

The Soviet Economy

Continuity and Change

**edited by
Morris Bornstein**

THE SOVIET ECONOMY

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EDITED BY MORRIS BORNSTEIN

Westview Press / Boulder, Colorado

PREFACE

For several reasons the institutions, policies, accomplishments, and problems of the Soviet economy are important and interesting to a wide audience of policymakers, business executives, scholars, students, and citizens. First, the USSR is a political, military, and economic superpower. Second, the USSR created a distinctive economic system—now commonly called a socialist, centrally planned economy—that subsequently was adopted, with modifications, by other countries in Eastern Europe, Asia, and Latin America. Finally, the USSR offers its economic system and economic-development strategy as a model to Third World nations seeking rapid economic development and social change.

This book provides a comprehensive and up-to-date picture of the evolution and operation of the Soviet economy, its external economic relations with major world areas, and the challenges it faces in the next decade. Part 1 explains the nature and difficulties of Soviet economic planning and the wide range of legal and illegal unplanned activities in the Soviet economy today. Part 2 describes how Soviet citizens participate in the economy as industrial workers, farmers, and consumers. Part 3 examines Soviet foreign economic relations and their implications both for the USSR and for its trading partners. Part 4 considers some of the most serious economic problems of the USSR in the 1980s, including agriculture, technology, and energy, and possible actions the Soviet regime might take to deal with these problems.

I wish to thank the publishers and authors of copyrighted material who granted permission to reprint. I am grateful to my wife, Reva, for her encouragement and forbearance during the preparation of the book.

—*Morris Bornstein*

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Planning (coeditor with John P. Hardt, Marvin Hoffenberg, and Norman Kaplan), 1967, and many articles in journals and contributions to collective volumes.

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PART 1

THE PLANNED AND UNPLANNED ECONOMIES

INTRODUCTION TO PART 1

MORRIS BORNSTEIN

The Soviet Union is the prototype of a socialist, centrally planned economy, in which the state authorities are supposed to control resource allocation and income distribution through comprehensive plans and detailed administrative orders. But, in practice, Soviet economic planning is both imperfect and incomplete. Ambitious plans often cannot be achieved and frequently must be revised during the period they cover. Moreover, in the USSR there are important markets over which state agencies exercise only partial, if any, control.

To make detailed plans for production and supply, central planning agencies and branch ministries prepare “material balances” covering the total amount and composition of the sources and uses of tens of thousands of commodities. The sources include domestic production, imports, and inventories at the beginning of the period. The uses comprise intermediate use by processing industries, final domestic consumption by households and by government agencies (for both civilian and military programs), exports, and inventories at the end of the period.

Linked to these material balances are detailed “technical-industrial-financial” plans for individual factories, farms, and retail establishments. The plans cover authorized inputs of labor and materials; output assignments; the corresponding costs of production, sales revenue, and profits; and capital investment programs.

Although material balances and associated enterprise plans are usually “consistent” (i.e., balanced on paper), they are often not “feasible” (i.e., actually attainable in practice). Shortages of inputs and finished products are widespread, and many firms

fail to meet some of their output targets and investment schedules. One reason is the inability of planning and administrative agencies to collect and process all of the enormous amount of relevant data in a large, complex, and changing economy that produces, according to Soviet experts, over 12 million different items. A second reason is the persistent tendency of planners, in response to pressures from political leaders seeking rapid growth, to establish overly ambitious, excessively “taut” plans with unrealistically low input-output ratios and inventory levels.

In Chapter 1, R. W. Davies explains why the system of central planning and administrative supervision of the economy was adopted in the USSR in the late 1920s to mobilize resources for rapid industrialization. Although this system worked imperfectly, it did succeed in achieving some of the main objectives of the Soviet regime. However, after the death of Stalin in 1953, it became increasingly evident to Soviet leaders, economists, and administrators that this “mobilization” model was unsuitable for a “mature” Soviet economy already industrialized and with high rates of labor force participation and more than one-fourth of national product going to investment. In the current “intensive” phase of Soviet economic development, the main challenge is not to obtain more inputs of labor and capital but rather to increase their productivity and to stimulate technological progress in order to raise the quantity and especially the quality of Soviet output. In pursuit of these aims, the Soviet regime has made some changes in economic organization, planning techniques, pricing, and incentive schemes. But, as Davies shows, these changes have been limited, and their effects relatively modest.

Because Soviet economic plans are so comprehensive, detailed, and ambitious, it is not surprising that they are not, and cannot be, carried out as drawn up and promulgated. Instead, plans are not completely fulfilled, unplanned actions occur, and plans are frequently revised during the period they cover. In Chapter 2, Raymond P. Powell examines how central planning bodies, administrative agencies, and enterprise managements analyze and respond to problems that arise in the execution of plans. He discusses how decision makers identify and measure scarcities in the absence of market-clearing prices for most goods and services. He explains the ingenious methods used to attempt to overcome shortages and to achieve—or at least simulate—plan fulfillment. Powell finds

that the Soviet economic system is best characterized as a combination of “planning *cum* improvisation,” in which formal and informal adjustments at various levels during the implementation phase correct some of the errors in economic planning.

Although it is common to think of the USSR as a centrally planned economy, in fact many kinds of markets operate in it, for various reasons. First, as in official retail trade, the market is the only mechanism capable of successfully distributing thousands of kinds of state-produced consumer goods and services among millions of Soviet households with widely divergent money incomes and tastes. Second, some markets arise because of shortages caused by deficiencies in the production, pricing, and distribution of output. In such markets individuals with scarce goods sell them above official prices, or enterprises barter materials with other firms having complementary shortage/surplus positions. Third, there are markets for privately produced consumer goods and services that meet demands not satisfied by state plans assigning high priorities to investment and military programs at the expense of consumption.

The resulting complex system of legal, semilegal, and illegal markets in the USSR is described in Chapter 3 by Aron Katsenelinboigen and Herbert S. Levine. They explain why each type exists, what is traded in it, and the roles of state enterprises, collective farms, and households as buyers and sellers.

Thus, besides the official, socialist, centrally planned economy usually described in Soviet and Western textbooks, the USSR has a “second economy.” It consists of (1) unofficial operations by state enterprises seeking to fulfill their plans; (2) legal private activities, such as the production of food on garden plots and its sale on the “free” collective farm market; and (3) illegal private activities in trade, services, and even manufacturing.

Chapter 4 by Gregory Grossman examines the scope of this second economy, the reasons for its existence, and its role in economic crime and the corruption of officials. He shows that the second economy has not only considerable economic significance but also important ideological, political, and social implications. Thus, any assessment of the size, operation, and problems of the Soviet economy must take second-economy activities into account.

ECONOMIC PLANNING IN THE USSR

R. W. DAVIES

THE SOVIET PLANNING PROCESS FOR RAPID INDUSTRIALIZATION

An Outline of the System

The Soviet government set itself the objective of a more rapid rate of industrialization, with a greater investment in capital-consuming industries and processes, than could be achieved within the framework of the market economy of the 1920s. The main objective was achieved, but with a much slower increase in living standards (consumer goods, agricultural output) than had been intended. To enforce its priorities, the Soviet government abandoned the major assumptions of its earlier policy.

1. A market relationship with the peasant was replaced by administrative or coercive control over his output. The centers of economic and political resistance in the rural commune were destroyed, and hundreds of thousands of *kulak* families were expelled from their home villages. Twenty-five million individual peasant farms were combined into 250,000 collective farms (*kolkhozy*), one or several to each village. The old boundaries and strips were destroyed, and most land and cattle were pooled and worked in common. Agricultural machinery was gradually made available from several thousand state-owned machine and tractor stations (MTS). The *kolkhoz* was required to supply a substantial part of its output to the state collection

This chapter is revised from "The Soviet Planning Process for Rapid Industrialization," *Economics of Planning*, vol. 6, no. 1 (1966), pp. 53-67, and "Planning a Mature Economy in the USSR," *Economics of Planning*, vol. 6, no. 2 (1966), pp. 138-152. Copyright © 1979 by R. W. Davies. Reprinted by permission.