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CURRENT PLANNING AND PRICING PROBLEMS

A recent issue of Kommunist (No. 16, 1959) contains an article by a deputy chairman of the Moscow City Sovnarkhoz, G. Sotnikov, in which he discusses some of the weak points of Soviet planning at present. He begins by describing the 13 Moscow factories which make a "planned loss";<sup>†</sup> and suggesting that in these cases the turnover tax should be reduced. A case in point is the "Réd Hero" factory, for which a loss of 15,000,000 rubles is laid down in the plan, but which nevertheless pays 650,000,000 rubles a year in turnover tax.

Sotnikov also argues that in these cases wholesale prices should be raised "by raising average profits in those branches where they are excessively low, and by somewhat lowering them in those branches where they are fixed excessively high by the plan." His careful balance between raising some prices and reducing others does not obscure the fact that if a "planned loss" is to be eliminated, the average wholesale prices of the plant, assuming a constant market and no reductions in prime costs, must rise. This eventuality seems to have been foreshadowed in the 1960 budget, which provided for an unexplained increase of 48 billion rubles in the profits tax (V. Garbuzov, Pravda, 28 October 1959) over the 1959 level. Moreover G. Sakhovsky, the Minister of Trade of the Ukraine, recently wrote that:

"When it is necessary to use additional materials, or to expand the labor force, some increase in price may be justified". (Pravda Ukraine, 8th August 1959).

Due to the widespread introduction of the 7-hour day, the labor force is in fact being increased in a large number of Soviet factories (see Planned Economy, No. 11, 1959, pp. 36-37), and hence there is reason to expect a rise in wholesale prices in other plants as well as the minority making the "planned loss" which are discussed by Sotnikov.

An example of the chain reaction which an apparently sensible economic decision may produce in a planned economy is provided by the case of spare parts. There has always been a chronic shortage of spare parts for cars, trucks, and tractors in the USSR, and in an effort to remedy it, wholesale prices for them were raised in 1959 by the Ministry of Finance of the RSFSR, increasing the year's income plan of the Moscow Sovnarkhoz by 818 million rubles. But the resultant rise in costs of the motor transport operators was ignored by the planners and consequently a number of them made a loss instead of the expected profit.

<sup>†</sup>See Appendix below, p. 3.

Another reform which has misfired is the Ministry's new method of calculating turnover funds. This is based on the level of the previous year, adjusted upwards in accordance with the growth of output. But Sotnikov points out that these two indices are not inter-connected, in cases where a model change is to take place. He quotes the automobile industry administration as an example. Its planned increase in output for 1959 was 3.3%, a figure which allowed it a 30 million rise in turnover funds under the Ministry's new system. But the administration's costs estimate provided for an increase of 11.5 million rubles in unfinished goods, and of 18.2 million rubles for new production facilities, thus absorbing 29.7 million rubles of the new funds, and leaving virtually nothing for increased stocks of materials, instruments, completed cars, etc.

In some engineering plants, such as the Likhachev Automobile Works, as a result of the reduction in costs which the factory had achieved in 1958, the 1959 plan for the plant did not provide for any increase in turnover funds, although an extra 20 million rubles were supplied for new facilities and unfinished goods.

Sotnikov also makes a proposal for improving the enterprise fund, which is an incentive fund provided by appropriating between 1 and 6%, depending on the particular industry, of the planned profit. Where the target for profits is overfulfilled, the enterprise fund can take 20-50% of the surplus. Sotnikov's suggestion is that the rate of intake into the fund from the planned profit should be increased, and that from the above-plan profit it should be reduced, particularly for the light and food industries. Neither of these two is likely to welcome his proposal, since at present the bulk of their enterprise fund comes from above-plan profits.

The existing system, Sotnikov points out, leads to unjustifiable differences in the size of the fund per worker. In 1958 for example, the printing industry's enterprise funds in his area amounted to 135 rubles per worker, while the textile and knitted goods factories received 381 rubles a head.

A serious defect in the case of most engineering factories is the tendency to freeze funds by hoarding stocks over and above the permissible level. Some factories exceeded the stock norms by as much as 10% during 1958, Sotnikov complains, but presumably as long as there is a shortage of turnover funds this tendency on the part of management to hoard can be expected to continue.

In order to give a major stimulus to the process of retooling and reequipping industry for new types of production, Sotnikov suggests that almost the whole of the savings made from the manufacture of new products should be left at the disposal of the enterprise fund to reward the innovators and production engineers concerned.

In conclusion, the article proposes an extension to 3-4 years of the repayment periods now allowed by Gosbank for the credits covering the installation of new machinery, over and above the



capital investment plan. In the case of factory reconstruction, it is suggested that credits from StroiBank (the Construction Bank) should in future be repaid in 4-5 years.

Sotnikov's attempts to improve the mechanism of centralized planning illustrate some of the complex questions which have been raised largely as a result of Khrushchev's reorganization of industry. They also show how difficult it is to evolve a coordinated planning system in an economy where the interests of factory, Sovnarkhoz and Gosplan often remain conspicuously diverse.

r.r.g.

### SOME PROBLEMS OF KHOZRASCHET (OPERATION WITHOUT SUBSIDY)

Extract

by G. Sotnikov  
Deputy Chairman of the  
Moscow City Sovnarkhoz  
Kommunist, No. 16, 1959.

"Unfortunately not all our factories are profitable. In 1958 we had 13 so-called planned-loss factories. For example, the Red Hero plant pays more than 650 million rubles in turnover tax, and simultaneously for some reason its plan envisages a loss of 15,000,000 rubles.

The planned losses of factories are partly compensated for from the profits of other plants. Moreover the aid is often late as a result of the non-fulfillment by individual profitable factories of targets for lowering prime costs and for profits. In the event of non-fulfillment of production programs by the planned-loss factories, the branch administrations of the sovnarkhoz as a rule either do not make up the above planned losses or compensate for them after a long delay. As a result the plants which make a loss usually experience great financial difficulties.

How can these losses be liquidated? Raising the standard of technology and productivity, improving management, perfecting price planning - all this undoubtedly gives positive results. But one must take into account another important demand of genuine profitability - the need for correct planning of profits and turnover tax. With correct planning the factory has a great opportunity for improving technology and organization, increasing productivity and cutting costs.

In a number of cases losses are governed by planning defects themselves. For such factories it is essential to reduce the size of the turnover tax. It is also necessary to change the practice of fixing wholesale prices, by raising average profitability in those branches where it is too low and by somewhat lowering it in those branches where excessively high profits are planned.

The frequent reduction of wholesale prices leads to an increase in the number of planned-loss factories, complicates planning, and demands a review of calculations, a change in production and financial plans. If the review of wholesale prices is really necessary it should be done as a rule once a year and the new prices applied as from the beginning of the planned period.