

# Review Article

## SOVIET ECONOMIC REFORM : PROGRESS AND PROBLEMS

by

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In mid-1960s, what have come to be known as Liberman's reform [7; 12] amongst the Western Sovietologists were introduced in the Soviet Union. In essence, the reform aimed at improving efficiency and productivity through a greater devolution of managerial control, more flexible planning process and procedures and the provision for an incentives fund to stimulate the managers as well as the workers. Liberman was certainly not the "think-tank" on the subject. In fact, there were scores of others, including Nemchinov and Trapeznikov. The operational phase of the reform started in November 1965 only after their validity had been verified through repeated trials in selected production sectors in early sixties. Its naming after Liberman is thus an outcome of the usual Western Social 'scientists' craze for conveniently usable, though not necessarily meaningful, expressions. That "Libermanism" does not exist, but the "Libermaniac" do, is amply borne out by Liberman's own observation that his writings "contain nothing to give the slightest reason for such a distorted description of our reform". Obviously, the "distortion" he is referring to is the practice to describe the reform as his brain-child. He goes on to point out that, far from being his singular innovation, the reform was "the well-balanced expression of public opinion in the USSR....worked out by a great army of practical workers, scientists and leading managers" [3, p. 355].

Such is the significance of the reform that Soviet writers have themselves ranked it with Lenin's New Economic Policy [2, p. 249]. In the West, the emerging economic organisation in the Soviet Union has evoked varied comments: "retreat from socialism"; "capitalism without capitalists"; "converging social systems" [8; 10] "market socialism" [1]; "new wine in old bottles" [2]. The book under review [5] is the first official resume of the actual experience of reform made available to the English-speaking world. The *raison d'être* of this review article is to juxtapose what we have "from the horse's mouth" on the one hand and from the adversaries on the other, so as to be able to clear some of the mist controversies on the subject of Soviet Economic Reform have created.

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The 247-page book consists of 9 Chapters. Chapter 1 describes the basic rationale of the reform, emphasising the "objective" need for an optimal mix of centralisation and decentralisation of economic decision-making. Chapter 2 clarifies the distinction between economic and administrative methods of management, though the emphasis is more on what administrative methods are not. The solution of "transportation problem" to link supplying and demanding enterprises is given as one example of administrative methods. But these economic methods, we are told, are no different from administrative methods, in their role of "transmission belts" from macro-to micro-levels. In the words of the authors: "Economic methods are general rules of behaviour for all economic units, rules linked with commodity-money relations, while administrative methods have definite addresses, are differentiated for each enterprise, association and ministry" [5, p. 35]. It also specifies the reform instruments or the levers like prices, profits, wages, and interest rates. Chapter 3 is an attempt to work out a rational planning time-horizon for the success of the reform. Normatives of long-term action, it is stated, occupy a key position in the new system. In Chapter 4, the need for valid locational criteria for territorial balance has been stressed. Cost-accounting and an organic tie-up between sectoral and territorial planning are suggested by way of reform. Mathematical and methodological groundwork of reformed planning, optimisation of investments and the new technical progress functions are the subject matter of Chapters 5 and 6. Most important is Chapter 8 which, in spite of being a typical example of official optimism, brings into sharp focus the pace and progress of concretising the reform. Like most official publications from Soviet Union, the book has an involved style, with the argument generally built up in a long-winded manner and little regard for comprehensibility. Especially the last Chapter is nothing but an accumulation of verbiage to plead that the competitive spur under socialism is preserved by promoting "socialist emulation" through the intensification of material and moral stimulation and not by allowing the capitalist anarchy of production or "jungle warfare" economics.

## I

Why did the reform become so very necessary? What were the conditions that paved the way for it? One looks vainly through the pages of the book for an answer to these questions, but all that one comes across are very broad generalisations. The present stage of managing the economy, we are told, has certain distinctive features like the highly dynamic technology and the substitution of knowledge for labour power as a productive agent. As such, the economy has outgrown administrative methods of Stalinist period. New production functions need to be set up to incorporate technological changes and to make use of automated management systems by permitting greater micro-flexibility and lesser macro-rigidity.

All this is probably true, but there are other factors as well. In the pre-reform five-year period, i.e. 1961-65, growth rate fell to 6% from 8.2% in the previous five-year period [2, p. 260]. Capital-output ratio increased by more than 50% in the same period [9, p. 36]. Agricultural supplies lagged behind. Another indication of the lop-sided development was the new consumerism that emerged under the influence of international demonstration effect. The

Stalinist planning failed not only for lack of economic content but also for technical gaps in plan formulation. For instance, the innumerable inter-connexions, linkages and the extensive feedback in a "push button" economy were not easily available to input-output tabulation.

In its worst form, the Stalinist administrative planning led to the tendency of central agencies to impose unrealistic targets and the consequent reaction of the enterprises to play down their production possibilities with a view to obtaining an underrated production target. Oskar Lange's fears about the bureaucratisation inherent in socialism [6, p. 109] proved real in the context of the Soviet Union. The bureaucratic "stiffening of joints" had reached its peak. Routinised decisions, supply bottlenecks and dilatory procedures of the 104 regional councils immensely stigmatised the planning process.

## II

By re-introducing value categories and by giving a measure of operational autonomy to enterprises, the reform sought to "loosen up" the economy. The autonomy of the enterprises was ensured by slashing down the indexes imposed from above to one-third and by providing direct links with supplying agencies. Overfulfilled targets gave way to profit and profitability as success criteria, with profitability computed on the basis of fixed and working capital. Thus the anomaly of positively sloped demand schedules was done away with. Prices were rationalised by introducing a new system of wholesale prices in 1967 and specification of long-term prices for 1971-75. Cost-accounting practices were improved to make enterprises more and more cost conscious. It may be noted that increased concern for cost accounting was not allowed to decelerate technical progress or disregard the development of lagging areas. After allowing for the budgetary deductions and interest payments, the residual income of the enterprise was to constitute the incentives pool, divisible into production development fund to promote managerial initiative at enterprise level, material incentive fund and a socio-cultural and housing fund to promote initiative of the working classes. Thus the establishment of a direct correlation between the material rewards and the level of enterprise activity was designed to counteract the practice of underrating reserves to secure lower targets. Rationalisation of labour-use was to be achieved by making temporary lay-offs within the centrally determined wage fund permissible.

In other words, the reform changed Charles E. Wilson's aphorism. "What's good for General Motors is good for the United States" to "What is good for society is good for the enterprise" [8, p. 131]. Accordingly, economic lubricants like profits, prices, credit and premiums were provided to improve various inter and intra flows. Sometimes the enterprises turned out non-saleable, substandard products in an attempt to fulfil the plan target. The reform re-defined the target as output actually sold. For one thing, inefficient enterprises would be penalised and efficient ones rewarded, the latter in the form of a surcharge on centrally given wholesale prices. For another, consumer demand would have some role to play in quality improvement [3, p. 353].

Succintly, the transition from non-parametric or administrative to parametric or economic management involved an optimisation of centralised and decentralised decision-making in a cybernetic framework of feeding, information (cipher as distinct from open), stimulation and steering systems [3].

### III

The experience of the reform during 1966-70 is quite instructive. No doubt the original plan of transferring all industrial enterprises to the new system by 1968 could not be adhered to, but that would be an extremely infirm basis to beat down the Soviet planners. It was nothing but an indication of the fact that bureaucracies do not as a rule give in easily. Also it meant that most of the good managers had been eliminated in the days of non-parametric planning. Similarly, the extension of reforms first to the most suitable enterprises and then to others on the basis of the experience gained was only logical and criticism in this vein, therefore, will not be quite valid.

According to the book under review, the reform played a significant role in the success of the Eighth Five-Year Plan (1966-70). Growth rate went up from 6.1% in the Seventh Five-Year Plan to 7.1%. Industrial output showed an acceleration of 8.5%. The decreasing tendency of "output-asset ratio" was reversed. Costs were reduced by 1% and labour productivity went up from 4.3% to 5.8%. Profitability rose from 16.7 kopeks per ruble of productive assets to 21.3 kopeks.

There is, however, not much room for complacency. First, as pointed out in the book under review, growth of industrial output should not be seen in isolation from the fact that the accretion of fixed investment was up by 27%. Secondly, increased return on capital reflected to some extent the gains from the disposal of surplus equipment or inventories or written off capital. Thirdly, and this needs special note, industrial output in 1970 did surpass the actual levels in the previous plan period, but the projections made in 1966 were not reached except for oil. Fourthly, according to Western sources, return on capital did go up by 3.4% but it by no means compensated for the fall during 1961-65 of the order of 13% [11, Pp. 18, 53]. Finally, no mean contribution to the overall growth rate was made by good crops resulting from favourable weather.

The true significance of the reform is not conveyed by statistical figures. "A point that most Soviet and Western observers have failed to consider is how much weaker economic performance might have been if the government had not made the changes it did" [4, p. 6]. In this context the impact of the reform is impressive. As a result, the Soviet economy came some way off the impasse it had reached in early sixties.

### IV

What of future? "Thus far, it seems, economists have been more successful in criticising the non-parametric system than in drawing feasible blueprints, including the problems of transition, for the parametric one" [13, p. 96]. The

Ninth Five Year Plan will be the real testing ground for the reform for more reasons than one. For one thing, the advantageous position of some of the enterprises by virtue of a better start will have been diminished. For another, vertical and horizontal extension of the reform will be completed. Small wonder, therefore, that for the first time a Soviet plan has envisaged a higher rate of growth for consumer goods (44-48%) than for producer goods (41-45%). Stable and direct-link consumer-supplier relations will thus be the most important dimension of the reform in the Ninth Plan. The future widening and deepening of the reform is unlikely to meet the fate of economic reform in Czechoslovakia. Economically the Soviet approach is the one of cautious gradualism and not elaborate like the Czech reform package, which included convertible exchange rates, full autonomy for public enterprises and privatisation of services. Politically, there is no socialist state big enough to force its vision of reform on the Soviet Union.

That brings us to the last, but not the least, point of this review article. Is Soviet Union going capitalist? Since economic systems are sociologically defined, i.e., by the absence or presence of the institution of private property, the answer to this question is another question. Has the right to property been restored in Soviet Union? Those who alleged Soviet Union of retreating from socialism are no different from those who regarded the New Deal in the United States as socialistic. Nevertheless, the reform does mark a deviation from classical Marxism in that, like in a capitalist economy, it restores greed (profits and material incentives) as the *primum mobile* of optimal economic operations. On the other hand, China still provides a success model of morally based objective functions and incentives. But reformed Soviet System is not akin to a rehabilitation of capitalism: economic surplus has not ceased to be appropriated by the state for collective use. As for moral stimulation, the book under review does offer a platitude: "With the building of communism the role of the moral factor will steadily rise. The future belongs to it" [5, p. 41].

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