PROFIT MOTIVE IN A COMMUNIST ECONOMY

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> "People must come to accept private enterprise not as a necessary evil, but as an affirmative good."
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> —Eugene Black

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By

GILBERT BURCK*

High in a dun fourteen-storey building at the foot of Moscow's Gorky Street, a genial, round-faced fifty-five-year-old man from Azerbaijan holds down what is very likely the toughest management job in the whole wide world. Since last fall Nikolai Konstantinovich Baibakov has been chairman of U.S.S.R. Gosplan, the powerful committee, that coordinates planning for the entire Soviet Union. As one who has been in the business for twenty years, Comrade Baibakov has no illusions about the manifold difficulties ahead of him. Back in 1955 he was appointed chief planner by his friend Premier Nikita Khrushchev; two years afterward, in the course of an interoffice row, he was unceremoniously heaved out. Summoned back from the provinces by Premier Kosygin, Baibakov now enjoys an eminence at least as precarious as his old one, for his present job is even more challenging.

To begin to grasp the complexities that beset Comrade Baibakov, think of him as a kind of staff executive vice-president of the biggest and most diversified conglomerate monopoly the world has ever seen—one in which all the problems of running a great disparate corporation are raised to the nth power. General Electric, which is commonly regarded as the most diversified of all large corporations, conducts about a hundred identifiably different businesses, makes 500

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different products in 242 plants in twenty-one countries, and employs over 300,000 people. The U.S.S.R. turns out, perhaps, 20,000 different classes of products, each of which may be divided into dozens and even hundreds of categories; it runs more than three million different organizations, of which 200,000 are industrial plants or "enterprises" ranging from small to immense, and it directly employs some 93 million people.

What is more, Comrade Baibakov and his colleagues in the vast managerial bureaucracy of the U.S.S.R. Inc. are deep in the toils of an appropriately titanic reorganization. The time has come, as it does to the managers of all great conglomerates, when they must grasp the nettle of the organizational paradox known as decentralization. In a colossal way, their problem is similar to that confronting Alfred Sloan and General Motors in the early 1920's. Precisely because the managers at the center have been trying to discharge too much responsibility, they have vitiated their control of their far-flung complex. The task ahead of them is to strengthen their control, and to do it by finding ways of giving local managers the kind of autonomy that will drive them to work harder and more efficiently towards a national goal.

But such an undertaking, which was hard enough for the managers of so homogneous a company as General Motors and in an environment1 so hospitable to change as the U.S., is infinitely more complex for the managers of the U.S.S.R. As practical industrialists looking for efficient ways to get things done, they are constantly inhibited by a highly impractical as well as hidebound ideology. Nothing is further from their minds, at least right now, than turning over any part of their economy to private ownership, as Yugoslavia and other Eastern European countries have done. But they are heeding Lenin's admonition to learn from capitalism. And they are painfully rediscovering fundamental and neutral economic laws that they have unfortunately been taught to identify with the "evils" of capitalism — that true prices reflect scarcity as well as costs, that rent and interest on capital are useful and desirable.

So the "great" Soviet economic reform movement is under way. After more than a decade of remarkable open discussion and contention by practically all the first-rate economic talent in the land, after years of administrative reshufflings, Premier Alexe Kosygin and some of his colleagues are cautiously experimenting with various changes that may well turn out to be a practical decentralization policy. But everybody who knows anything in the Soviet Union knows the days ahead will be arduous. A recent visitor spent considerable time with a Soviet economist who took advantage of the chance to discuss many of the economic problems, chronic and transitory, that afflict the U.S. "And what do you think of our economy?" the Muscovite finally asked.

"We-ell," replied the visitor, "I sort of get the impression that you have just as many problems as we do."

The Russian paused a moment and gave the American a quick, appraising glance. "You are more or less correct," he said.

In the opinion of John Hardt of Research Analysis Corp.: who is one of Washington's leading Sovietologists, the Soviet Union is in the early stages of its second economic revolution one in which indirect fiscal and monetary controls will probably supplant direct political controls, and in which farmers and light industry will get a better break. The first Soviet economic revolution, by this reasoning, occurred nearly forty years ago, when Josef Stalin, having consolidated his dictatorship, stopped listening to his economists, called in his party-disciplined technorcrats and engineers, and ordered them to make the Soviet Union into a great industrial and military power as soon as possible. They summarily scrapped the market price system, which had survived the Bolshevik Revolution and had been preserved in Lenin's New Economic Policy. The Stalin regime used prices as a political instrument. While charging industry nothing for the use of capital, it nearly doubled prices of consumer goods with a turnover tax, and allocated the bulk of the nation's resources to investment and the military. The peasants and workers paid the bill. Stalin's first Five-Year Plan, launched in 1928, ushered in a long series of severe plans that formed industrial capital at a rate no capitalist country has ever matched over such a long period. In the course of its ruthlessly asymmetrical progress, the Soviet Union often went in for what one economist calls conspicuous production. But industrialize' it did.

By the time Stalin died in 1953, however, this statistically glorious success was showing signs of running into trouble, and ere long the figures were much less glorious. Between 1950 and 1958, according to estimates made by Research Analysis economist Stanley Cohn for the Joint Economic Committee, Soviet gross national product grew at a rate of about 7 per cent a year. But since 1958 it has grown at an average of less than 5 per cent, or slower than that of West Germany, France, Italy, and Japan, and, in some recent years, much slower than the U.S.

One reason for the slowdown was a shift in the character of the country's output. The construction and operation of basic industries like coal, steel, and power had boosted the growth rate enormously. The penalty for "catching up" in heavy industry, however, was to fall further behind in other areas, which could no longer be ignored. Despite the deprivation of consumers, the economy was becoming more varied and complex and its output more diverse. Sophisticated products made of petroleum, chemicals, and nonferrous metals, which demanded care in their manufacture were growing more important. Thus the overall growth rate naturally fell.

But the slowdown is the result of more than a shift in the character of the country's output. Not only is agriculture still in the dumps, pining for lack of machinery, fertilizer, and incentives, but industrial progress has also faltered measurably. A good way to appraise Soviet industry's recent performance is to look at the amount of additional capital investment per worker it has needed to produce an additional dollar's worth of goods. The figure has risen dramatically. Between 1950 and 1958 it averaged $3.50. But between 1958 and 1964 the average more than doubled to $7.80, and has done no better since. By contrast, the figure was $6.60 for Britain, $4.50 for the U.S., $4.40 for Germany, $3.50 for France, and $2.60 for Italy. The productivity of Soviet capital and labour, in other words, is increasing much more slowly than in other countries. The lag was partly the result of stepped-up military and space production, which has claimed a lot of scarce scientific and management talent. The main reason, as both Khrushchev and Kosygin have not hesitated to tell the world, is that the old planning and management techniques are no longer up to a new and more complex job.

If size and complexity were the only problems facing Comrade Baibakov and his cohorts, their life would be a relatively easy one. What makes planning for the Soviet monopoly so much harder than planning for even the most conglomerate Western corporation, what makes decentralization of Soviet management harder still, is the enormous void between what planners and managers know and what they need to know. They are drowning in data; according to almost incredible estimates in two economic journals, more than ten million Soviet citizens were engaged in collecting and processing data back in 1962, and the number has probably grown a lot since. Yet the planners lack the information they need.

One trouble, prominent Soviet economists have come to realize, is that their price system doesn't tell them what they need to know. It just doesn't measure value consistently. They are also beginning to recognize that an unrigged, flexible, competitive price system is one of the most sensitive information systems known to man. Free prices are the arithmetical expression of the value put on commodities or services by the market, which in effect considers all the known facts about the commodity or service in arriving at its price. In a free price system, moreover, the purchaser is sovereign; since the system automatically tends to direct a country's resources to the uses that purchasers are willing to pay for, it behaves as the invisible hand or universal feedback.

The price system in the West, of course, is only partly free. It is hamstrung by special interests, oligopoly, government controls, and so on. Sometimes, particularly when abused, it seems to create the very "anarchy" Marxists profess to see in capitalism. But it works. It automatically puts the values of literally billions of things into fairly consistent and harmonious relationships. It automatically offsets shortages, ahticipates gluts, rewards quality, foresees needs. In short, it does many things that can be done in a planned economy, if at all, only by the deliberate intervention of thousands of mortal men. And because it is a powerful natural coordinator, it helps the most tangled corporations to achieve the blessed state of central strength through decentralization.

Soviet prices, by contrast, were stripped of their natural function when the bureaucrats annihilated the purchaser's sovereignty over them. In the U.S.S.R. everything from bread to ballet, from subways to suits, is sold either at a huge loss or at a huge markup. Some of the scarcest commodities are often the cheapest, so they are snapped up at once, and become scarcer still. By the dictates of Marx, who taught that the price of goods should faithfully reflect the labour embodied in them, Soviet consumer prices are surely haywire. But it is in the critical province of producers' or capital goods—plants, machinery, supplies and components—that the arbitrariness of the Soviet pricing system has done its worst. The planners who allocate the production of producers' goods may know the price of everything, but they rarely know the value of anything. They are caught in the classic cul-de-sac of central planning: since their prices are based on their preferences, they cannot use prices to help guide their preferences. For them, the economic concept of arriving at the most advantageous combination of resources has been hardly more than a notion,

By the estimates of leading Soviet economists themselves, 25 to 50 per cent' of the country's potential output has been lost in faulty planning. Right at the birth of a plant or "enterprise" the planners have been handicapped by their inability to evaluate their investment. For each proposed new plant they issue an impressive document called a proiekt—an extraordinarily thorough set of builders' instructions, complete not only with cost estimates but with blueprints of everything down to the location of each water tap. The proiekt for the Novo Lipetsk steel mill in 1962, for example, contained 70,000 pages in ninety-one volumes. The trouble, as both *Izvestia* and the *Economic* Gazette complained at the time, was that "only one aspect of the project is not considered at all: its economic effectiveness." The reason for this lapse was that nobody really knew whether the resources spent on it could have been put to better use elsewhere. If the Soviet press is to be believed, many such uneconomic plants have been put up. Their construction provided a handrome increment to the national growth rate; later on, when unduly high costs showed up, the bill came due in the form of smaller net output per unit of capita! invested.

It was in the year-to-year planning for the 200,000-odd existing industrial enterprises that the whole business was most frustrating. Each enterprise usually began a preliminary draft of its annual operating plan for the next year in April or May. Meantime the planners in Moscow and in division offices were drawing up preliminary schemes and sending out preliminary. directives to their enterprises. There ensued much haggling. Then the enterprise prepared a draft operating plan together with a statement of its requirements. More haggling; mutual agreement might not be reached until the end of August, and after as many as a hundred changes in the plan.

About this time Gosplan would begin to draw up a colossal balance sheet with all the supplies for the economy entered on one side and the planned uses on the other. After weeks of heroic juggling, animated by a patriotic determination to get the most production out of the available resources, the planners achieved a rough balance between supply and output. But they did not and could not have enough information to balance things perfectly, or even well. The only thing they could be sure of was that plant or enterprise directors were asking for more resources than they needed. So to be on the safe side, the planners allocated fewer resources to non-priority enterprises than they asked for. Thus they found themselves consistently misallocating the nation's resources. That is why the 1956-60 plan had to be shelved in 1957, and why the 1959-65 seven-year plan bogged down by 1963.

The man who got stuck with all this was the enterprise director. Not only was he charged with the responsibility for meeting or surpassing his plan without being given authority to command his supplies; he was saddled with the "constructive criticism" of local Communist party secretaries and members, who tended to support him and share in his acclaim when everything was going well, but blamed him when it wasn't.

Nevertheless, the director usually did all right. He got a good salary as salaries go in the Soviet Union: as much as 500 rubles or $550 a month. He enjoyed perquisites such as a free car and apartment. Most important, if he overfulfilled his quota he got a monthly premium or bonus amounting to as much as 40 per cent of his base salary. Because the planners were interested primarily in quantity, his bonus was geared to physical output. Any American manager worth his salt can guess how the average Soviet director got along. His real objective, given his incentives, was not necessarily to produce as much as possible, but to wangle himself an easy plan.

The first thing he did was to estimate his capacity as conservatively as he could. This was a delicate job, for he knew that the planners knew he was underestimating his potential, and they knew he knew it; their knowledge gave them a legal and moral weapon to use if they took a dislike to him. So he had to be discreet. As a group of eminent Soviet economists put it in the January, 1959, issue of *Kommunist* if the director knew he could produce at 110, he dickered with the planners for 90, settled with them for 100, actually produced at 105, and got his bonus. Since the current year's output became the goal he must surpass the next year, he was a fool ever to produce as much as he could in any one year.

Once he got an easy plan, the Soviet director was still faced with the problem of getting supplies and materials. First he asked for considerably more than he needed because be knew the planners knew he would ask for more than he needed, and would cut him down accordingly. This play, however, didn't always work perfectly. So the director had to call upon a character who should go down in history as the Hero of the First Soviet Economic Revolution. As one Russian journalist describes him, "He is what you Americans, with your peculiar sense of humour, would call a working economist Ha, ha, ha!"

The character he alludes to is the tolkach or pusher, sometimes carried on the payroll as an economist or engineer. Like the U.S. salesman, he knows a lot of people and travels around with a big expense account. Unlike the U.S. salesman he persuades other enterprises not to buy, but to sell—to part with output that his own enterprise needs. He arranges barter deals outside the plan, helps his director build up inventories of scarce supplies, and knows how to make bribery a fine art. It is terribly hard to meet a real live tolkach because officially he does not exist; the request to be introduced to one usually excites gales of laughter. But he not only exists, he lives off the fat of the land, such as it is. According to one 1963 estimate, no fewer than a million tolkachi "fill the hotels in the cities and spend millions of rubles in state money." In 1962 one Minsk enterprise sent thirty-two tolkachi to the same Leningrad supplier to get tractor parts, and the entertainment bill came to 10,000 rubles. But if the tolkach cost the country a lot he was worth it; he saved the economy from the ignorance of the planners.

Because the planners usually didn't allocate him enough, the enterpriser also found himself intensifying scarcities by hoarding materials, supplies, and manpower against the day he might need them. When hard pressed, the manager also found those hoarded inventories useful for inflating production figures; and occasionally he made a practice of ordering components that were excessively expensive or that needed little work done on them and so expanding his—and the nation's—statistical output without expanding real production. And because Marx taught that all value is derived from labour and that land and machines therefore have no value aside from labour that has gone into them, the director got his machines and plant interest free. So he was encouraged to waste capital goods and build up excessive inventories. For example, the Khabarovsk Chemical Enterprise stored away a million rubles' worth of uninstalled equipment. As an economists named A. Zakharyan lamented in a June, 1961, issue of *Pravda* "A whole shop may be a moribund treasure." Last February *Sovitskaya Russia* reported that $1.8 billion worth of machinery was standing idle in Russia alone because it was "delivered by mistake or in quantities larger than ordered."

Very often the enterprise manager found it convenient or necessary to integrate illegally—that is, to install highcost subsidiary operations to make supplies and parts that he had trouble getting through normal channels. In 1962, for instance, the Miass Electrical Appartus Plant in the Urals spent 1,540 rubles a ton to produce its own small screws, while the nearby Magnitogorsk Metal Products Plant mass-produced them at only 303 rubles a ton. "Well, there must be a reason," cracked Nikita Khurushchev when the situation was called to his attention; "the comrades at Miass must be making gold screws."

Despite such expedients, Soviet journals are full of examples of insufficient supplies, even to high-priority plants. In 1962 the Byelorussian Tractor Factory held up production nineteen times for want of rubber parts and eighteen times for want of ball bearings. Although the planners had committed the output of new Perm steel mill to customers, the mill remained idle for several months because it had received no smokestacks.

The national drive for quantity naturally took its toll of quality. Just as capitalists in Marxist literature are pictured as driven to produce for profit and not for use, the Soviet enterprise director was actually driven to produce for the sake of production and not for use. Professor Alec Nove of the University of Glasgow relates a kind of parable to illustrate the point. Soviet dental fillings usually fall out in a few months. Nothing could be easier than to make an amalgam that would stay in place indefinitely; the trouble is that a more durable amalgam "would cause a decline in net output and the U.S.S.R. would fall further behind America in this sector of economic life."

To avoid down time and time consumed in adjusting for size and assortments, directors disregarded specifications or made the most of their ambiguity. Garment-makers made suits and dresses in only one size, and so on. And owing to short supplies, many managers were forced to accelerate production towards the end of the month; sometimes they produced more than half the month's output in the last few days. Managers who practised this were sarcastically alluded to as the "heroes of the 29th day". But their heroics invariably ended up in defective goods and slow delivery schedules.

Machine tools and other capital goods were no exception to the rule of quantity. The Soviet Union owns roughly two million machine tools, or about two-thirds as many as the U.S. But only half the Soviet tools are in use at any one time; the rest are not being used or are under repair, and more workers are employed repairing machines than producing new ones. The national motto, jokes a European engineer who has been installing plants in the Soviet Union, should be PEMOHT (Russian for "repairs").

Apartment houses, hotels, and other buildings that have been up only a few years look and work as if they had been standing there thirty years without a lick of maintenance. It is not that the Russians are incapable of doing anything well; on the contrary, they do superlatively well on jobs to which they allocate ample resources—spacecraft, aircraft engines, subways, the restoration of historical buildings, the decoration and furnishing of concert and opera halls, etc. But elsewhere the institutional bias for quantity takes over; the drive is to get the job done, no matter how. There is such a thing as too much quality, particularly in a country trying to make up for lost time, but that danger doesn't yet face the Soviet Union. Statistical growth at the expense of a minimum of quality inevitably means slower growth later on, when the defective investment must be replaced or repaired. As Khrushchev himself used to say, you can't make pancakes out of statistics.

Finally, the Soviet plant manager has had little incentive to innovate by using either new materials, new mixtures, or new processes. At least for a time such experiments increase costs and reduce output and bonuses. U.S. corporations are automatically driven by competition to innovate, and more and more of them are making it worth while for managers at the plant level to experiment. But it is hard to decree innovation. Although Khrushchev set up state committees and introduced schemes to promote innovations, the Soviet plant manager has been slow to react, and has even tended to avoid installing complex new machines that temporarily reduce production. The Soviet Union can draw from a vast pool of innovations developed in the West, but too much reliance on Western innovation can keep it everlastingly behind the West.

Nobody has been more painfully aware of their mistakes and shortcomings than the Soviet authorities themselves. For years eminent contributors to the country's journals and newspapers have spared neither fervour nor candour in their analysis and criticism of their economy's defects, and in their prescriptions for reform. Their essays and reports have provided American Sovietologists with gold mines of information. Furthermore, as Professor Marshall Goldman of Wellesley College points out, the great debate has been almost devoid[1] of the doctrinal citation and paeans to Soviet superiority that characterized previous debates.

Since nothing is printed in the Soviet press without the imprimature of the Communist party, it is tempting to conclude that the party is solidly behind the reform movement. That would be going too far. Not only are many party hacks jealous of their prerogatives and fearful of losing power to the managers, they are too rigidly conservative if not bigoted to take a practical view of the economy's problems. The party's underlying programme is still to remake man into the "Communist Man". Not long ago, indeed, one of its hidebound preceptors took space in *Pravda* to remind the comrades that their aim is primarily to build communism "not by capitalist methods but by the conscientious, voluntary and heroic labour of the workers". Thus the reform movement has taken a long time to get under way; and many clear-sighted top officials ironically find themselves, both as good atheists and ambitious managers, handicapped

by what is essentially the religious dogma of some of their colleagues.

The movement actually began in the 1930's, when several economists began to question Stalin's notions in learned journals; and it gathered momentum after Stalin's death. But it remained underground until 1956, when Evsei Liberman, now sixty-nine and Professor of Economics at Kharkov Engineering-Economics Institute, published an article in *Kommunist* arguing that efficiency and quality of plant output could be improved by paying more attention to the profitability of invested capital. The concept of profit, defined simply as revenue minus costs, was nothing new in the Soviet Union. Although some 20 per cent of all enterprises are planned to operate at a loss for arbitrary reasons, the rest are expected to make a profit, and the state depends on industrial profits for almost a third of its revenues. But Liberman's notion of using profit on both fixed and working capital to promote efficiency, if not entirely new, impressed influential economists like the late Vasily Nemchinov of the U.S.S.R. Academy of Sciences, who encouraged Liberman to keep up his good work.

Not until 1962, however, was Liberman encouraged sufficiently to publish again. With Khrushchev's blessing, *Pravda* then printed an article in which Liberman argued that bonuses should be based primarily on profitability of capital and that plant managers should be allowed to decide for themselves the size of their payrolls, productivity goals, costs, capital investment, and innovation policies. With profit as the main incentive, Liberman figured, managers would automatically use capital efficiently, keep other costs down, and make goods that customers wanted. To encourage managers to estimate their abilities honestly, he recommended that profitability goals be set on a multi-year rather than on annual basis; and to encourage innovations, he recommeded that targets be lowered for innovators. What is good for the individual Soviet enterprise, said Liberman, is good for the Soviet Union.

Liberman's proposals were manifestly far from free enterprise, or even from the rigidities of planning. But they aroused a storm of criticism, as indeed they were intended to. The reactionaries attacked them as the fundamentalists once attacked evolution. Instead of being interested only in higher bonuses, some hymned; we should always think of what we can do for the state, not what the state can do for us. Other less emotional traditionalists pointed to what seemed to them like real inconsistencies in Liberman's arguments. If plant managers put profits first, they asked, wouldn't quality still suffer? Wouldn't enterprises tend to shift production to goods with the highest profit margins? Might not the government itself be forced to shift resources from "socially necessary" projects, and thus jeopardize the "basic economic law" of Soviet society, which is to build the material foundation for socialism?

During the next two years, however, eminent economists not only sided with Liberman but carried some of his ideas to their economically logical conclusion. Plant managers, they realized, can be efficient only if they can shop around among other plants for their needs. Professor A. Birman, prorector of the Moscow Institute of National Economy, proposed to do away with physical output targets and central allocation of producers' goods in all industries save major ones like steel and oil; other enterprises would purchase materials and parts directly from suppliers and compete for orders in the market. The planners, for their part, would achieve the national goals by indirect regulation of prices, money, and incentives. Nemchinov actually suggested that planners should call for bids and give the lowest bidders the jobs.

Meantime the Soviet economic press was supplementing Liberman's rather simple economics with really sophisticated discussions of price and value. Profits, after all, can accurately measure an enterprise's contribution to the economy only if the prices of its materials and labour and components measure their value accurately. Thus a planned (or any other) economy can decentralize only if it enjoys a price system that reflects genuine value.

Theories of price and value, which had been discussed furtively under Stalin, began to be printed in 1956, after

Anastas Mikoyan and Mikhail Suslov, at the Twentieth Congress of the Communist party, attacked Stalin's price policies and bade the nation's economists lay on and revise them. The greatest contributions to price reform were made by three "radical" thinkers: Nemchinov (who died in 1964); Professor Leonid Vitalevich Kantorovich, now fifty-four, deputy director of the Laboratory for the Use of Statistical and Mathematical Methods in Economics at Novosibirsk; and Professor Victor Valentinovich Novozhilov, now seventy-four, chairman of the Department of Statistics at the Engineering-Economics Institute in Leningrad. All three were criticized for using Western marginal analysis, which judges the advisability of increasing production by the extra, or marginal, cost of the added production. They were also accused of the worse offence of violating Marx's labour theory of value by advocating prices that included charges for capital and natural resources, an accusation they got around by maintaining that capital and land were not the equivalent of labour but only factors affecting its cost. Nevertheless, all three economists won Lenin Prizes, the highest honour of the U.S.S.R. in 1965. The state thus recognized their great achievement: they created a kind of mathematical substitute for the free price system, calculated to let the planners allocate supplies and setting production goals in rubles instead of in physical quantities.

Nemchinov simply proposed that wholesale prices be based on what he called the National Economic Cost of production~or carefully calculated average costs, including profit and charges for capital and natural resources. Novozhilov went further. He realized that prices must reflect relative scarcities as well as costs. The supply of capital goods and land, he pointed out, is limited; when they are substituted for labour in one place they are in effect denied elsewhere. To allocate them accurately, a planner must have some idea of their relative value. So he assigned them what he called "inversely related" or "opportunity" costs based on their relative scarcity. Because opportunity costs would allow prices to reflect faithfully both costs and value of production, the performance of enterprises could be compared accurately. Given rational prices, the enterprises would behave rationally; they would have every reason to optimize the use of their resources, human and material. Planners, with the help of, computers and linear programming, could then achieve their dream of combining a high degree of centralized control with a high degree of local initiative.

Kantorovich, too, argued that prices must reflect relative scarcities, though he arrived at his notions in a different way. His work began in the late 1930's when he was a mathematician at Leningrad University and the Plywood Trust asked him to help schedule its production—i.e., help it decide what it should produce, and in what order, to maximize efficiency. The technique Kantrovich developed involved a trial-and-error search for appropriate indexes, and was actually the first example of linear programming anywhere in the world. Kantorovich's method was also analogous to the way prices are worked out in a market economy, and his indexes were really indexes of value. In 1959 he published a book in which he showed how his indexes could be used to develop what he called "objectively determined valuations". These valuations naturally include the concept of opportunity cost and can be used to formylate theoretically appropriate prices. With sufficient data and computing facilities, Kantorovich predicted, planners could calculate an optimum or working plan.

Nobody was more aware of the economy's ailments than Nikita Khrushchev, who in 1957 began an ambitious ill-conceived attempt to decentralize. At that time Gosplan, coosdinating the work of some thirty industrial ministries, ran the whole show. After exposing and denouncing Gosplan's bureaucratic boners in his inimitable earthy style, Khrushchev supplemented that agency by replacing thirty-odd economic ministries with more than a hundred regional economic councils or sonvarkhozy, each of which coordinated the economy of one province or republic. The sonvarkhozy did reduce what was called bureaucratic compartmentalism, but in almost every other way they compounded the errors of central planning; and when Khrushchev was ousted in the fall of 1964 the sonvarkhozy were doomed with him. Later the old ministries were reinstated and augmented.

However, in July, 1964, a couple of months before he

was ousted, Khrushchev took a genuinely constructive step or two. For greater efficiency, he encouraged mergers of similar enterprises. Above all, he gave a large degree of management autonomy to two clothing enterprises, the Bolshevichka in Moscow and the Mayak in Gorki, in the hope that they would provide an example for the many consumer goods with mounting stocks of unsalable goods. Prices, sales, and profit goals, and major capital improvements had to be OK'd by the planners. But the firms Were freed from output goals imposed from above. And their performances were judged not by their gross physical output but by both sales and profitability. They were allowed to make contracts with retailers and to shine up the appeal of their products, and given some latitude in changing prices to reflect style and quality. For the first time, Soviet enterprises were at least partly freed from Gosplan's material balance system.

As might have been expected, the two firms ran into trouble. Their unreformed suppliers were unable to send them anything but the same shabby stuff they had been sending. And because the enterprises had no way of predicting poplar reaction to their new and improved lines, profits fell for a while, even though sales rose and bonuses declined. All in all, however, the experiment was judged successful, and early in 1965 a schedule was set up for phasing some 400 footwear and clothing enterprises—a fourth of the nation's light industry—into the new system. Later some meat-processing and milk-product plants, as well as many retail outlets, were included.

The reform movement was probably hastened by, of all things, the U.S. Central Intelligence Agency, which in the spring of 1964 publicly estimated that in 1963 the Soviet economy had grown at an all-time low rate of only 2.6 per cent. Moscow screamed slander, but it knew better; and presently, after Khrushchev's ouster, it admitted a steep decline in growth, if not CIA's precise figure. In the new regime, party leader Leonid Brezhnev addressed his talents to a new programme for agriculture. Meantime Premier Kosygin, who as Russians are always anxious to point out is a trained economist, called the nation's leading economic thinkers to a meeting of the Central Committee of the Communist party. Among them was a brilliant, sharp-tongued, thirty-four-year-old Armenian mathematician named Abel Gezovich Aganbegian, director of the Economic Institute at Novosibirsk. Aganbegian submitted a brutually frank report on what he thought was wrong with the economy and its plannning. The Central Party Committee, far from cutting off the Armenian's ears or even excommunicatiqg him, took him seriously. Kosygin, it is said, was so impressed that he offered Aganbegian the top job at Gosplan. But the Armenian said no soap; there were too many dodo birds in Gosplan.

Aganbegian's report was never released, but foreign intelligence agencies and emigre groups of overseas got copies of what purported to be notes taken at a lecture he gave early last year summing up his main points. Among many other things, Aganbegian declared that the CIA had better figures than the Soviet Central Statistical Agency. He also bewailed the poor quality of Soviet machine tools, pointed to the enormous stocks of unsaleable consumer goods, talked about hidden unemployment and excessive arms production, denounced overcentralization and planning, and deplored the lack of a meaningful price system.

Finally last September 27, in an astonishingly not to say excruciatingly candid speech before the plenary session of the Central Committee of the Communist party, Kosygin deplored the lagging growth rate and the underutilization of fixed assets and manpower, and outlined a scheme for basic changes in Soviet planning and management. The Central Committee duly approved it and caused it to be embodied in statute. Essentially, it amounts to a somewhat watered-down Libermanism and certainly does not free Soviet enterprise completely from the toils of the central planners. Yet it seems a considerable step forward. The scheme makes volume of sales and profits on invested capital, instead of gross physical output, the main criteria for enterprise performance, both in consumer and producer industries. It recognizes explicitly that paying for the use of capital is a good thing because this compels an enterprise to use capital efficientally. So it expects enterprise directors to accumulate their short-term working capital out of cash flow or interim credit; new long-term capital for existing firms, which the state bank will supply, now carries an interest charge. The rate, which depends on the nature of the enterprise, is still being experimented with. Enterprises are encouraged to exercise more autonomy in investing, production, and in product mix.

But for most enterprises the planners still decide sales and profit targets, production assortment, total wage fund, and prices. They also retain control of fixed capital investment and modernization targets. Only within these constraints are enterprise directors allowed to slice up the wage fund as they see fit, and eliminate redundant departments and employees. What is more, price reform has been postponed until 1967-68, apparently to allow the State Committee for Prices time to calculate new price lists for the whole economy. But new price lists alone will hardly suffice. The crucial issue, as Professor Herbert S. Levine of the University of Pennsylvania says, is not so much the bases on which prices are formed as their flexibility in adjusting to economic conditions—i.e., the ability of the Soviet managers to make their price system simulate a free-market system. "The Soviets are in a vicious circle," says Levine. "Prices are not used because they are unusable; and they are unusuable because they are not used. This circle must be broken."

Still, the new policy went far enough to infuriate the reactionary Chinese Marxists, who denounced it as "copied from the experience of the Tito clique in restoring capitalism to Yugoslavia". It also ran into some operating trouble. Many a senior enterprise manager, accustomed to taking orders from above and enjoying easy plans without sales and profit goals or interest charges on huge stockpiles, was less than lukewarm. So were many planners, who repeatedly tried to control every detail of the operations of even the reformed enterprises. Last fall, for example, the ambitious managers of the Glukhovski Cotton Textile Trust, which turns out 200 million metres of cloth a year, got so enthusiastic about the new policy that they improved their wares, held a grand fair, and signed contracts directly with 165 delighted customers. But in December the planners countermanded all the contracts and ordered the trust to send its customers a lot of junky stuff lying around in the government supply points. The trust fought back, and the case went before the State Arbitration Agency, which ruled in favour of the trust.

Yet economist Kosygin & Co. seem to be moving doggedly if slowly ahead. Last January Kosygin announced that profitable factories of several kinds, including selected heavy installations like the diesel plant in Gorki and the Volgograd steel mill, were to go under the new system. In his April 5 address to the Soviet Party Congress in Moscow, ha revealed that 300,000 workers were now under it, that 700,000 would be by summer, and that by early 1967 he hoped to have some 10 million, or a third of the industrial labour force, working under it.

The tolkachi, incidently, seem to be in for a period of change. Some emploved by reformed enterprises are losing their jobs. Only 25 per cent of one plant's supplies, a Russian journalist recently revealed, are now being arranged for by the tolkachi. But in many reformed enterprises the tolkach is happily being accorded the status formerly denied him: he is becominq a trouble-shooter or contact man between the factory and both its suppliers and its customers. If deliveries are delayed or defective, or payments delinquent, he finds out why or does something about it.

As a confirmed centralist striving to make central power more secure by delegating some authority, Kosygin naturally has been paying a good deal of attention to the price problem. Gosplan has been spending considerable time and money on preparing input-output tables that will show exactly what happened to the economy's inputs during all stages of production from 1959 on. With a whole new set of statistics to provide consistent input figures, these tables might be put to good use in drawing up plans.

Computerization has become one of the hottest industrial topics in the country. A dozen years ago the use of computers in economic planning was condemned by reactionary Marxists as an imperialistic pseudo-science. But the

potentialities of the machines were too great to be overlooked. Providing what may be a good augury for other forms of progress, the orthodox comrades finally joined the computer movement; by 1962 they were hailing the machines as the salvation of central planning. Last March the Central Committee of the Communist party and the Council of Ministers jointly announced plans to establish a nationwide computer network that will gather information from all corners of the land, process it, and relay it to Moscow, where it will again be processed and used in basic operating and planning decisions. By 1970, Soviet outlays for computers and equipment and all related activity are planned to rise to about $4 billion. In 1965 they Were, by what is probably a Soviet overestimate, some $2 billion. The U.S., incidentally, spent about $4 billion on computers in 1965.

Nobody, of course, is yet proposing to gather enough information to programme every last activity of the economy. Several quintillion relationships must be examined and appraised. Academician Viktor Glushkov, the Soviet Union's chief cybernetician, has estimated that it would take a million computers processing 30,000 operations a second several years to appraise all of them, and by that time it would be too late to do anything about them. Whether computers can be used to implement the Kantorovich and Novozhilov techniques for simulating a free price system is quite another question, and the attack on the problem may just turn out to be one of the most important economic achievements of our time. No price system works perfectly, and it is within the realm of possibility that the U.S.S.R. will come up with something that will work not perfectly, but well enough. But first it will have to produce a whole new series of consistent and reliable statistics.

Probably the biggest obstacle in the way of the reform movement is the old Communist dogma that producers' goods, because they are providing "the technical-material base of socialism," must continue to have priority over consumers' goods, and that their production must continue to expand faster than production of consumer goods. The Soviet Union already seems capital poor. Its depreciated stock of fixed capital is twice as large as its G.N.P whereas that of the U.S. is 20 per cent less than its G. N. P Under a free price system, plainly enough, the country's resources would flow from producers' goods into consumer goods. That is precisely what the dogmatists fear, and that is why they are so reluctant to decentralize and reform prices.

On the other hand, many Soviet economists are boldly attacking the doctrine that priority must continue to be given to heavy industry. Given enough such backing, Soviet managers may yet realise that rulers who must resort to iron maidens to secure their power are neither secure nor powerful, and that governments exert power in a civilized economic system by running it so that everybody does what comes naturally. Simply as practical managers, they may become elastic enough to bend their ideology to their goals.

Circumstances, as a matter of fact, may yet force them to. The Soviet economy is willy-nilly becoming consumer oriented; and the Soviet consumer, though only beginning to assert his sovereignty over prices, is just as unpredictable as any other consumer. The Soviet managers can serve the consumer's needs tolerably well only by freeing up the economy still more. Their big challenge is the fact that to date no country has developed an efficient, abundant, and satisfying consumer economy without letting private enterprise do at least part of the job.

II

One bright day not long ago the manager of a Russian collective farm and his wife travelled up to Moscow to take in a few sights and do a little shopping. Like all visitors to the Soviet capital, they elbowed their way through the crowd in GUM, the immense Red Square department store that is the show-place of the Soviet consumer-goods industry. Clutching a wad of rubles she had hived over the months, the manager's wife yearned to buy a pair of shoes of the kind that "cultured" ladies wear. But all she could find that day was the kind of roomy gunboats that Russian women had

been buying for decades. Her reaction was positive. She became what American marketing men call a discretionary buyer. She postponed her purchase and made her old shoes do several months longer.

Her reaction, which has become very common in the U.S.S.R., is another example of the fact that the embattled Soviet citizen is at last becoming a modern consumer, at least in the sense that a modern consumer is an independent buyer with a skeptical eye for the wares being peddled to him. No person, of course, can be such a buyer unless he liver above the subsistence level. Although by Western standards the Soviet citizen is still deprived, the amount and variety of food and goods vouchsafed to him have been increasing. So he has been casting an increasingly skeptical eye on them. Much to the despair of the planners, huge inventories of unsold consumer goods have been piling up, and neatly designed production schedules have had to be scrapped.

The Soviet consumer is not only expecting better goods, he is expecting more of them. Like all people who have got a taste of what a great industrial economy can do for them, he doesn't want to wait another generation just to realise a few niggardly additional benefits. Indeed, the Kremlin has been promising him more, and not merely because it needs his moral support. To reverse the decline in the national growth rate, the Soviet rulers must step up national productivity, and they can do this only by increasing incentives for everybody. That is probably the main reason the 1966-70 Five-Year Plan proposes to increase the consumer's share of the economy faster than it has ever risen before. Taking everything together, a steady if slow drift toward a consumption-oriented economy seems willy-nilly in the works. This has stupendous implications for the whole Soviet system. It means, among other things, that its bosses must adopt more of the techniques of a consumption-dominated economy.

For the best part of thirty years, while Stalin was running the Soviet Union like a house of correction, the job of balancing consumer demand and supply was a planner's dream simply because demand was always big enough to soak up the limited supply. Stalin's capital-investment policy, begun in 1928, wound up by allocating about half the nation's total output to the military and to industrial fixed and working capital. At the same time it expanded both the labour force and the money supply much faster than the production of consumer goods. Real wages, or what a consumer could actually buy with his money, consequently fell more than 40 per cent between 1928 and 1937, and another 10 per cent or so by the end of World War II. (Not till 1958 did they return to the 3928 level.) In effect, the Soviet Union became the world's biggest sellers' market. Everything it could make it could sell.

Soviet economists, proudly contemplating their resplendent supply-demand equilibrium, boasted that their economy had forever done away with the overproduction, shutdowns, unemployment, and other attendant ills that were supposed to be endemic in the world of private enterprise. They ridiculed such things as advertising and market research as the wasteful practices of an uncoordinated, anarchic, decadent capitalism. Only a few months ago an official catechism printed for the edification of benighted English-speaking visitors was still spelling out the old line. "Thanks to a single state plan," the tract said, "it is possible to provide for the correct proportions between manufacture and consumption, between demand and supply."

But the planners really know better. They are now aware that it is much easier to calculate precisely when and how a Luna will hit the moon than to predict what people will buy when confronted with a choice of goods. They began to awaken to their problem nearly a decade ago, when consumption rose above the subsistence level. Between 1950 and 1965, according to studies prepared for the Joint Economic Committee of the U.S. Congress, Soviet consumption *per capita* increased about 82 per cent, or close to 30 per cent of the U.S. level. Although many goods were often and sporadically in short supply, the consumer no longer had to take everything offered him. Precisely because a prospective purchase was so important to him, he tended

to postpone if it was palpably not worth the money.

From 1955 on, as a result, the planners' sales targets were generally unfulfilled. Professor Marshall Goldman of Wellesley College, an authority on Soviet marketing, spelled the situation out in the August, 1965, issue of the **Journal of Political Economy**: between 1955 and 1963 retail sales rose 90 per cent, but inventories of all consumer goods (not including food) rose two and a half times. In some products the pile-up was even greater. Stocks of sewing machines rose nearly nine times, and built up to a 272-day supply—enough to cause heads to roll in a private sewing-machine company. And between 1959 and 1964 inventories of textiles and apparel nearly doubled, while sales rose less than 30 per cent.

What did people do with the money the planners so confidently expected them to spend? The people simply put more money than the planners expected into the State Savings Bank, which pays 5 per cent interest. Between 1950 and 1965 retail sales nearly tripled, rising from 40.9 billion to 108.3 billion rubles. But in the same years savings-bank deposits increased nearly ten times, from 1.9 billion to 18.7 billion rubles. There were years when savings deposits widely exceeded what the plan called for; in 1959 they were no less than 86 per cent above the "goal". And last year, when the state passed out a blanket 5.8 per cent wage increase, savings shot up by more than 19 per cent.

Ask a Soviet official why people have been saving so much in a country that takes care of everybody from cradle to grave, and he will tell you that they are saving to buy things. So they are, but only in the sense that they are waiting to buy something they really want. The main reason they have been saving more than they "should" is that they have disdained some of the goods on sale. When the official inspectors of the Ministry of Trade classify 25 to 33 per cent of clothing and shoes as defective, as they did in 1962 in the Russian Republic and in 1963 in the Ukraine, consumers cannot be expected to rush in and snap them up.

By the end of 1963, when retail non-food sales were about $43 billion, total inventories of these goods amounted to nearly six months' sales—more than three times the acceptable ratio in the U.S. In what seems an extraordinary underestimate, the magazine Den'gi i Kredit declared the stocks'were excessive by more than $4 billion. At all events, they were still more excessive in 1964 and 1965. "This accumulation," economist Abel Aganbegian, head of the Economics Institute at Novosibirsk, is alleged to have told a group of fellow economists last year, "is more than piles up in the West in a year of crisis or depression. When such a crisis takes place in the West, a tremendous mass of goods accumulates because potential purchasers are destitute of funds; in our case we have a big accumulation of unsold goods and at the same time a continuous increase of money in the hands of buyers."

Rarely has capitalist consumer-goods production fluctuated so giddily as Soviet socialist consumer-goods production. Two of many examples: pocket-watch output had t~ be cut from 716,000 in 1953 to 215,000 in 1958; electric-iron production rose to 5,300,000 in 1955, but declined to 1,700,000 in 1957, whereupon a shortage developed and production was again lifted to 5,300,000 by 1960, This kind of thing has resulted in temporary reductions in work forces and reduced orders for plant and machinery—serious foul-ups in what the planners expected to be a happy, harmonious, expanding flow of integrated production. As consumption expands, such wide swings obviously could disrupt the capital-goods industry. Unless consumer supply and demand are reasonably well balanced, indeed, all the schemes now afoot for simulating free prices and otherwise rationalizing capital-goods production will be jeopardized.

The reason these swings occur is that the planners lack the information they need, or at any rate don't get it in time for it to do any good. Specifically, they lack the automatic feed-back of the competitive market system, which allows both production and prices to respond quickly to changes in demand. The planners also don't know much about why consumers buy or refuse to buy the stuff put before them. For a long time, for example, they failed to realize that the Soviet consumer was no longer, if indeed he

ever had been, a mean average man with mean average purchasing power. Soviet wages vary between 50 and 2,000 rubles a month, when perquisites of those at the top are counted in. The 10 per cent of the population with the highest wages takes in nearly six times as much as the 10 per cent with the lowest wages. As everybody knows, people with high incomes both save and spend differently from those in lower income groups. One Soviet economist has listed no fewer than twenty factors other than money income that are responsible for consumption patterns. But he didn't seem to realise that all of them can change with income.

To get the advantages of feedback from the market, the Soviet bosses are adopting some of capitalism's techniques. They took what was perhaps their most important step in 1964, when the Bolshevichka men's suit factory in Moscow and the Mayak clothing factory in Gorki were put under a new system that gives market forces a role in production. These enterprises were no longer compelled to accept the rigid schedule handed down by state planners, but were allowed to plan output according to the preferences and needs of consumers as judged by retail-store managers. The new system has resulted in better goods at better prices, and has greatly shortened the lead time between production and sales. By the end of the year, a substantial part of the consumer-goods industry will be operating under the new system. But it naturally raises problems too. As factories behave more like competitors, other factories making the same kinds of things doubtless will suffer. Any dynamic system is bound to displace people and other resources.

And to get more of the advantages of competition, Soviet authorities have been making increased use of price cuts, instalment buying, advertising, and product differentiation. Shop signs announcing discounts of as much as 50 per cent are now common, Instalment buying, introduced in 1959, got off to a low start, probably because it was at first limited to shoddy and otherwise hard-to-sell items. But it is being hailed ecstatically by the Soviet press; some 10 per cent of non-food consumer goods are now sold on time.

Advertising too is taking big, if still experimental, steps forward. A new giant Soiuztorgreklama, or national advertising agency, has been set up to replace regional agencies. When asked how much the U.S.S.R. spends on advertising, one official replied laconically, "Not as much as you Americans do." He was certainly correct, but he did not mention the fact that Soviet advertising outlays are growing very fast; in ten years they have almost tripled, rising from $6,500,000 to $18 million. Has Soviet advertising succeeded in moving goods that consumers really don't want? Taking the opportunity to get in his dig, the official allowed dryly that "with more experience the Soviet Union would probably catch up with the West in this regard".

Consumer-goods producers are beginning to promote their plant names or "production marks". The government is encouraging the practice because an enterprise that is proud enough of its mark to call attention to it invariably tends both to make a better product and to keep on improving it. Thus Soviet economists and managers have discovered that the combination of advertising and product differentiation performs an important economic function. "Thanks to well-organized advertising," writes Russian economist, D. Kurnin, "the consumer can more rapidly find the goods needed by him, purchase them with a smaller expenditure of time, and select the goods according to his particular taste .... Advertising creates the precondition for a more economic and rational use of material goods created by society."

Significantly, there has emerged in the last decade a small group of economists who specialize in consumption. a subject that would have been both heretical and esoteric in Stalin's time. These consumption economists have been preaching the doctrine that the Soviet Union must develop techniques for estimating what they call the correct relationship between consumer demand and supply. The most eminent among them is probably Iosif Ivanovitch Korzhenevskii, deputy director of the Ukrainian State Research Institute of Trade and Public Catering, who late last year brought out a book entitled *The Basic Lows of Demand in the U. S. S. R.* The book created a sensation in planning circles and has gone through several printings. Korzhenevskii began to make consumer budget studies back in the 1950's. Because the studies were based on income differences, he was roundly attacked in 1959 by "conservatives" who still insisted there could be no economic differences in a classless society. So in his book Korzhenevskii was careful to propitiate the ideologues by blasting capitalism as inherently incapable of adjusting supply to demand without state intervention.

But Korzhenevskii also demonstrates that it is hard for the Soviat state arbitrarily to adjust consumer supply to demand. He shows how the propensity to consume varies, and sets up consumption models for different geographic, ethnic, and income groups. Above all he tells marketers and planners how to formulate coefficients of demand elasticity, which indicate how much more (or less) people in different income groups are likely to spend on specific goods. As Korzhenevskii explains it, the planners have only to multiply the coefficients by next year's percentage rise in planned income to estimate how much consumers will buy.

As Western marketing men are well aware, however, forecasting isn't that easy even when you have a fairly precise notion of how much money people have. Buying patterns for everyday things like shoes and clothes may be predictable, but for goods bought less frequently, predictions are risky. And as we have seen, the Soviet citizen rejects even staple stuff if it doesn't appeal to him. In the end Korzhenevskii himself falls back on the once treasonable idea of using prices to create the proper relationship of demand and supply. He recommends that prices be raised when demand is outstripping supply, and lowered when demand slacks off. When goods that are highly profitable are in short supply, plant directors should be allowed to funnel some of their profits into capital equipment to make more of those goods. Thus he suggests that the market can be cleared of consumer goods only if they are priced flexibly. But if the market is allowed to dictate production and prices, what becomes of the planners?

The Soviet government, too, has gone into market research, Just last March, shortly after it promulgated the 1966-70 Five-Year Plan, Gosplan (the state planning agency) announced the formation of an All-Union Scientific Research Institute for the Study of Demand and Business Cycles, under Ivan Khrekin, formerly head of Gosplan's trade planning division. The institute's main job will be to forecast consumer demand. It begins life with some 400 employees, branches in leading cities, and a computer centre in the Gosplan building in Moscow linked to computer centres in large retail stores. Among other things, the centre will be used for inventory control.

The 1966-70 plan represents a big concession to the consumer. As in past plans, production of consumer goods is scheduled to increase more slowly than that of producers' goods; but significantly, it is scheduled to grow faster than it ever had before. "The attempt to narrow the gap between heavy and light industry," explains Alexander Bachurin, deputy chairman of Gosplan, "is intended to raise living standards as quickly as possible." They certainly need raising. The average Soviet worker's consumption standard is less than that of the average American on relief. And last year retail sales (exclusive of food) were considerably less than the government's space and military outlays. Now consumer sales are slated to rise by an average of 6.9 per cent a year, against 5.6 per cent in 1961-65, or from 108.3 billion rubles in 1965 to about 145 billion in 1970. Production of household appliances and good is scheduled to increase by about 12 per cent a year, automobiles by nearly 30 per cent, shoes by about 5 per cent, housing by 6 per cent.

Previous plans have almost invariably fallen short of their consumption goals. The 1959-65 housing goal, for example, was 660 million square meters of floor space, but housing actually completed, such as it was, came to only 556 million square meters. In 1965 the average number of inhabitants per city room was still 2.33, not much progress from the 2.6 average in 1923. Even if the 1966-70 goal is met, the over-crowding will be very little relieved. The plan calls for a 400-million square-meter increase in floor

space, which will bring the housing average down to about two city dwellers per room, and each dweller will still enjoy much less than the nine square meters that was decreed as the Soviet "health norm" forty years ago.

Nor will the food supply improve very much. Although calories are ample, they are dominated by potatoes, cereals, and starches; meat and fowl consumption per *capita* is still considerably below the 1928 level. Until the Soviet Union can raise all the grain it needs, it probably will not want to divert very much grain or fertile land to livestock, poultry, and eggs.

If they are to do anything significant about raising the standard of living, the managers of the Soviet Union must take a practical look at some of the ideological dogma that still discriminates against the consumer. Ever since 1928 they have operated on the proposition that the "technical-material base for true Communism," which will usher in the day when everybody will have more than enough, can be built only by increasing the output of producers' goods much faster than that of consumers' goods. But the country's depreciated stock of capital goods is already twice as large as its annual output. As Premier Kosygin himself told the party plenary meeting last fall, the Soviet Union is already wasting a lot of plant and equipment.

The planners' dedication to capital formation has also presented them with a technical dilemma. Since capital investment has increased faster than consumption, the country's overall growth rate has depended largely on the rate at which its stock of capital goods grew. The stock is naturally getting bigger every year. As Professor Abram Bergson of Harvard has pointed out, merely to keep the stock growing at a steady rate the planners. must add more to it each year than they did the previous year. If overall growth depends on capital growth, in other words, they must henceforth spend more of their G.N.P. on capital investment than the astonishing 32 to 35 per cent they are now spending. But they can do this only at the expense of an already restive citizenry.

With such considerations in mind, U.S. economist Walt

Rostow contends that the Soviet Union can no longer increase its growth at its old rates unless it regears for the mass production of consumer durables. If it really wants to get moving again, Rostow believes, it must go in for the automobile age.

The regime has taken what may be a step in that direction. The 1966-70 plan calls for manufacturing 800,000 passenger cars a year by 1970, up from 201,200 last year (but only a twelfth as many as the U.S. assembled in 1965). To make sure of producing them, the Soviet authorities made a deal with Italy's Fiat, which will get a close to $900 million for erecting a 600,000-car plant in the Ukraine and helping design the cars to be built there. France's Renault will help reconstruct the Moskvich plant near Moscow and so expand its capacity from 90,000 to 360,000 units a year. And the authorities plan to increase the nation's 211,000 miles of surfaced roads by 38,000 miles, and to build an appropriate number of tyre factories, gas stations, garages, etc

Rumour has it that the Soviet Government, hard-pressed for foreign exchange, expects to peddle a lot of the new cars in Western Europe. Even if it doesn't, a long time will elapse before the country is on wheels in the sense that the U.S. was on wheels in the mid-1920's. At present, there are only 900,000 passenger cars in the country, and there will probably be fewer than 2,500,000 by 1970. Most of the output will in one way or another be allocated to the elite and commercial users, mainly in Moscow, Leningrad, and Kiev. Nevertheless, the government will sooner or latter find it impossible to prevent the automobile from having profound effects on bath the economy and the sociology of the country. By the time annual production rises close to the million mark, there probably will be too many cars on the road for the state to control either their movement or their exchange as rigidly as it does now. Anybody who is able and willing to save the money will some day be able to buy one. In other words, the price of cars will depend on their scarcity; they will be rationed by pocketbook.

The automobile may free up the economy in many other ways. The business of servicing and repairing cars,

which is now done very sloppily and expensively by state agencies, may well become a kind of bootleg free enterprise. Since individual entrepreneurs can operate in the U.S.S.R. as long as they have no employees, many mechanically minded citizens will doubtless become independent auto-repairmen. Competing against inefficient state garages, they will probably make a, lot of money. But for the sake of more efficiency—and more money—they may well be driven to combine with other repairmen and form a "cooperative" that in all but name will be a private enterprise.

The private auto may also become a means of production. The government winks at small-scale black marketeers for the same reason it winks at those industrial expediters, the tolkachi—they do a job that otherwise wouldn't get done. Peddlers travel around with goods that are procurable in one place and sell them at fancy prices in other places where they are scarce. Inefficient as the black marketeer may be, he compensates for defects in the government's distribution mechanism; equipped with an automobile he could conceivably account for a fair part of the nation's distribution.

The sociological consequences of 2,500000 automobiles are also portentous. Simply because of the impossibility of policing so many cars, the internal passport system, which still compels people to get permission to travel, probably will be, for all practical purposes), abolished. In part because the Soviet people are so wretchedly housed, they are more avid for cars than perhaps any other people on earth. Once 2,500,000 cars are rolling, the pressure for still more production will be irresistible. When and as people get them, they will begin to feel more and more like individuals and less and less like cogs in a "revolutionary" machine.

It must already be plain to the densest of the planners that they stand to gain much if they would loosen the rules enough so that state-owned consumer enterprises could function more like private enterprises. "I get faint," says one U.S. businessman who recently visited the U.S.S.R., "when I think of what a few good American enterprises could do to lift the living standard of that country. And without costing them anything." What he means is that the Soviet Union is already producing enough physically to supply its citizens with a much higher standard of living—if only its goods and services were provided by people who were moved to understand consumer's needs and cater to them.

Imagine a whole nation being run by an army of misanthropic post-office clerks, or by the New York City Transit Authority, and you only begin to conceive of the status of the Soviet consumer. Everybody is a consumer, yet people serving the consumer tend to behave as if the person standing on the other side of the counter or sitting at a table is an enemy of the state. To buy anything in a store, the shopper must line up at least three times; once to inspect and price the merchandise, once to pay for it, once to pick it up. The reason is that the state holds store managers responsible for every last kopeck's worth of inventory, and their primary aim accordingly is not to sell goods but to prevent theft.

According to **Pravda** itself, Soviet services are so inefficient that the average citizen must spend 70 per cent of his free time shopping, cooking, laundering, waiting for buses, etc. The big cities are full of little hole-in-the-wall shops that obviously waste both human and material resources; if equivalent resources could be put into laundromats and dry-cleaning shops, which are practically nonexistent, the whole country would be vastly better off.

Wherever one looks, one sees Opportunity spelled large — opportunity for ambitious, imaginative operators to provide something better at less cost. What the country's rulers abhor in this thought of course, is that such an operator might make a lot of money. Yet the country is abundantly stocked with people who would make good entrepreneurs. Nothing could be more obvious than that Soviet citizens have a drive to work hard. Given the chance or the incentive, they exhibit great ingenuity and imagination. They are skeptical and resilient; if they had not been, they would not have got around the rigidities of central planning with such improvisations as the tolkach, and their economy would probably have long since foundered. They seem to

be representing a great urge for practical self-expression that does not begin to find an outlet in the party ideology.

The Soviet leaders vociferously oppose restoring any kind of private ownership. If only because the average citizen is crammed with misinformation about private ownership, he feels the same way. So the planners probably will stimulate private enterprise, by freeing up the enterprise director even more than it has in giving him more handsome rewards for doing the job efficiently and imaginatively. But one bit of freedom inevitably leads to another. Economic incentives for workers and managers mean political concessions such as freedom of movement. If prices are determined by contracts at the local level, wages can be too.

As the Soviet economy becomes less regimented, moreover, its managers will become more and more aware that they lack a mechanism for inducing the enterprise director to risk money on new ideas. The Western corporation is driven to take risks because a new idea, if successful, almost invariably means a handsome return on the investment—at least until others start making something similar. The Prospect of making big money on new ideas, indeed, is the source of most of the West's innovations and improvements, so many of which the Soviet Union itself finds so useful. If the risk ends up in losses, the loss falls to the corporation, which, of course, is private property. If the loss is big enough to wreck the corporation, its limited liability still prevents creditors from persecuting its managers. But in the U.S.S.R. the state is the sole source of capital. So far it has found no way of encouraging enterprise directors to take big risks without in effect encouraging them to commit economic treason.

And the U.S.S.R. contains no counterpart of the little entrepreneur with a big idea and access to capital. "What the Soviet Union lacks," explains Marshall Goldman, "is the Route 128 kind of thing around Boston, where the enterpriser has an idea, persuades somebody to set him up in business with $500,000, and finally moves out on Route 128. The real reason he gets things done is that he can appeal to many capital sources, only one of whom he needs to convince. If a bright Soviet enterpriser is unable to enlist the support of Gosbank (the state bank), the project is dead."

Whole schools of Western experts are busily speculating abont what may happen as the Soviet consumer asserts his natural prerogatives. A few think a ferocious head-office struggle is in the works. In his new book, *The Death Throes of the Soviet Economic System,* the French Kremlinologist Michel Gardner argues that the present regime, because it is bucking dynamic social forces, will collapse by 1970. Other European experts, particularly those close to reforms in Eastern Europe, argue only that the Soviet Union has gone beyond the point of no return. A consumer-dominated economy, they believe, is inevitable. "Once you begin to satisfy the demand of a limited sector," says Polish economist Michael Gamarnikow, who is with Radio Free Europe in Munich, "the snowball is under way. To satisfy demands for shoes and not for shirts is impossible. In the end investment policy can no longer be decided by a central political body." Almost everybody familiar with the situation agrees that the great changes ahead will come slowly, with the Kremlin backing and filling, but eventually going along with the inevitable.

In any event, it can look forward to some storm and stress. Like all latter-day revolutionaries, the Russian Communists were the victims of one of mankind's oldest fallacies: the assumption that the alternative to something "bad" is necessarily "good". The Communists assumed that the alternative to the "monopoly capitalism" they were trying to overthrow would be the perfect system. But in tossing out the abuses of capitalism, they tossed out economic laws that are as immutable as the laws of mathematics and physics. Now their successors are learning them the hard way.

The views expressed in this booklet are not necessarily the views of the Forum of Free Enterprise.

"Free Enterprise was born with **man and shall survive as long as man survives.**"

— **A. D. Shroff**
(1899-1965)
Founder-President,
Forum of Free Enterprise.

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