienced the director was the more chance he had successfully to cope with these demands, the more likely he was to help the factory to fulfill one target without endangering the other.

The emphasis on plan fulfillment called for increased managerial authority within the individual enterprise. Thus during the first FYP period, Chinese managers were entrusted with quasi-autocratic powers over internal operations. They were, of course, appointed by the state, as were other members of their senior staff: the deputy director or deputy directors (depending on the size of the enterprise), the chief engineer, and the chief accountant. Accordingly, the directors were primarily answerable to the superior economic organs (the ministry or ministries which controlled the enterprise). Their main responsibility was the fulfillment of the factory's production plans set by the above organs, which specified the quantity of the product required in a given period from the enterprise.

In actual practice the manager usually achieved plan fulfillment only by speeding up production during the last days or weeks of the plan period, i.e. whenever the actual state of

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1) This paper deals with directors of state-owned enterprises only. For an excellent study of the manager's role at this period see Franz Schurmann, "Economic Policy and Political Power in Communist China," The Annals of the American Academy of Political and Social Science, Vol. 349, September 1963.



plan fulfillment was already known to him. This way the manager usually succeeded in coming up with an acceptable set of figures by the end of the plan period. Such practice required a series of manipulations, also involving the co-operation of both the chief engineer and the chief accountant. This system of juggling with figures (so well known from Soviet practice) of course led to waste, deterioration of quality, uneconomical use of raw materials, etc. On the other hand, the "fulfillment" or "overfulfillment" of the output plan could mean increased rewards in the form of bonuses of which management cadres usually draw a substantial share.

In China, like in the Soviet Union, the director's one-man command was also subject to a number of limitations, both outside and within the enterprise. Among the latter the most important was the ever-present Party organization.

#### Party vs. Management

The system of one-man management within the enterprise had been specifically designed to keep the Party apparatus out of actual management functions. The Party, however, had the right to hold the management to account by carrying out periodic, short term, policy tasks. Within the enterprise the Party committees were in charge of various campaigns directed to root out counter-revolutionaries, combat waste, fight bureaucratism, corruption, etc. The Party's short-term campaigns frequently diverted the manager from his concentration on long-term tasks such as successful fulfillment of the production plans. This inevitably led to friction between the manager and his senior staff on the one hand, and the Party secretary on the other.

The problem of social origin and experience could not but contribute to this state of affairs. The managerial elite was, with certain exceptions, composed of "intellectuals." The Party leadership within the enterprise was, however, primarily of worker or peasant origin, being by nature opposed to anything intellectual. Again, while the intellectual managerial elite could be considered as "specialist" in its field, the Party leadership of the enterprise was constituted of full-time revolutionaries who were usually "generalists." The conflict which thus existed between the specialists and generalists within the enterprise led to additional frictions, further complicating the work of the factory director.

#### II. Decentralization: End Of Soviet Influence

Such was the state of affairs during the period of economic strategy based on the Soviet model. Its similarity with that of

the Soviet Union was self-evident. During this phase the government was anxious to persuade Chinese managers to derive every possible benefit from the advice of Soviet technical advisers and to study from technical journals the most up-to-date Soviet management methods which, as everything else, were said to be incomparably superior to any other.

This centralized, Soviet-oriented phase of economic development, however, came to a sudden end by late 1957. The new regulations on industrial control published in November of that year signaled the beginning of the phase of economic decentralization. As a result of this new policy, local (provincial and city) governments gained a voice in the operation of the enterprises located in the territory they administered. The decentralization itself was done rapidly, and involved almost all industrial enterprises. The treatment of the various enterprises, however, differed according to their size and the sector to which they belonged. The bulk of the middle and small scale enterprises (primarily those in the light and consumer industries), hitherto directed by central ministries, was transferred to the local authorities. By 1958 eighty per cent of the enterprises formerly controlled by the various ministries of the central government had been handed over to the provincial and municipal authorities.

Most of the heavy industrial enterprises, however, remained under central control of the industrial ministries. The plants within this category became subject to "dual leadership," meaning that provincial authorities received certain powers over the allocation of personnel in state-owned enterprises.

Hardly had industry completed the reorganization demanded by the rapid decentralization measures when, in early 1958, the new policy of the Great Leap Forward was introduced. The disastrous economic consequences of this policy (overproduction, overinvestment, shortages, the breakdown of the transport system, etc.), as well as the no less disastrous political, moral and social consequences are well known in the West. Although the regime made some feeble attempts to correct the all too obvious mistakes of the Great Leap as soon as they appeared, it was only at the beginning of 1961 that the Party decided upon a radical shift toward a more conservative economic policy, and the period of "readjustment" began.

#### "Politics Takes Command"

Both the decentralization and the Great Leap Forward campaign worked against the system of "one-man management." The so-called "anti-rightist movement" in the spring and summer of 1957 had already signalled the beginning of change in the managers' exalted situation.



It was a change for the worse. During 1957, the workers were encouraged to voice criticism of the administrative leadership of their factories. The principal (and usually Party-inspired) demands made by the workers, tended to be directed toward a severe cut in the administrative staffs. This resulted in large-scale transfers of administrative cadres (as well as members of the management) to the countryside "to join the people." Within the enterprises workers' congresses were set up with the tasks of soliciting the opinion of the workers and studying and solving major problems in production and management. Simultaneously the role of the Party committees increased within the individual enterprises. The managers who tried to resist the exaggerated production targets of the Great Leap were accused of "conservatism" and, according to the new slogan, "politics" were allowed "to take command."

### Consolidation

The policy of economic "readjustment" introduced in 1961 could not fail to influence the managers' position. This time the factory manager was again given more decision-making powers. To be sure, Party control within the enterprise remained, but now it was not the Party but the managers who made the crucial decisions involving matters of production. The new era of "the responsibility of the factory directors under the leadership of the Party committees" was hailed as a "concrete application of the Party's principle of democratic centralism in China's socialist enterprises."

### "The Responsibility Of The Factory Directors..."

One of the few articles available in the West on the role and responsibility of the factory director in communist China gives an excellent, although generalized, picture of the new policy. The article, which appeared in the second half of 1961,<sup>2</sup> bluntly announced that "the principal function of the industrial enterprise is to produce." In order to be able to perform this function, "it cannot dispense with centralized leadership or correct direction." The article left no doubt in the reader that it is the factory director who stands at the top of the enterprise hierarchy. His duties and powers are as follows:

"The administrative duties of the factory directors are clearly defined. Within the province of administrative business it is

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2) People's Daily, 4 August 1961.

their duty and also their power to dispose of the manpower, material, and financial resources of the enterprise under their direction in organizing production and handling all problems, doing so in accordance with State plans, higher level Party administrative directives and decisions, and resolutions of the Party committee of the same enterprise."

[Emphasis supplied]

When exercising the powers and duties thus accorded to him, the factory director is, however, warned against indulging in "individual arbitrary actions" probably existent at some enterprises. Instead, he is encouraged and urged to share his responsibilities with members of his senior staff:

"There are administrative matters on which decisions must be made jointly by factory directors, deputy directors, and chief engineers at the administrative conferences. Under the leadership of the factory directors, the deputy directors and the chief engineers are charged with specific duties in connection with production, techniques, financial administration, general services, livelihood and education. If they want good work, the factory directors must make general plans and at the same time they must properly promote the roles of their deputies, technicians and administrative organizations and must not take upon themselves to do everything without the help of the administrative organs."

The management of the factory, under the command of the director, however, must be similar to the system of "democratic centralism" in the Party:

"The system of command of production operations in the enterprise consists of the factory level, the workshop level, and the production team level. The whole factory must obey the directives and orders of the factory level. There must be strict discipline in the work of the enterprise. Production plans, technical and organizational measures, etc. may be referred to the masses for full discussion before they have been made final, but must be observed without exception after they have been made final..."

[Emphasis supplied]



As can be seen from the above quotations, neither the director's sharing his responsibilities nor the so-called system of collective leadership could diminish his powers within the factory. These powers are wide as far as production matters are concerned. But these powers must be practiced "under the leadership of the Party committee."

"...Under The Leadership Of The Party Committee"

The same article which defined the director's responsibilities and duties so broadly also defined the powers of the Party organization within the same enterprise. "In the enterprise," the article states,

"Administrative work is carried through activities which are under the unified leadership of the Party committee. For this reason strengthening the system of responsibility of factory directors and strengthening Party leadership are inseparable from each other, still less may they be set against each other... production administration constitutes the most important part of the whole of the Party's work in the enterprise."

[Emphasis supplied]

Thus hardly any action of the director's could avoid the attention, or the interference, of the Party organization. The broad powers given to the zealous Party men could, however, also endanger the smooth working of the enterprise. Therefore, while the Party organization was given broad powers, those powers were restricted to "leadership problems" as opposed to "concrete economic" issues. Chances are, however, that the Party tried to exert leadership over all problems, which in many cases led to the restriction of the authority of the management, and in the long run led to the deterioration of production. Such excesses were strongly discouraged:

"In the enterprise where...all matters big and small are referred to the Party committee for discussion and decision...there cannot be a really effective leadership over day-to-day production operations or any wholesome leadership of the Party. For these Party organizations are preoccupied with the handling of concrete production problems and are thus prevented from properly solving important issues and are forced to loosen their hold on

ideological and political work and consequently to play a smaller leadership role than they should..."

Instead of indulging in interference in concrete production operations, therefore, the Party organizations should

"...strengthen conscientiously the system of responsibility of the factory directors in such an important field as the direction of production operations, so as to reserve the energy of the Party organizations for handling more important problems..."

In order not to be mixed up with the concrete economic problems of the company the Party organizations are required

"...to define the duties and powers of the administrative departments of the enterprises and of the factory directors and to increase continuously the sense of responsibility and zeal of the administrative cadres so as to enable them to assume responsibility independently and handle problems and make decisions efficiently..."

#### The Worker's Role In Management

No matter how loosely defined its powers are, the Party organization does exercise real controls over the enterprise, and also over the work of the factory director. Other organs, ostensibly set up by the regime to exercise additional controls over the management, however, fare somewhat worse. Such an organ is, for example, the system of workers' congresses.

Instituted in 1956, the workers' congresses were entrusted with a wide range of responsibilities. Their main task was to solicit the opinions of the workers and to study and solve major problems in production and management. The members of the workers' congress are elected "democratically" by the workers of the enterprise. After election, the representatives acquaint themselves with the various problems of production and management. In the Wang Feng mining enterprise (Chiaotso, Hunan province), for instance, the workers' representatives work this way:

"Over 177 representatives of staff members and workers were elected democratically. Following the election, the representatives formed themselves into several groups and proceeded to the executive offices, production units...etc. The leadership cadres...briefed



the representatives on their work upon the  
latters' arrival, humbly listened to the  
views voiced by them and accompanied them  
to the spots where problems were discovered..."<sup>3</sup>

[Emphasis supplied]

Following the above survey by the representatives, the enterprise called a congress of its staff and workers. At the meeting the representatives heard reports by the management and the trade union, and "discussed the work concerning improvement of production, enterprise management, and the livelihood of the workers..."

There is, however, serious doubt about the ability of the workers' congresses to influence the management of the enterprise. In some instances (or perhaps in the majority of the cases) there is a conflict between the management and the worker representatives. Such a situation can be detected from the following statement:

"However, the leadership cadres of some industrial and mining enterprises regard the workers' representative conference merely as a means of arranging tasks and mobilizing the masses to fulfill production tasks. They pay attention only to conformity with the wishes of the leadership...They ignore or seldom give consideration to the opinions aired by the worker masses. In these circumstances the conference could not be expected to produce the desired results."<sup>4</sup>

It must also be suggested that most of the investigations made by the workers' representatives into problems of management and production resulted in little more than a temporary holdup in the work of the technical administrative and management staffs. Although the "leading cadres" were "humbly listening" to the views voiced by the workers' representatives, they knew that those views need not necessarily be taken into consideration. After all, the very principle of "democratic centralism" within the enterprise makes the opinion of the workers' representatives practically worthless. As has been pointed out above: "Production plans, technical and organizational measures, etc. may be referred to the masses for full discussion before they have been made final,

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3) NCNA, Chengchow, 19 July 1961

4) People's Daily, 11 October 1961.

but must be observed without exception after they have been made final." It is, however, the factory director, and not the worker's representatives who makes the final decisions within the enterprise.

### The Profile Of A Director

Although our knowledge of the work and responsibilities of the factory director is limited, there can be no doubt that in China (as in other countries) he is one of the key figures, or perhaps the key figure of the enterprise. His background, education, responsibilities and work methods are, therefore, interesting to observe. Such information is, however, hard to obtain considering the extreme scarcity of the material coming out of China. One of the very few "profiles" of an enterprise director available to us is that of Li Feng-en, deputy director of the Wuhan Iron and Steel Works, in Hupei province.

The Wuhan Iron and Steel Works is possibly the largest of all basic projects built in China with Soviet assistance. Work on it began in 1955 and the first steel was poured from its modern furnaces in 1959. Its director or general manager, Huang Ming, had been a student at Shansi University and is known to have joined the famous Eighth Route Army in 1937. After the war he was sent to the Anshan Iron and Steel Works in Manchuria, where most of Wuhan's leading technicians were recruited.<sup>5</sup> He represents, therefore, a type of the new managerial elite, a former "intellectual" who had joined the communist armies and received technical as well as managerial training after the "liberation."

Deputy director Li Feng-en is, however, an entirely different breed, although he is also characteristic of the new managerial class. "Li was born to a poor peasant family of hired laborers. When he was seven years old, he started his career as a swineherd."<sup>6</sup>

At seventeen, Li entered the Anshan Iron Smelting Plant, then run by the Japanese, as an iron smelter. "All he did was to carry iron ore and do other heavy physical labor 12 to 16 hours a day."

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- 5) These biographical notes on Huang Ming were supplied by Edgar Snow, in his On the Other Side of the River, p. 575.
  - 6) The biography of Li Feng-en is known from a report by the New China News Agency, (NCNA, English, Wuhan, 31 October 1961).



In 1950, one year after the communist takeover, he was sent to study in a technical training school. Li's progress seems to have been miraculous: "Within six months, illiterate Li Feng-en learned to read and write and studied elementary mathematics, chemistry and physics." Afterwards, the report says, he was trained as a technician and systematically studied the theory of iron smelting and operational methods with the help of a technician appointed to the plant.

Li's career was very rapid. In 1954 he was promoted to be chief technician in charge of nine blast furnaces, "thus becoming China's first metallurgical technician from the ranks of ordinary workers."

Interestingly enough, the Soviet Union also played a part in Li's education. He was sent to the Soviet Union to study iron and steel metallurgy "in a big modern plant" where he learned theories concerning metallurgy, advanced operational methods, and production management.

Back in China, he became one of the technical experts recruited in Anshan for the newly constructed Wuhan Iron and Steel plant. Li is reported to have taken an active part in the building of the giant blast furnaces.

Although Li's further progress and present status is not known to us, we are told the secret of his professional success: "whenever he met with difficulties, he consulted the rank and file workers and relied on the Communist Party committee to help to find a solution."

### New-Style Intellectuals

While people like director Huang Ming and deputy director Li Feng-en represent two different breeds of the "new-type" managerial elite, they have not entirely displaced the old-style "intellectual" factory manager. Possessing sound technical and managerial skills so scarce in China, members of the old elite have in many cases retained their positions at the helm of the enterprise. Their days are, however, numbered. But the people likely to replace them are not the revolutionaries or half-baked worker-cadres. They are the members of Communist China's emerging new intelligentsia, the graduates of universities.

The scarcity of technical experts led the government and the Party to put more emphasis on the training of engineers. While between 1928 and 1947 among graduates from higher educational establishments engineers comprised an average of only 17.1 per cent,

during the first ten years of the communist regime this average rose to 30.1 per cent.

Of course few of the young engineering graduates will eventually become factory directors. Chances are, however, that the future directors will, to an increasing extent, come from the newly educated young engineers.<sup>7</sup> The appearance of this new educated managerial elite might significantly contribute to the quality of the management of the Chinese enterprise.

Joseph C. Kun

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- 7) There are no schools specializing in industrial management in Communist China.



## THE EAST GERMAN ENTERPRISE MANAGER

### The Organizational Framework

The much invoked "special conditions" in the GDR can certainly be applied with justification to East German industrial development, hence to the position of the East German industrial manager. In contrast to the rest of Eastern Europe, the "Soviet Occupied Zone" as it was then called by both East and West, was a highly industrialized country (or part of a country), and a country which not only was heavily damaged by the war, but which had lost the war. The Soviet Military Administration for Germany (SMAD) began in 1945 the systematic sovietization of the political and economic life in the Eastern Zone; at the same time, however, the Soviet occupants embarked on a policy of ruthless reparations. These reparations took various forms including dismantling of remaining factories, the exploitation of labor by prisoners of war and specialists deported to the Soviet Union, and deliveries of goods to the Soviet Union from current production.<sup>1</sup>

A major factor in the reparation scheme was the creation of the Soviet Trust Companies ("Sowjetische Aktiengesellschaften," SAG), i.e. the founding of Soviet state concerns which comprised the confiscated German enterprises in the Eastern Zone. Between 1946 and 1953, the SAGs represented a major influence in the East German economic structure, even having monopoly positions in some industrial branches. By the end of 1953, they had been returned to the East German administration by a process which in fact amounted to selling them back to the GDR.

The reason for sketching the above development is that during this period the role of the East German enterprise manager was secondary to and overshadowed by that of the Soviet functionaries. German enterprise directors were present, but acted under orders from their Soviet superiors.

Concurrent with the formation and subsequent dissolution of the SAGs, the sovietization, i.e. strict centralization, of East Germany's economic life was taking place. Before October 1949, the official date of the creation of the GDR, the SMAD issued legally binding orders for wage ceilings on the basis of minimum tariff wages, punitive regulations for work discipline, generalized application of tariff agreements, etc.

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- 1) West German estimates of reparations costs paid to the Soviet Union amount to nearly 70 billion marks.

Following 1949, the State Planning Commission was formed as the highest body controlling all East German economic sectors. The State Planning Commission (just as the Central Committee of the SED) at that time was directly controlled by the "Soviet Control Commission" ("Sowjetische Kontrollkommission" i.e. SKK) which replaced SMAD after the formation of the East German government in 1949.

The State Planning Commission was designated officially as the "highest executive organ," and had jurisdiction over twelve Ministries and various state secretaries. None of the Ministers, far less any of the enterprise directors, had any right to produce goods without directives from the Planning Commission which also determined quality and quantity.

The 1953 uprising, incidentally, which was triggered off by the May 1953 raising of the work norms, did not bring about any basic or lasting changes in the centralized structure of the economic apparatus. After 1950 the State determined by decrees, not only production output, but also wages and salaries for each occupational branch, and vacation and notice periods.

In June 1957, during the 32nd Plenum of the SED Central Committee, First Secretary Walter Ulbricht outlined plans for simplifying the government bureaucracy.<sup>2</sup> The proposed measures closely resembled those which had been inaugurated in the Soviet Union, the plan combining centralized planning with decentralized operational authority both in the organization of the economic ministries and in the general government hierarchy. Planning and control in the ministerial structure were to be concentrated in a central economic agency which would merge the old State Planning Commission with the Economic Council which had been created in April 1957. Operational authority was to be delegated to subdivisions of the economic Ministries, which were to be called "Vereinigungen Volkseigener Betriebe" (Associations of State-Owned Enterprises, i.e. VVBs) and which were to be decentralized geographically.<sup>3</sup>

- 2) Neues Deutschland, 11 June 1957, and 19 and 21 July 1957.
- 3) The first VVBs were established in February 1958, but were dissolved again with a few exceptions in April 1959.



Ulbricht explained the planned organizational reforms by pointing to difficulties which had beset the Party and governmental structures for some time, namely lack of enthusiasm in building socialism, excessive bureaucratic behavior as well as many technical and personnel problems. Some of these problems had of course been amplified after the 20th CPSU Congress and after the Hungarian crisis when SED propaganda had concentrated on ideological issues rather than on the more basic problems of economic development and the "strengthening of the Workers' and Farmers' State."

During the Volkskammer meeting of February 1958,<sup>4</sup> and the subsequent 33rd SED Central Committee Plenum, it was decided to dissolve eight industrial Ministries in a structural reorganization which formally at least emulated Khrushchev's decentralization measures: middle and lower economic bureaucrats were sent to the provinces into production, but the planning and control powers remained with the Central Planning Commission.

Various economic difficulties in the GDR resulted in a number of personnel and organizational shuffles during the ensuing years without any basic change until in July 1961 a new Planning body was created to function side by side with the Planning Commission, namely the "National Economic Council." The "re-creation" of this body, however, did not signify effective delegation of authority nearer to the production base. On the contrary, by November 1961,<sup>5</sup> Ulbricht spoke of the undesirability of heeding technicians' personal interests in determining the development of the economy, and explained the right of the central planning bodies to shift personnel to those centers of production which must be particularly supported for the sake of the national economy.

No major planning or organizational development in the centralized economic structure occurred until the January 1963 Sixth SED Party Congress. The months preceding the Congress had already foreshadowed the Congress developments which once again closely followed the Soviet pattern. By late September

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4) Neues Deutschland, 10 February 1958.

5) Ulbricht's speech to the Fourteenth SED Central Committee Plenum, Neues Deutschland, 28 November 1961.

1962, the Liberman discussion had begun in the GDR;<sup>6</sup> in October 1962,<sup>7</sup> Ulbricht recommended East German emulation of Soviet organizational changes (creation of an Agricultural and Industrial Council responsible to Politburo with hierarchic representation on the District and county levels, and dissolution of the Ministry of Agriculture) which would go hand in hand with the increased inclusion in the top apparatus of specialists and technocrats (though faithful functionaries) to replace some of the older apparatchiks.

The recommended organizational and personnel changes were made during the Sixth Congress, implementing the much heralded system of the production principle. It was not until July 1963 that the Party published more specific and detailed instructions on the economic reforms,<sup>8</sup> the first results of which were revealed during the Fifth SED Central Committee Plenum in February 1964.<sup>9</sup> For our present purposes, it will suffice to say that the initiated reforms represent a definite rationalization with far-reaching powers and relative independence granted to the Director Generals of the VVBs (i.e. intermediate organs), still leaving severe doubts, however, about the function, role and responsibilities of the individual enterprises and enterprise managers.

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- 6) The economic weekly Wirtschaft reproduced the original Liberman article from Pravda, 9 September 1962, on 26 September 1962.
  - 7) Neues Deutschland, 14 October 1962, Ulbricht's speech to the Seventeenth SED Central Committee Plenum.
  - 8) Neues Deutschland, 17 July 1963, "Guidelines on the New System of Economic Planning and Directing the Economy."
  - 9) See Background Information GDR of 12 February 1964, "Ulbricht's Speech to the Fifth Plenum," by d.m.



### Duties and Authority

It is difficult to define the role of the East German factory manager in isolation from the factory's "collective management." Throughout the years, the regime's effort to demonstrate the existence of "socialist democracy" went hand-in-hand with its hostility to "Managertum," i.e. the rule of the independent manager. The result was the formal advocacy of collective leadership or collective management from the lowest level (the individual enterprise) upward to the top planning bodies and top Party leadership.

The collective leadership is composed of the following people:<sup>10</sup>

"... a) the enterprise director as the chairman; b) the technical director; c) the business director; d) the director of the work section; e) the planning director; f) the main accountant; and g) the directors of the most important production sections.

"The members of the enterprise leadership collective must be confirmed by the head of the competent main administration [i.e. superior administrative authority - d.m.]. The Secretary of the enterprise Party organization [Betriebsparteiorganisation, i.e. BPO] of the SED is entitled, on the basis of the control rights of the Party organization, to participate in the meetings of the enterprise collective leadership.... The enterprise leadership collective has the function of a consultative organization. Its members have the right to go directly to the Ministry if they are not in agreement with the decisions of the enterprise director. Other than that, any directive of the enterprise manager is binding....

The enterprise leadership collective and the enterprise union leadership must hold regular

meetings concerning the completion of the enterprise plan, and of the enterprise collective agreement [Betriebskollektivvertrag, i.e. BKV, see below]."

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- 10) Quoted from the writings issued by the Party School "Karl Marx" to the SED Central Committee, The Leadership of State-Owned Industry in the GDR, by Johannes Thamm, Dietz Publishing House, East Berlin, 1957.

The enterprise manager, together with the leadership collective, seems to have no other function than to ensure the fulfillment of the plan which is handed down by superior authorities. The same source described the role of the manager as follows:

"The enterprise manager must particularly see to it that the workers of the enterprise are mobilized for the fulfillment and overfulfillment of the plan positions and that the cadres are placed in the appropriate positions.... The enterprise director is responsible to the government of the GDR for the entire work of the enterprise. He is placed in his position by the appropriate Ministry and has all rights and duties evolving from the leadership of the enterprise which correspond to the economic accounting system.... His individual tasks are determined by:

- a) the enterprise plan which is contained in the national economic plan;
- b) the laws, orders, and ministerial decisions of the GDR government; and
- c) the orders and directives of the appropriate Ministry."

This description of the factory manager emphasizes his limited responsibilities, at least with regard to working conditions, wages, hiring and firing, all of which are determined by superior authorities. The plan for the individual enterprise which is part of the national economic plan, is also determined by the central administration, and the factory leadership collective's duty is to implement it.

#### The Party-Run Union (FDGB)

During the first post-war years, most enterprises had formed elected Works' Councils which as the exponents of "anti-fascist mass organizations," enjoyed the protection of the occupation authorities and of the SED, just as did the trade union, FDGB (Freier Deutscher Gewerkschaftsbund, i.e. Free German Trade Union Association), created in 1945. By 1947, the Soviets insisted on the dissolution of the Works' Councils and the taking over of their functions by the



enterprise trade union leaderships ("Betriebsgewerkschaftsleitungen," i.e. BGL). The BGLs existed in most large enterprises side by side with the Works' Councils, and were at that time the smallest units of the developing FDGB. Fearing that the Works' Councils might become nuclei of independent political activity, the SMAD and SED decreed their dissolution in 1948. At first, the dissolution affected only those enterprises where more than 80 per cent of the workers belonged to the FDGB, but by 1951 the last of the Works' Councils ceased to exist. Any organized representation of the employees was labelled as "mere unionism," and the FDGB with its smallest units on the factory base, the BGL, increasingly took over the interests and aims of the Party, that is the furthering of production and the support of the state economy.

After some waverings during the post-June 1953 era (when some FDGB functionaries advocated increased separation of State, Party and union activities), the FDGB statutes of 1955 completely identified the trade union organization with the SED and with the state in its role as employer. The statutes admitted the leading role of the SED, and described the FDGB's functions as consisting primarily in

"...organizing socialist competition between workers, employees and members of the intelligentsia in the state-owned enterprises for the fulfillment of the national economic plans; for the increase of labor productivity; the strictest application of saving devices; the improvement of the products' quality and the lowering of the basic costs...."

The development of the FDGB into a state (or Party) union reached its completion at the 35th Plenum of the SED Central Committee in February 1958 through the "Resolution on the Tasks of the Unions in the GDR,"<sup>11</sup> which specified its role as the instrument for the indoctrination of the workers in the sense of the communist system.

On the factory level, the trade union branch (BGL) is dependent on the resolutions of the superior FDGB. Together

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11) Neues Deutschland, 11 February 1958.

with the enterprise management, the BGL concludes the collective agreement (the BKV, to be discussed below); however, there is no conflict between the enterprise management and the union, as both serve the same state and Party interest.

### The Party

The Party organization at the factory level includes members and candidates of the SED, and is headed by the BPO ("Betriebsparteiorganisation," that is enterprise Party organization)-Secretary, who is generally excused from all functions other than ensuring the "leading role of the SED." All decisions must be made with his approval, and he is included in all meetings of the enterprise collective leadership.

The collaboration between the manager and the BPO was described as follows:

"The manager can fulfill his social duties only if he always begins his considerations with the resolutions of the Party. These are, after all, the expression of the collective wisdom of the working class' vanguard. Even if a manager possesses high qualifications, he can achieve his task only by using the collective experience and strength of the masses. It is the duty of every manager to thoroughly study the resolutions of the SED and the speeches of the leading functionaries. Together with the BPO of the SED, he must rapidly solve the problems under discussion according to the concrete conditions of his sphere of responsibilities.... Thus, the SED actively supports the manager in his complicated and extensive activities. The Party helps him to recognize new and progressive aspects, and to implement them to the greatest advantage for society."<sup>12</sup>

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12) To Manage - but How?, a pamphlet issued by Roland Nietzold and Horst Werner, Urania Publishing House, Leipzig/Jena/Berlin, 1963.



### The Episode of the Workers' Councils

Following the October 1956 events in Poland and Hungary, the Ulbricht regime found itself in such a strained position that the necessity arose to create organs of workers' self-management in the enterprises. During the 29th session of the SED Central Committee (12 to 14 November 1956), Ulbricht suggested the creation of such bodies which were to be called "workers' committees or something of the sort."<sup>13</sup> A corresponding decision was taken by the Central Committee which was followed by a so-called "workers' conference" in December of the same year: in approximately 20 enterprises, workers' committees were to be formed on an experimental basis in order to ensure greater participation of the workers in determining the economic plan of the enterprise. The resolution made it clear, however, that the committees would only have an advisory function about questions of the production process, rationalization, lowering of basic costs, etc. as well as about the distribution of premiums.

In practice, however, the workers' councils or committees performed no significant functions before their dissolution in February of 1958<sup>14</sup> when apparently the regime again felt sufficiently secure to ignore the interests and opinions of the workers.

### The Labor Code and the BKV

Over the years, the laws, decrees and ordinances regulating working conditions, responsibilities and rights of workers and employees grew to such proportions that it was almost impossible to determine the respective spheres of influence of specific positions. The maze of binding rules filled more than four volumes by 1958, although the imminent issuance of a uniform labor law had been announced for years. Finally, in April 1961,<sup>15</sup> the People's Chamber passed the new East

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- 13) Neues Deutschland, 20 November 1956.
  - 14) Neues Deutschland, 10 February 1958; Herbert Warnke, Chairman of the FDGB, to the SED Central Committee 35th Plenum.
  - 15) Neues Deutschland, 13 April 1961.

German labor code which throughout its 156 paragraphs revealed with rare clarity that the labor law was no longer aimed at the protection of the working class, but must serve solely the interests of the state's economy. For the purpose of the present paper, however, we shall only examine what role the new labor code assigned to the managers.

"The manager and leading co-workers are representatives of the Workers' and Farmers' state".... [As such, they]... "are directing the enterprise according to the principle of centralized management."

Their function is primarily to further the "mass initiative of the workers;" they are not only to be administrators, but leaders of the workers' collective responsible for their political and ideological education. The code also specified the cooperation of the collective management with the BGL. The latter must help to determine the use of premium, cultural and social funds; it must cooperate in the settlement of personnel questions and must participate in working out factory level plans.

Once a year, the BGL (enterprise trade union branch) must also conclude an important internal contract, the so-called "factory collective agreement" (Betriebskollektivvertrag, i.e. BKV) which is an arrangement between the management and the BGL aimed at the "general fulfillment of the enterprise plans." The code described the agreement as "an important basis for the political-ideological, economic and cultural work" as well as for the "social care of the employees." It contains the obligations for the maximum increase of work productivity, the implementation of scientific and technical progress, the development of socialist competition, the application of rationalized and progressive production methods, the strengthening of socialist work discipline, professional training and qualification, improvement of health and work protection, cultural and sport activities of the workers as well as their social care. These contracts, however, do not cover either working conditions or wages. Neither the management nor the BGL (nor the FDGB) determine the length of working hours, set by the state, while increases of work productivity are the prerequisite for wage increases.



The BKV is therefore largely a sham contract just as the labor code is a fraudulent pretense to improve the social benefits of the workers. The wage system being entirely based on the output principle, the factory management is, for example, held responsible if the average wage increases faster than the growth of labor productivity. In other words, the worker receives a basic wage "if the planned output has been reached quantitatively and qualitatively."<sup>16</sup> If the worker produces less than the basic norms, his wage will be gauged according "to the degree of achievement in order to eliminate any possibility of gaining a financial advantage by increasing the production at the expense of the quality." Since the sole judge of both quality and quantity of the worker's output, however, is the factory management (according to article 47 of the Code), arbitrary decisions are invited, and the danger exists that the worker will receive reduced wages only because the management believes his work to be insufficient.

#### The Managers of Socialist Concerns

The most recent rationalization move in industrial planning by the East German regime was heralded by the Sixth Party Congress, but expounded more explicitly during the Fifth SED Central Committee Plenum (3-7 February 1964). Unfortunately, the material available thus far on this important new development concentrates almost entirely on the new prerogatives of the intermediate level of economic administration (VVBs), and its full impact on the role of the enterprise director must for the time being be considered by deduction. To recapitulate briefly, Ulbricht announced in his speech<sup>17</sup> that the central planning organs should be concerned with basic decisions only and should delegate detailed decisions to lower authorities; in the new scheme of planning and management, the VVBs and their directorates are to be given increased independence and the 80-odd General Directorates of the VVBs, organized along industrial branches, should be made increasingly autonomous; the premium funds of the VVBs will be directly dependent upon profits (rather than being part of the wage fund) and the directorates will be given larger powers to determine the

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16) Article 44 of the Labor Code.

17) Neues Deutschland, 5 and 6 February 1964.

premium funds of their enterprises. According to Ulbricht, the VVB General Directorate is to be composed of the Director, his deputies and the main accountant.

The following quotation represents everything that Ulbricht had to say about "lower organs," i.e. the individual enterprises:

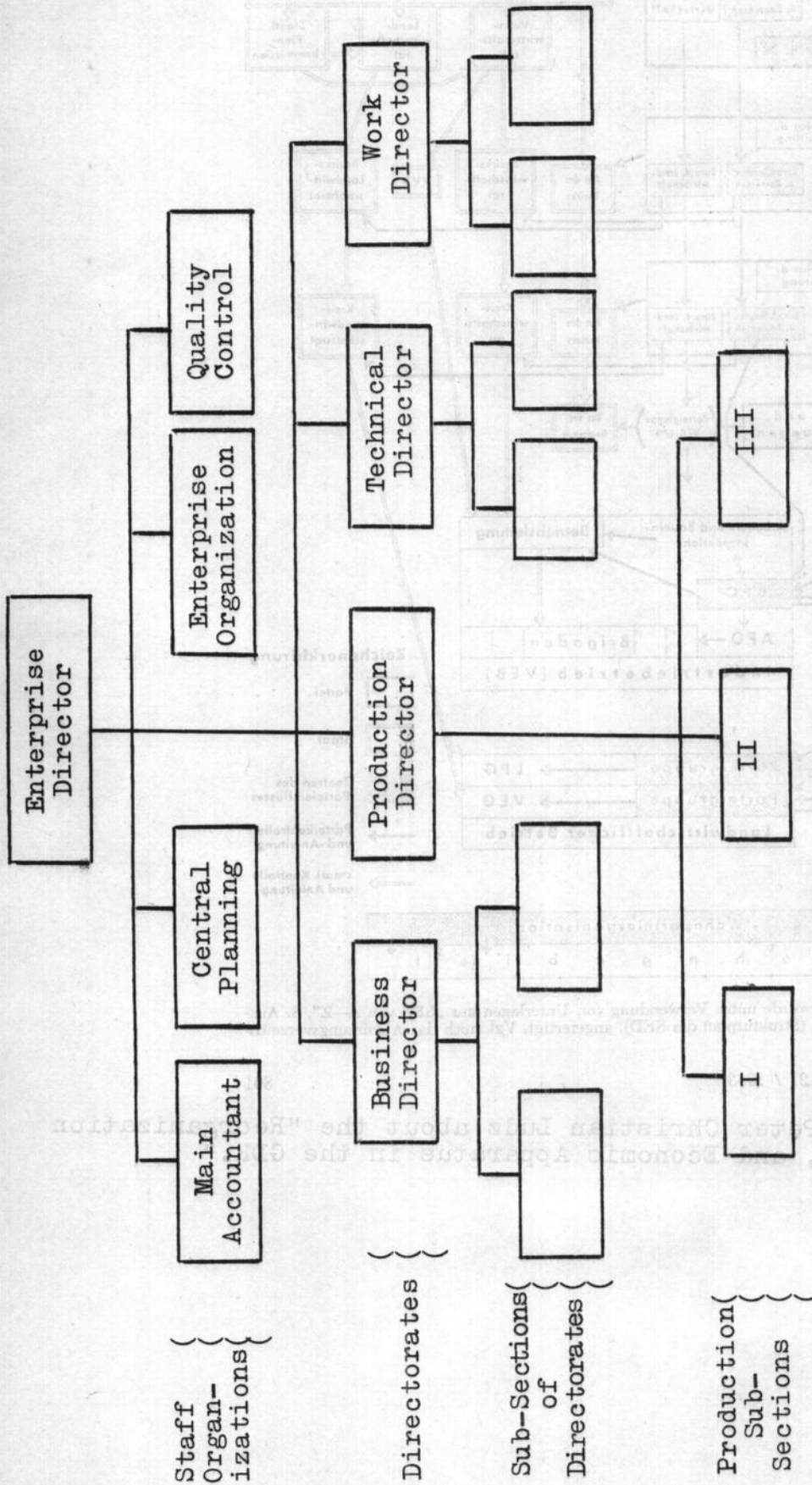
"The consistent application of the production principle and the correct implementation of economic laws require the correct distribution of the leadership system in order to solve all questions at such levels where they may best be solved.

This signifies the centralization of basic questions while the responsibility for the various branches of the economy, of industry and of the enterprises, especially for the concrete organization of the economic process, are to be meaningfully delegated to lower organs. If this is carried out consistently, we shall attain a pyramid-form of leading functions."

[Emphasis supplied]

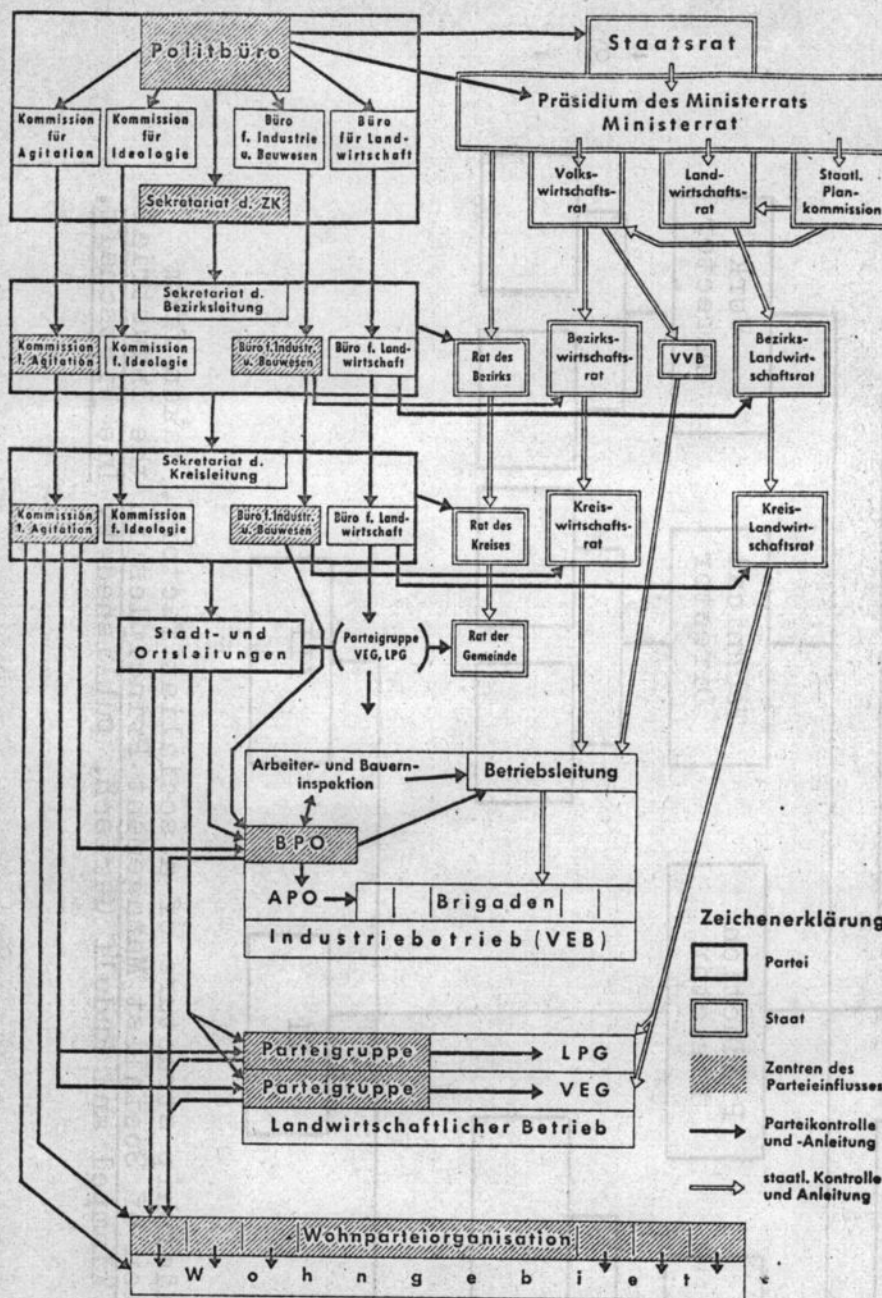
Even though the recent steps are a definite rationalization and decentralization of the previous rigid system of centralized planning and management, there is no clear indication yet as to how Libermanism will be implemented on the production base. The new privileges seem to be reserved to the VVB directors who are expected to deploy the initiative of a capitalist business man, and the expert knowledge of the communist technocrats. However, as the new system is introduced and additional material becomes available, it may well turn out the relationship between the VVB and the enterprise director has been modified to no lesser extent than that between the central authorities and the VVBs.





Graph representing the leadership structure of a socialist factory, taken from Ways towards the Realization of Socialist Management Principles in the Industrial Enterprise by Dr. Wilhelm Klampel and Rudolf Gerisch, published by Die Wirtschaft, Berlin, 1959.

# Partei und Staat im neuen System der Wirtschaftsplanung



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From an article by Peter Christian Ludz about the "Reorganization of the State, Party, and Economic Apparatus in the GDR."