

RADIO FREE EUROPE *Research*

COMMUNIST AREA

USSR: Economics

5 December 1966

A SOVIET SELECTIVE EMPLOYMENT TAX?

By a strange coincidence, soon after the Labour Government in Britain introduced its much-criticized selective employment tax (SET), Soviet economists began to discuss the need for a tax on labor in the USSR. Now Pravda has published a major article by a Bachelor of Economics, B. Rakitsky, who sets out in detail the arguments for a Soviet SET.¹ In view of the publicity given to it by Pravda and the fact that the Supreme Soviet meeting is scheduled for December 15th, it seems wholly possible that a tax of some such kind will be further discussed at governmental level before long.

Rakitsky begins by defending at great length the present Soviet attitude to social consumption funds, which have now become so expensive that they are under attack from several directions. "Several comrades," he reports, "have proposed that all consumer benefits without exception should be distributed according to work done." Their argument is that social funds are a category belonging to the future (i.e., when communism has been built, and when in theory distribution is according to need), whereas at present the USSR must solve its current problems, which can best be done by the greater use of direct material incentives. Rakitsky's reply is that both theory and practice make such a solution impossible, and he reminds readers that the 23rd Congress has planned for at least a 40 percent increase in the volume of social funds by 1970.

The critics of this policy have evidently been denouncing it as putting the cart before the horse (zabeganiye vpered), but Rakitsky denies the charge, adding that innovations such as free

1) Pravda, 30 November 1966.

meals at work or the free distribution of too wide a range of consumer benefits would in fact represent such an error, because they would lead to the "unfounded unification of consumption."

In line with Soviet policy towards China since the Red Guards began their recent rampage, Rakitsky manages to work in a gibe at the communes at this point. He writes that:

A fresh example of such unjustifiable unification is the recent experience of the Chinese communes. In practice they are obviously one of the varieties of petty bourgeois leveling, the essence of which lies in a breach between the principles of distribution and the character of production.

Rakitsky states that at present about 70 percent of all social fund payments are linked to some extent to earnings. But he argues that there is a limit here which should not be overstepped, since otherwise such payments become a form of distribution according to work done, and cease to perform their proper function which is to narrow the gap between the earnings of the most talented and the most backward members of society.

The Proposed Labor Tax

Rakitsky drops a broad hint to the effect that most Soviet factories are grossly overstaffed when he says that at present the enterprise bears almost no responsibility for the irrational use of its labor. As a rule, wages are paid for the quantity and quality of work done, but no payment is made for what could be achieved by the worker if he were properly employed according to his skills.

The state's expenses on training are not yet reflected in any way as a charge on the factory, with the result that numerous specialists are underemployed while working as unskilled laborers, etc. Therefore there should be a special tax, Rakitsky suggests, on the quality and quantity of labor employed by factories. This would make managers more careful in the use of labor, since they would have to take into account the cost to them of a worker's skill, experience, education, and perhaps even the age and sex of the individual concerned. In other words the Soviet SET would be highly differentiated and extremely complicated.

The advantages which Rakitsky sees as likely to accrue are the better use of skilled labor, and the future formation of a sex and age structure at factories which corresponds more closely to their real needs.

He also believes that the present quota system (bronya), whereby factories are compelled each year to hire an administratively fixed proportion of juvenile labor in order to reduce youthful employment, could be abolished and the same result achieved by the economic incentives which would be built into the new tax.

The Soviet SET would also be differentiated geographically, so that factories in the development areas of Siberia and the Far North, for example, would pay less than plants in the European areas of the RSFSR and the Ukraine.

As a sop to the managers (who will take no more kindly to the Soviet SET than their counterparts in the U.K.), Rakitsky suggests that factories should be relieved of the necessity to grant special privileges to workers who attend evening classes, to adolescents, to breast-feeding mothers, etc. These expenses now form a part of the wage fund, and therefore a plant with a higher proportion of women or of juvenile labor is at a disadvantage compared with its more fortunate competitors.

Rent Reform

Rakitsky's final suggestion is almost equally interesting. He points out that at present the state subsidies to those living in flats provided by the government amount to about 2 billion rubles p.a., and that they are paid in proportion to the living space occupied by each family. He thinks that, instead, a bigger subsidy should be paid to those who have less space and to those whose accommodation is of poorer quality. Probably any such reform would meet strong opposition from the well-entrenched members of the new class who now enjoy better quality state housing, but equally if it did go through it would not lead to a net reduction in the housing subsidies, since it adds up merely to a fairer redistribution of them. There is plenty of reason to expect that the Kremlin will follow a policy of increasing rents before long, but the text of Rakitsky's article makes no such proposal.²

On the whole, the obstacles in the way of a new rent deal would seem appreciably greater than those confronting the

2) Handelsblatt, 1 December 1966, mistakenly interprets it as heralding higher rents, but this reading involves overlooking Rakitsky's redistribution idea.

Soviet SET. If the latter were to be levied in a rational manner it could be of real utility in speeding up the redeployment of labor from the declining industries, in reducing the waste of skilled manpower in manual jobs or in semi-skilled trades, and in encouraging the growth of industry in the development areas. The Soviet SET is most unlikely to have a built-in bias against the service trades, on the pattern of the new British tax, because the services are scheduled to show the highest percentage growth rate for their labor force of any branch of industry under the 1966-70 plan. But there is a danger that if the drafting commission were to pitch the new payment for skills and education too high, managers would be tempted to try to use fewer skilled workers, thereby defeating one of the main aims of the Kosygin reforms of September 1965. At that time strong incentives were introduced to persuade managers to use a smaller but better-qualified labor force. Any bill promulgating a Soviet SET would therefore need extremely careful drafting.

r.r.g.