
SOVIET MARKET ECONOMY

Challenges and Reality

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Introduction

The economic reform in the USSR: The current stage

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A wide range of measures have been taken in the USSR during the past five years to promote the implementation of radical economic reforms and to improve the functioning of the Soviet economy. At the same time, the grave heritage of the administrative-and-command system, the inconsistent and the still to be decided character of the measures aimed at reforming the economy, the mistakes in managing the economy, the non-observance of laws - all these have given rise to a deep economic crisis in the country. The economy is now in an extremely dangerous zone - the old administrative system of management has been demolished, but new incentives for work under market conditions have not yet been created. Drastic measures based on public agreement are needed to stabilize the situation and accelerate the advance towards a market economy. The success or failure of the historic transformations under way in the USSR will depend directly on the progress made during the period of transition from bureaucratic socialism to a market system of economic management.

The attempts made to reform the administrative-bureaucratic system of centralized economic management made in the 1960s, 1970s and 1980s graphically demonstrated that there was no alternative to the transition to the market. Worldwide experience has proved the viability and effectiveness of the market type of economy. The interests of mankind entirely dictate a transition to such a system with the aim of developing a socially-oriented economy, bringing all production into line with consumer demand, eliminating commodity shortages and the disgrace of queues, ensuring in practice the economic freedom of citizens, setting up conditions for encouraging diligence, creativity and initiative, and high productivity.

The transition to an economic system based on market principles will help integrate our economy into the world economy, and thus allow our citizens access to all the achievements of the most advanced economies.

A difficult and radical change, which has to be effected to ensure the future of the country, will mean that the state control, dependence of the citizen on the

state, levelling down, apathy and mismanagement inherent in the administrative-and-command system will be replaced by the free economic activity and the responsibility of labor collectives and each citizen for their own well-being, intensive and well-organized work and remuneration according to results.

A single economic sphere integrating all the republics and regions of the country will be formed through the All-Union market. In addition, the transition to the market will establish an economic basis for a voluntary unification of sovereign republics within the framework of a renovated and strong Union.

To make the market economy function effectively it will be necessary to create the following basic conditions during the transitional period:

- Maximum freedom for economic activity. Free commodity producers increasing their profits and consequently the national wealth will form the foundation of the economy. Acknowledgment of the social importance and all possible encouragement to the most active, skilled and talented people - workers, peasants, engineers, businessmen and production executives.
- Total responsibility of economic organization, entrepreneurs, and all workers for the results of their economic activity, based on the equality of all forms of ownership. The whole point in reforming the ownership relations is to define clearly who bears the responsibility for the outcome of economic management, to find in the course of economic development the sphere of the most effective application for each form of ownership.
- Competition of producers as a most important factor of stimulating economic activity, increasing the diversity and improving the quality of produce in conformity with the consumer demand, reducing the costs and stabilizing the prices. The development of sound competition requires the removal of monopolies from the economy parallel with the shaping of an appropriate structure of production.
- Free price formation. Market mechanisms can function effectively only on condition that most prices in the market are set freely, balancing the demand and the supply. State control over prices is permissible only in a limited sphere.
- The state's withdrawal from direct participation in economic activity (with the exception of certain specific sectors).
- Extension of market relations to those spheres where they show a higher effectiveness as compared with administrative forms of regulation. Meanwhile, a wide non-market sector will remain in the economy, comprising those activities that cannot be subjected exclusively to commercial criteria (national defense, public health, education, science, culture).
- The open character of the economy, and its consistent integration into the system of world economic trade and cooperation. All economic organizations have the right to operate in foreign economies. Foreign companies will operate in the domestic market on equal terms with all producers in compliance with the established legislation and the generally accepted international norms.

- Provision by the state, at all levels, of social guarantees to its citizens, interpreted, on the one hand, as the right to all citizens to equal opportunities so as to ensure a worthy life for themselves through work and savings, and on the other hand, as state assistance to the disabled and socially vulnerable members of society.

However, while ensuring the high economic effectiveness of production, the market requires state and public regulation, above all from the viewpoint of anticipating such negative phenomena as inflation, unemployment, excessive property differentiation, instability of production, and the uneven development of regions. By implementing a macroeconomic policy the state promotes the shaping of an environment favorable for economic activity, primarily in those directions corresponding to the public interest. The activity of state bodies in regulating the economy is based on a strict delimitation of legislative, executive and judicial powers.

A compromise programme for developing a market economy in the USSR has been worked out and will be implemented in several consecutive stages.

A prominent place in this programme is assigned to the establishment of a new constitutional system and a mechanism for the interrelations between the Union Republics whose parliaments have proclaimed their economic and political independence.

Economic Interrelations Between the Republics: New Approaches

The economic interrelations between sovereign republics are, under the new conditions, based on the recognition of state sovereignty and the equality of the republics and at the same time on the integrity of the Union as a single state, on the understanding that individual enterprises are the foundation of the economy, and the task of the state is to create the most favorable conditions for their activity.

The republics exercise the legislative regulation of the ownership, utilization and disposal of the total national wealth in their territories and it is this that forms the basis of their state sovereignty.

To realize the goals common to all the sovereign republics, joint regulations for all the republics (the Union property) have been formed under the control of Union organizations. They ensure the uniform regulation of the economic regimes on the basis of antimonopoly legislation, coordinated measures aimed against unfair competition, protection of consumer interests, and the regulation and levelling up of the starting conditions for the transition of the republics to market economies.

The republics bear the main responsibility for the development of their territories and for carrying out the economic policy, independently forming

the structure of the national economic management, the system of republican and local taxes, duties and compulsory payments, and regulating the prices, the incomes and the problems pertaining to the social protection of the population.

The role of autonomous republics and other national entities will grow considerably in the economy of the USSR and the Union Republics.

In their mutual interest, and on voluntary basis, the sovereign republics enter the Union and form a single economic sphere, an All-Union market, carrying out a coordinated policy in support of free enterprise, and mutually beneficial economic ties to protect the market.

The republics jointly develop the foundations of a common economic policy and adopt legislation regulation the system of inter-republican relations, work out the procedure for resolving economic disputes and conflicts, carry out a coordinated policy with regard to prices, incomes, employment, pensions and social guarantees to citizens. They set up Union administration bodies for joint management of the spheres of activity that require a coordinated policy.

The Union budget is financed by Union (Federal) taxes; the forms of taxation and tax rates are established by agreement between the republics. The revenues for the Union budget are also formed out of other receipts from the performance by the Union of the functions within its authority. This will allow the Union to plan its expenditure, proceeding from the expected revenues, and to bear responsibility for its financial policy. Side by side with the expenditure of the departments that come within the All-Union jurisdiction, the Union budget forms the fund for regional development and support, and also makes allocations for servicing the domestic and the foreign state debt of the USSR and into the reserve fund.

To finance the foreign economic activity of the Union within the jurisdiction delegated to it, a Monetary Fund of the Union will be established, sufficient for servicing the foreign state debt of the USSR, implementing a coordinated All-Union monetary policy, providing support to directions within the All-Union jurisdiction, and forming foreign exchange reserves at the Union level.

An Inter-Republican Economic Committee will be established under the Council of Federation to coordinate the measures implemented by all the republics.

The Logic and the Stages of the Improvement, and the Transition to the Market Economy

From the very outset of the reform the accent will be made on the improvement of finance, credit and the monetary system parallel with the maintenance of the existing economic ties and material flows in the national economy. This will go hand-in-hand with the reduction of prices and inflation.

On the basis, a wide-scale transition is expected to be accomplished in market prices with due regard for the socio-economic conditions that occur.

Simultaneously, drastic measures will have to be carried out for the denationalization and demonopolization of the economy, expanding entrepreneurship and competition, so that the foundations for the engagement of the market self-regulating mechanisms are laid within a short period of time. Only these mechanisms will be able to curb the inflation and to stimulate the growth and diversification of production, the improvement of its quality and the reduction of cost. Until they start working at a sufficient strength it will be necessary to maintain a strict finance and credit policy, and in some spheres a policy of direct administrative influence to check uncontrollable inflation. This is why the structural reorganization of the economy during the transitional period will have to be confined to measures that are not overelaborate.

This difficult path must be covered in the shortest possible period of time. The experience of implementing stabilization programmes in other countries, and simulations and forecasts made for application to our conditions indicate that this period might be a year and a half or two years long. The additional authority that has been conferred upon the President of the country is intended to be valid for exactly this period.

This period will be followed by the development of sound market, an active structural and investment policy, by the growth of production and the enhancement of its effectiveness as a basis for the improvement of the life of the Soviet people.

During a comparatively brief period, in which the organs of power of the the Union, republics and regions can count on the mandate of popular trust, it will be necessary to stabilize the national economy and accomplish the transformations that will pave the way for market relations and ensure a noticeable improvement in the economy and in the life of people.

The tasks of stabilizing the economy and advancing the market should be accomplished in four stages.

During the first stage it is planned to implement a series of interrelated measures to stabilize the economy, including the improvement of finance and currency circulation through the reduction of the state budget deficit, the control of the money supply, the reorganization of the banking system and the regulation of the financial affairs of private enterprises; normalization of the consumer market; prevention of a slump in production; denationalization and privatization of property; and stabilization of foreign economic relations.

At this stage, which began in 1991, the most difficult task is to curb the inflation that is now in progress: to limit the growth of wholesale and retail prices, to effect a stage-by-stage rise of state prices of fuel, raw materials, and construction materials, and to control the level of state retail prices on mass consumption goods. All this will have to be done in a manner that, on the one

hand, will make it possible to exceed the budget deficit growing because of the rise in retail and wholesale prices, and, on the other, to prevent inflation from becoming uncontrollable, and at the same time to improve the conditions of the commodity-money balance for an accelerated transition to the market in the future.

The main point of the second stage is to accomplish a consistent step-by-step transition to market prices covering a wide range of technical and production means and consumer goods. Measures taken during the preceding stage must prevent their excessive growth. In future, inflationary processes will also be controlled by an austere financial and credit policy.

At this stage, retail state prices will be retained for not less than one third of all goods - fuel, raw and basic materials, which are vital for the regulation of the general level of prices and retail state prices for essential goods, which determine the minimum subsistence level of the population.

Simultaneously, denationalization will be gathering momentum, privatization of small enterprises will be under way alongside the development of the market infrastructure.

Special measures will be taken for the redistribution of capital investments and other resources in favor of industries working for the benefit of the population, thus enhancing the incentives for their expansion.

The first impact of the emergency measures and the liberalization of prices will manifest itself in an appreciable improvement of the situation in the consumer market, especially with respect to goods sold at the demand and supply prices. The tougher and the more consistent are the measures in the sphere of finance and credit policy and those aimed at the removal of peaks in demand caused by panic buying, the lower the price rise will be. Unrestricted sale of goods will be under way. It may be the first positive result of the reforms, and it must be achieved without fail.

During the transitional period, special mechanisms of social protection of the income of the population will be introduced, including its indexation depending on the dynamics of retail prices. Parallel with that, measures will be taken to give support to socially vulnerable sections of the population.

The Union Republics, the local bodies of power, may also apply different measures for the adjustment of prices, including the temporary freezing of prices for the most popular goods in the event of their excessive growth, introducing the rationing of certain goods accompanied by compensation of the losses incurred by the manufacturers and to the trade out of their budgets, and to provide social protection for the incomes of the population.

To consolidate production and the economic ties, a state system of contracts will be established. It will be responsible for placing state orders on a contractual basis, for the distribution of produce delivered on these orders and for the adjustment of its prices.

The main goal of the third stage is to stabilize, in the main, the market for both consumer goods and the means of production, expanding the sphere of market relations and developing a new system of economic ties.

Contradictory processes will be underway in the economy at this time. On the one hand, the market is expected to be increasingly flooded with goods. The market infrastructure will be developing rapidly, and the impact of entrepreneurship on the economic activity will become stronger. The utilization of material resources must become more economical, and production stocks will grow smaller. The resources released will augment the means of production for the market and further its stabilization.

The system of labor remuneration will also have to be reorganized. This will mean the abolition of regulations and the establishment of a state minimum of wages and salaries for enterprises of all ownership types. The state minimum will be based on the computation of a minimum consumer budget with due account of the new level of expenses on housing and on the whole extended range of values and services obtained at market prices at the expense of personal incomes. The real minimum of wages and salaries will become an important means of social protection of working people. Simultaneously, restrictions in the opportunities to earn money will be lifted.

Successful implementation of measures at the preceding stages will create practically all the principal conditions for a stable functioning of the economy: balanced prices and the budget, a market for consumer goods without shortages, services, a modern banking system, and a currency market.

The conditions taking shape following the expansion of the housing reform and the privatization of dwellings will be conducive to the formation of the labor market. Trade unions will consolidate their positions as defenders of working people's interests, and unions of businessmen and executives will be established. Agreements between them, with the state playing the role of regulator, will provide an opportunity to build up a labor market and to establish control over the dynamics of incomes and prices.

Finance and credit restrictions will be removed parallel with the development of competition, entrepreneurship and the stabilization of prices. Taxes and interest rates on loans will be subject to changes to enhance business activity and encourage investment.

The main goals of the fourth stage are to consolidate the stabilization of the economy and finances, to improve the consumer market, and what is most important - to speedily mold the competitive market environment necessary for effective functioning of the self-regulatory mechanisms peculiar to the market.

Substantial advancement in the demonopolization of the economy, in denationalization and privatization is a necessity at this stage.

Prerequisites must be created for enhancing the economic activity, above all in the food industry and in light industries, in the agrarian sector and in the service sphere.

The prevalence of prices reflecting demand and supply in combination with a balanced budget will establish preconditions for the solution of the key problem of transition to a market economy - the problem of the rouble's domestic convertibility. The main point of this is to afford all domestic enterprises and foreign companies operating in the USSR an opportunity to sell and buy freely at a market rate the currency needed for current economic operations.

The domestic convertibility of the rouble will create ample opportunities for the inflow of foreign investments vital for the structural reorganization in the country and also for the expansion of competition on the domestic market and for the eradication of monopolies. For the conditions of our country this is an important prerequisite for the market mechanism to start working at full strength. Gathering momentum is a structural reorganization of the economy that will for the first time be based on the market mechanism and on attracting foreign investments, technologies and management experience.

The Programme of Stabilizing the Economy: The First Step to the Market

Improvement of the financial system and the monetary circulation is the key target of stabilization. The main point is to eliminate the surplus money in circulation, to bring it in line with the commodity resources, and to consolidate the rouble. At the same time the USSR State Bank stops financing the budget deficits, and its expenditure is sharply reduced. All projects far from completion are suspended, except for those intended for the expansion of consumer goods production, housing construction and development in the social sphere. Expenditures for the needs of the USSR Defense Ministry and the State Security Committee are curtailed, particularly through the reduction of arms purchases and military construction. Payments of subsidies to enterprises are reduced. Expenses on the maintenance of the state apparatus are brought down to a minimum. The system of taxation is changed.

Of decisive significance for the improvement of the monetary circulation, the prevention of inflation, and the establishment of tougher financial restrictions is the transformation of the banking system and the development of effective policies for controlling the money supply.

With this aim in view, specialized state banks are transformed into joint-stock commercial banks operating on a par with other commercial banks. They are responsible for the direct credit and accounting service of the national economy.

The USSR state banking system is transformed into a Reserve System of the Union consisting of the USSR State Bank and the central banks of all the Union Republics. One set of coordinated and universally binding rules is established for regulating credit and money supply, including reserve requirements for commercial banks, interest rates, etc.

The interest rates rise. In future the level of interest rates will be determined by the supply and demand on the credit market and by the policy of the Reserve System. Thus, the currency becomes expensive and acquires the qualities that are indispensable for it to circulate in a market economy.

Many enterprises will experience financial difficulties as a result of these measures. To facilitate their adaptation to new conditions, give them a chance to accumulate their own current assets and raise their effectiveness, it is planned to:

- immediately denationalize, and privatize such enterprises and break them into smaller units;
- set up stabilization funds;
- develop commercial credit between enterprises as an element of a new wholesale market with a view to reducing the reliance upon bank credit;
- stimulate issuing of bonds for augmenting current assets;
- close hopelessly ineffective enterprises.

The transition to the market economy and the effective functioning of the self-adjusting market mechanism are possible only on condition that the bulk of manufacturers - enterprises, organizations and citizens - enjoy the freedom of economic activity and entrepreneurship. They must have a free hand to utilize their leased or owned property, independently define a production programme, choose suppliers and consumers, set the prices, dispose of the profit after the taxes, and handle other issues related to economic activity and the development of production.

This will create the necessary conditions for the functioning of the market mechanism and mobilize the human potential - a major resource capable in our conditions of producing, within a comparatively brief period, an effect based on people's aspiration to obtain normal living standards through their own work and skills.

The molding of free commodity producers as a major element of the market economy requires a speedy withdrawal of most enterprises from state control, and their privatization. Privatization is not necessarily interpreted as a transition exclusively to private ownership, but rather as a more general process of the change of proprietorship through a transfer or sale of state property on different terms to collectives, cooperatives, share holders, foreign companies, or private individuals. These types of economic management meet the demands of the market economy best of all. They are not only independent in their activity, but are also responsible for its results in economic terms, both in their current

incomes and in its capital value. This ensures the rational use of the resources and restrains their unfounded redistribution for consumption to the detriment of the modernization of the production potential.

The denationalization with the transformation of ownership rights can be accomplished by different methods. Concrete trends in the denationalization will be determined depending on the peculiarities of republics and regions, on the specific features of an economic sector or industry, on the size of an enterprise, on the state of funds and on other factors.

Immediate measures aimed at denationalization and privatization are carried out in the spheres where the functioning of non-state structures is most expedient, that is in trade, public catering, consumer services, repair and construction organizations and small enterprises in other sectors. At the same time, already in 1991 large and medium-size enterprises in various industries and other spheres will begin to be transformed into joint-stock companies and associations.

The present book value of the country's capital funds (minus the value of land, mineral wealth, forests and the private property of citizens) amounts to about three trillion roubles and, with allowances for wear and tear, to about two trillion roubles. The current assets of enterprises and associations total 800 billion roubles. Nearly 90 percent of property is owned by the state.

This is why the process of denationalization may stretch over a rather long period. Various methods will be probed to accelerate this process in the interests of all citizens.

Special measures will be taken to demonopolize the national economy and encourage competition. Their main aim is to prevent, limit and check the use by the participants of the economic circulation of their dominant position on the market and to bar unfair competition.

This work will be headed by a specially established Antimonopoly Committee. Similar bodies are set up in the Union Republics.

The Sequence and the Stages for the Changes

The agrarian reform occupies a special place in the programme of developing the market economy. In the course of its implementation conditions will be created for the coexistence of various forms of property, including private property, and a multistructured economy will be formed in the agrarian sector. Simultaneously, administrative structures of state control over agricultural production will be eliminated.

The supreme bodies of republican state power will set up committees on the agrarian reform responsible for making inventory and evaluating arable

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lands, exposing ineffectively used lands, performing land tenure, consultative and controlling functions.

Ineffective collective and state farms are in the process of transformation, with their lands being fully or partially transferred to cooperatives, leaseholders, peasant farms, industrial and other enterprises to organize commodity agricultural production, and also to set up individual small holdings, gardening and kitchen gardening.

Republics launch programmes in support of commodity (farm) production and other new forms of economic activity in the countryside, and the creation for them of an economic and legal framework comparable with other agro-industrial organizations. Particular attention is devoted to their development in regions where labor is in short supply.

Measures for demonopolizing the sphere of purchasing and processing of agricultural produce are taken in the Union and autonomous republics. Small enterprises, equipped with up-to-date machinery, will be directly established on a priority basis in the agricultural areas. Processing plants will continuously expand their operations as free commodity producers, purchasing raw materials and selling their produce on market terms. The bodies of power and management give the utmost encouragement to the establishment of cooperative wholesale and intermediary services and firms, purchasing and sale associations, and sale and purchasing cooperatives. Large processing enterprises will be consistently transformed into joint-stock societies.

The price formation system is another important element of the market reform. Free market prices are an integral element of a market economy. To advance to them as smoothly as possible, in the first place regarding the prices for consumer goods and services, it is planned to free them stage by stage from administrative control. During the first stage control will be lifted from the prices on the group of nonessential goods.

At the same time, to ensure social protection of the population, provisions are made for maintaining state prices on goods and services that make up the basis for the subsistence wages of families (the set of food and industrial products for these purposes will be determined). Local price rises for certain goods may be affected by the decisions of individual republics, allowing for local conditions. In such cases, republican and local bodies set up compensation schemes to protect the incomes of the population according to their potential, place orders for additional production of these goods, and introduce their rationing when necessary.

The lifting of control over prices must and will be accompanied by a tough financial and credit policy, accelerated rates of denationalization and demonopolization of the economy, development of competition and an entrepreneurial market infrastructure.

In the event of an excessive rise of prices released from control earlier, republican and local authorities may temporarily set limits on them again.

During the transitional period, the state cannot immediately renounce the policy of support to low retail prices on certain goods and, consequently, stop subsidizing them. However, it is necessary to change the procedure of subsidizing the prices of goods radically, so that it will be profitable to produce and sell them and, consequently, cheap goods will not suddenly become in short supply. Under the existing considerable financial and monetary imbalances, the transition to contract prices can give rise to excessive inflation, overestimation of costs (so as to cut down the income deductions in the budget), and lack of interest in the growth of production due to low profitability.

The following measures are planned to be carried out to prevent these negative trends:

- to take urgent measures to regulate the finance and credit system with a view to drastically limiting the monetary weight at enterprises and in organizations. Strict financial restrictions for buyers combined with the difficulties experienced by suppliers in the sale of produce will make contract prices fall steeply, and check inflation;
- to set as soon as possible a sounder level of state prices for fuel and power resources, the most important raw materials, construction materials, and other products of production and technical value, on which fixed prices are to be retained.

The transition to the market requires the rise and development in the USSR of an open type of the economy, interrelating and competing with the world economy. Therefore, the implemented reforms envisage preservation of the indivisibility of the customs territory, the monetary system, the foundations of the investment regime and the foreign economic policy of the country parallel with the extension of powers of the Union Republics in these spheres. For these purposes a national body will be established to control foreign economic relations, with the Union Republics being directly represented on its board.

Individual enterprises becomes the key figures in foreign economic activity during the transition to the market. It is planned to denationalize and decentralize the foreign economic activity and pass commercial operations on to the level of enterprises, ensuring the latter's business independence and centering the functions of state organs on regulation and stimulation of these operations.

Oil, natural gas, gold, diamonds and precious stones, special equipment, and, possibly, some other goods on a list coordinated with the Union Republics compose an All-Union export resource and are sold separately from everything else.

Departmental foreign economic associations are transformed into mediator companies, including joint-stock ones, and, when necessary, are broken up into smaller units and diversified.

The management of relations with foreign economies is now exercised with the aid of legal and economic levers (custom duties, taxes, exchange rates, banking interest rate). A new customs tariff of the USSR is introduced to regulate foreign competition on the domestic market. The list of centrally licenced export goods is reduced to the minimum. An expanded system is established to control the observance of the foreign economic legislation and the rules of competition; customs and auditing services are consolidated.

Purpose-oriented foreign capital is attracted into the country. Its possible forms of investment are expanded (including enterprises in its total ownership, concessions, zones of free enterprise), their priority trends are established. Foreign investments are gradually turned into the main channel for bringing in foreign capital.

Stabilization of domestic finance, new prices and the rouble's exchange rate, its domestic convertibility on the home wholesale and monetary market serves as a basis for a step-by-step transition to the convertibility of the Soviet currency into foreign currencies. Having started with the operations of foreign capital, it afterwards controls all the current operations of the country's balance of payments.

The Social Policy During the Transition to the Market

A socially oriented market economy is an economic system where each group and social section of the population enjoys broad opportunities for the realization of its vital capacities and demands on the basis of free labor and growing personal incomes.

An opportunity to have a free choice of where and in which forms of economic activity one can apply his knowledge and experience is a major factor in strengthening the social vitality of those involved in the national economy.

The new social policy will ensure the growth of personal earned incomes, the increase or their role in satisfying the social and everyday needs of the population and the elimination on this basis of a dependence culture. A guaranteed level of social values, which should be regarded as a minimum one, will be provided for all sections of the population through social consumption funds. And a higher level of consumption, usually on a free basis, will be provided to economically unproductive citizens - children, invalids, pensioners. All able-bodied persons must raise their living standards above all by their own labor and personal income.

The consistent growth of labor costs will be an important consequence of the new social policy. Wages will more and more correctly reflect the real costs of reproduction of skilled labor power, thus making investments in education, training, cultural and social development of the personality most effective.

In the process of reforming labor remuneration, state tariffs are regarded as the minimum guaranteed remuneration for the labor of workers with the corresponding qualification level. From this standpoint they are binding for application all over the country and for all enterprises, irrespective of the form of business. Republics and enterprises may use their own discretion in setting labor rates at the expense of their own resources, but not lower than set by the state.

In this sense the state system of tariffs will become a factor of social protection for working people and a powerful incentive for raising the effectiveness of production.

The new tariff system must cover both productive and non-productive sectors of the national economy, so that cultural, public-health and education workers will have the same guarantees in labor remuneration and the same level thereof as the workers of the productive sphere.

At the same time, a new system of hiring the executives of enterprises under a contract is introduced, where the state tariff also acts as a minimum of labor remuneration.

Enterprises settle all other issues related to labor remuneration - forms and systems of payment, bonuses, rewards, increments, etc. - independently, without interference on the part of state organs. Individual earnings are not limited, being regulated only by the income tax.

Dividends on the shares of enterprises and other returns on property become a new source of income. By purchasing shares, working people turn into masters of their plants, factories, state farms and other enterprises, thus getting additional incentives for highly productive labor.

The higher effectiveness of production, the liquidation of hopeless and not sufficiently profitable enterprises, the establishment of new industries and sectors will result in a redistribution of the work force, in the first place into the service sphere, where new jobs will be created and into cooperatives and the private sector. A certain number of workers will stay temporarily outside social production. The task is to reduce to a minimum a person's period of unemployment.

Special state employment services will be established within the local Soviet republics, which will not only seek out jobs, but also further the creation of new jobs, training and retraining, carry on vocational guidance and, finally, they will assume responsibility for the material security of the temporarily unemployed. It is a matter of principle that the employment service will render its assistance free of charge.

Ad hoc programmes of employment will be implemented at an All-Union and at a republican level, in the first place in labor-excessive regions. A fund for aiding the employment of the population will be established.

The current system of material security of those who became unemployed is planned to be supplemented with direct unemployment allowances, when for some reason or other a worker cannot be quickly provided with a job or retrained.

The Structural and Investment Policy During the Transition to the Market

The formation of a modern economic structure is essential during the transition to a market economy and a precondition for its successful functioning. The situation is really dramatic, because the scale of the changes means that any attempts to switch over to an economy based on market mechanisms without a simultaneous restructuring is virtually impossible.

The key directions of the structural reorganization are as follows:

- the formation of a developed consumption sector of the economy as a precondition for mobilizing the social reserves of the economic growth;
- the elimination of the structural and technological imbalances in the national economy, which are the main sources for the perpetuation of an economy that wastes resources. The structural and investment policy must ensure the reduction of ineffective allocation of resources with a simultaneous concentration of effort on the spheres that bring maximum returns and are fully consistent with the task of the social reorientation of the economy.

The economic initiative of enterprises and the entrepreneurial spirit or the population, which are in need of effective legal and economic guarantees, must become the driving force of the structural reorganization in the economy. Supported by state regulation measures, this powerful factor should be in the first place directed at the repletion of the consumer market.

The transition to market relations and the latter's effective functioning are feasible only under a strong and well organized state power. This is proved by the experience of all countries that have succeeded in building developed market economies and attaining high living standards for the population.

At the very outset of the transition to the market it is planned to switch over to new structures of the state and economic administration oriented to the formation of a market economy and ensuring an effective interaction of All-Union, republican and local bodies. The elaboration and implementation of economic reforms and the programmes of transition to market relations must immediately be turned into a particular function of state administration.

In the first place it is planned to make full use of the USSR President's authorities that were recently conferred on him by the Supreme Soviet of the USSR. In this situation it would be desirable to enhance the role of the Council of the Federation, which must work out and implement, via All-Union

and republican authorities, the decisions coordinated among the republics. For this purpose, an Inter-Republican Economic Committee comprising the representatives of republics, specialists and scientists will be formed under the Council of the Federation.

The new duties and higher responsibilities of the President and the Council of Federation require further consideration of the structure and functions of the executive power, including its highest echelons. The structure of the organs of state power and administration at the All-Union level will be determined before the Union Treaty is signed.

A number of All-Union and Republican bodies entrusted with new functions engendered by the transition to the market will be set up in the near future.

A state contractual system will have to be developed to include a complex of organization responsible for placing orders for products required by the state, selecting contractors, and working out and signing contracts. It is also necessary to establish a Fund of the State Property of the USSR, a State Inspectorate for Controlling Securities, a State Inspectorate on Prices and Standards, an Investment Fund for Regional Development, an All-Union Monetary Fund, an Economic Stabilization Fund, a Fund in Support of Employment of the Population, an Anti-Monopoly Committee of the USSR, a State Insurance Supervisory body of the USSR, a Pension Fund of the USSR, a Committee for Small Enterprises and Entrepreneurial activities, as well as the corresponding organizations in the Union Republics.

The republics will have to make an inventory and expert evaluation of state property, arrange auctions for selling this to citizens with the right of ownership; in the first place it concerns the objects of unfinished construction, unmounted equipment, construction materials, transportation means, enterprises engaged in trade, public catering, and consumer services.

A specific task of the republican authorities is to work out the main principles and start implementing agrarian and housing reforms, to put into practice the programme in support of entrepreneurial activities, the agro-industrial complex, and the non-market sector of the economy.

The programme for a transition to the market has already been drawn up, but all measures aimed at the improvement of the economy may fail to produce the expected effect, unless political stability is maintained in society, along with the willing and effective cooperation of all political parties, organs of power and the administration. Without such a consensus and support on the part of the population, any programme of economic reforms, no matter how good it is, may fail.

Chapter V

Problems of transition to new forms of management

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Restructuring of economic management has entered the decisive and at the same time the critical stage. Old structures that were inherited from the administrative and commanding system are already incapable of "mating" at any level with the new economic mechanism, while the new forms of management have not yet gathered momentum and are emerging with great difficulties, encountering bitter resistance from the bureaucratic apparatus. Quite often, something is introduced which is new only in form, not in content. The vices of the old structures are perceptible through the new appearance; still alive is the persistent aspiration to usurp all the rights of the top level of sectoral management and concentrate them all in the lower units. It is under these circumstances that spontaneous renewal is under way, now in one place, now in another, of the administrative and command system which has been and still remains the major obstacle to a radical reform of economic management.

There is no alternative to new, up-to-date forms of management which would create perfect, realistic conditions for the introduction of cost-accounting at enterprises, and for all-round application of economic methods. This problem must be solved in different ways depending on where in each sector productive activity is concentrated, on the geographic region, on the character of technological ties and co-operation, and on the opportunities for direct interaction with consumers.

Utilization of the potentialities of the diversifying of the ways in which property can be held is of paramount significance for the consolidation of the organizational forms of management that are adequate for the new economic mechanism. One cannot fail to see that a major progress of the economic theory has consisted lately in the establishment of a direct link between the forms in which socialist property is held and the forms of management. Reallocation to such ownership as All-Union, republican, municipal or communal, local (which may be publicly or cooperatively owned property) has already proved to be fruitful and practicable. Consistent and purposeful establishment of various forms of cooperative and individual property ownership offers new

opportunities of effectiveness. Widely known is the great potential of the switch-over of labor collectives to contracting and leasing within the framework of the state, as well as that of cooperative and municipal forms of property. Joint-stock property is increasingly forcing its way through.

Rationally developed pluralism in the forms of property ownership provides a solution for many imminent problems facing the restructuring of economic management. Such problems include separation of the functions of the state economic management from the functions of direct economic management; diversity of forms of the basic productive unit; transition from chiefly vertical to mainly horizontal structures and ties; development of associative forms of economic management. Besides, diversity of the forms of property ownership requires the application of various forms of self-management, and the specific combination of independence and responsibility of a labor collective and an individual worker, lower and upper links in the system of economic management. It is important to make use of various means - economic and organizational - so that every labor collective, and every worker can become a master.

The same main process is now taking place in the agrarian sector. The need for the diversified forms of economic management, a flexible combination of different forms of property ownership, extensive democratization of production relations and self-management are currently the leading principles in building up systems of production management. It is considered expedient (and was unequivocally stated in the decisions of the March, 1989 Plenum of the CPSU Central Committee) that districts, regions, territories and autonomous republics should have councils, unions, associations and societies elected by labor collectives, to provide assistance to industry on cooperative principles.

Practical experience suggested an essentially new approach to the organizational structures, with the paths of management decisions leading from "bottom to top" - from the basic link, i.e. the enterprise - rather than from "top to bottom". Hence, emphasis is shifted from hierarchical vertical structures to horizontal ties of many different kinds, and to integration processes in the lower productive and economic systems which in their turn depend upon the growing socialization of production. All this exerts a genuinely revolutionizing influence upon the emergence of such new organizational forms of economic activity as socialist concerns, inter-sectoral associations, unions and other voluntary organizations of enterprises which in the best possible way suit their diverse interests. It is a free, rather than directed or enforced combination of factors of intensive economic management that encourages significant developments of productive forces. It is also obvious, that this gave rise to a very strong trend towards lifting the state control over the appropriation processes, and the forms of economic management and administration.

Consolidation and development of new organizational forms of economic management - socialist concerns, inter-sectoral associations, voluntary organizations, etc. - makes it possible drastically to change the functions of the ministries and steadily reduce their number. In these conditions, as is very well put in a resolution of the Congress of the USSR People's Deputies, "the role of the Center should consist in the creation of economic and legal conditions for effective economic activities at all levels, in the development of the All-Union infrastructure, in the implementation of national scientific and technical, financial and taxation policy, in ensuring social protection for citizens."

Building-up of large production and economic complexes reflects continuous processes of socialization and concentration of production and therefore meets the demand for separation of economic life from the state, with decentralization of the production management. Some of the large structures that are emerging comprise all stages of technological processes - from procurement of raw materials to release of final product. Others mainly concentrate their efforts on one specific stage (extraction or processing of raw materials), or are engaged in mass production of separate parts of the product. There are also those that cover huge volumes of services. Many different products in small quantities, or one product on a huge scale. Despite a large number of variants, the main idea remains unchanged: concentration of resources, capacities, production facilities of different types meets mass demand, accelerates scientific and technological progress, and reduces costs.

But negative aspects of large-scale organizations should also be taken into account in the formation of big concerns and inter-sectoral associations. History teaches that large structures have a distinct trend towards linear growth, bureaucratic procedures, proliferation of administration, drawing in of greater and greater numbers of people and volumes of material and financial resources.

These trends can be overcome through decentralization of decision-making, application of the mechanism of prices and incentives, placing of economic responsibility on each manufacturer for the results of his work. An important role will be assigned to further development of the socialist market as a means of overcoming the hypertrophy of vertical links in the economy.

However, there is another contradiction to be resolved. Weakening and elimination of the monopoly of ministries and central economic departments will produce the monopoly of major cartels, corporations and other mass producers. In this case, the harmful effects of concentration of production and management must be opposed by the formation of parallel structures with similar specialization, such as consumer associations who possess all the necessary rights to exercise control over the nature and price of the product and to exert influence upon manufacturers through a system of economic and legal measures.

Treating "megalomania" as a vice, an economically unjustified tendency, and making a comparative analysis of dimensions of various production systems (e.g., Soviet and foreign ones), it is necessary in each particular case to reduce the systems to a comparable form and to use the same criteria in their assessment. And above all, care should be taken not to confuse large economic structures (corporations, companies, conglomerations, consortia, etc.) with individual enterprises, big plants. For instance, ZIL (Moscow Automobile Plant named after Likhachev) is not comparable with General Motors, or Electrosila Plant with General Electric, and no oil refinery is comparable with Shell. The difference in the volume of production, in the number of employees and in the mass of profit is not less than 8 to 10-fold. When speaking about "megalomania", we have in mind expansion of individually selected plants which we call enterprises. However, economic structures comprising whole groups of large, medium and small enterprises and specialized cost-accounting functional centers are something different. These are organizational and economic mechanisms representing effective combination of resources.

Today our socialist companies are to be based on a management system free from ministries, an escape from departmental dictates and an expansion of the role of cost-accounting, rather than a direct analogue of Western forms of production management. Direct transfer of management techniques is, of course, out of the question. Its brevity and connotations of industrial might make the term "company" popular; besides, it is easier to pronounce than, say, "inter-sectoral state association", "All-Union cost-accounting production association", etc. But in any case, it is incentives, rather than orders, that must become "the management language" of socialist companies: economic but not administrative interests, partnership but not subordination.

The fundamental difference between socialist companies and the present sectoral management structure is that the former lie entirely within the cost-accounting zone, in the sphere of self-repayment and self-finance. Blending of the ministerial apparatus with subordinate enterprises has always made it impossible to discern where "superior" management ends and real cost-accounting begins, who depends on whom and who influences what, where the boss is and where the servant, which came first, "the chicken or the egg". The Center will be strong only when it rests upon mutually dependent economic links, and when these links are firmly established. Those who hold on to departmental rule by orders and decrees have not passed through any other experience. They are aware of only one management scheme, and sincerely believe that the whole problem resides only in its drawbacks and not in its complete uselessness.

World experience proves that large production and economic organizations (companies, corporations) have been operating effectively for many years within the framework of whole sectors. They ensure complete self-sufficiency,

consistent growth as a consequence of stable profits, high rates of scientific and technological progress, and what is the most important, the full satisfaction of the market with a broad spectrum of products. Lately, such complexes have been acquiring the following qualities:

- increased diversification of production, regarded as the main factor in stabilizing the financial position of companies and corporations;
- increased orientation towards a long-term perspective, for which purpose forecasting and planning are intensively used;
- development of small businesses within the framework of companies and corporations, direct limitation of the size of enterprises and their orientation towards innovative activities and specific demands of the market;
- centralization of financial resources; allocation to affiliates and enterprises of only those means which are necessary for effective day to day management;
- organization of management on a matrix principle, coordinating manufacturing and production among regional companies and organizations;
- imposition of a collective character on the management of major industrial and economic complexes and in decision-making.

These features and trends were revealed with utmost clarity in 1989 during analysis of the organization and working methods of such companies as Shell and British Petroleum (Great Britain) whose character of production and output makes them close analogues to our oil-refining and petrochemical industries. There is a practical need to draw organizational and economic lessons from the experience of Shell and British Petroleum which are of immediate importance for the solution of the problems facing the restructuring of sectoral management.

Firstly, it can be taken for granted that many years of experience have proved the high effectiveness of such an organization in the operation of a large production and economic complex (company, corporation) under which: (a) practically all production, engineering, design, research, information and service functions are performed on a strictly cost-accounting basis; (b) all types of subdivisions and the complex as a whole operate on conditions of self-financing, self-sufficiency, clear-cut distribution of the responsibilities and rights in utilizing the resources; (c) all relations with state bodies - from local to superior authorities - are based on the taxation system and established regulations.

Secondly, it is of paramount significance that the overwhelming majority of the top level fundamental services, which in our conditions make up an apparatus of sectoral ministries, function in large corporations as "service companies". They operate on the basis of full cost-accounting, self-financing and self-sufficiency on contracts with production companies. This is the cost-accounting basis of the sectoral system as a whole which covers all its extractive, processing, servicing and intermediary enterprises and organizations. As a result, there are no "basic" and "superstructural" levels and a single, interdependent and inter-supplementing chain of cost-accounting companies operates to make up

the whole system of their economic interests. Such a comprehensive "flow of cost-accounting" is accompanied by continuous formulation, desegregation and correction of corporate targets, depending on changing conditions of consumer demand, market relations, technological progress, priorities in different spheres of activities. The same basis is used to ensure flexible interaction among large, medium and small enterprises.

Thirdly, large sectoral and intersectoral concerns (including Shell and British Petroleum) have an efficient system of regional management and coordination which supplements (also on cost-accounting principles) the organizational structures of production and servicing. They are something like agents, local representatives or associations acting in the interests of the concern as a whole and financed by companies based in the given region. They are not a superior management body in the generally accepted meaning, but are territorial coordinators on matters of common interest to all companies in the given territory, such as taxes, prices, licences, patents, fines, relations with the government.

It is a fairly effective form of harmonization, of combining sectoral and territorial approaches to management, based on specially developed legal and economic mechanisms.

Fourthly, the cost-accounting foundations of the activity of the whole company predetermine the distribution of authority and responsibility at all levels (and not the other way round). In practice this means the setting of strict limits to the money each level is allowed to spend. Spending limits depend on the management level. In British Petroleum, for instance, there are 13 levels of responsibility measured by the sum (from 0.1 million to 410 million pounds sterling) which can be spent at each level. Hence, a clear-cut system of decision-making is assessed through profits and losses. And this system reflects the main interest of shareholders who are the starting point in the process of formation and accountability of structural sub-divisions and official positions, i.e. the board of directors, chairman, his staff, committees, etc.

Fifthly, radical changes in the organization of research and development have been under way in recent years in large productive and economic complexes, companies and corporations. Unfortunately, it has to be admitted that our practice of inclusion of research establishments into industrial and other associations, and all-round transference of research and development institutes to a regime of cost-accounting and self-financing reflects outdated ideas about methods of combining science with production. "Technological breakthroughs", costly technical designs, new science-intensive products and materials call for a concentration of the total intellectual potential, scientific, technical and material resources in key directions to win world markets. Efficient organization makes research work in present conditions highly effective. It has been estimated that

every pound sterling invested in science brings 1.5 to 3.0 pounds worth of profit. Such is the case, for, example, with the Shell Corporation.

All this predetermines concentration rather than dispersal of research at the level of large productive and economic complexes. But now the main point is not a centralized hierarchy of research establishments, but a programmed and purposeful planning, financing and management of the total network of research laboratories and units to ensure the solution of key problems in scientific and technological progress.

The scope of this work is illustrated by the figures of expenditures on research and development in 1988 in the leading petroleum corporations of the world (in millions of dollars): Shell 721, Exxon 524, British Petroleum 381, Amoco 251, Chevron 249, Mobil 231, Texaco 170. Shell Corporation, for example, puts 85 percent of research projects into practice.

Joint goal-oriented research programmes with the concentration of all available intellectual, material and financial resources, cover not only central laboratories and research establishments, but also the local network of research laboratories affiliated with many companies and enterprises. The programmes are directed through setting of the targets, purposeful financing, regular control and coordination. But current local research work is carried out within the framework of production subdivisions at the cost of the respective production unit. In the light of such an agreement which takes into account the growing role and characteristic features of research in present conditions, it will be necessary to revise very seriously and carefully the views on the "cost-accounting of sectoral science" that have become widespread lately.

Sixthly, major productive and economic complexes - companies and corporations - cannot develop in the brutal conditions of competition on the world market unless they define long-term targets of their activities. Strategic planning and a "sliding plan" are the new instruments adopted by large scale economic systems. The former deals with global alternative scenarios of the corporation's development: exposure of possible problems, analysis of competitors and correlation of current plans with the strategy ("landmarks of development", "corner-stones"). They serve as a basis for developing the strategies of branches and companies, for estimating their contribution to the attainment of corporate targets. In the latter case, the required definitions are introduced annually into the plan for the next year with the addition of indices for the following five years. This is exactly what "the sliding plan" means - one year plus five, and the same goes on every year with a moving five-year period. The main advantage of such an approach is the practicability of planning with due regard for changes both inside and outside the corporation. The experience of the first Soviet concerns - TECHNOKHIM, ENERGOMASH, and QUANTEMP, forerunners of the new form of production management free from departmental control - convincingly proves that such economic organizations correspond in full to the conditions

and requirements of the present stage of socialist economic development. The following characteristics make the company form of management highly efficient and promising: economic independence of enterprises; their voluntary affiliation with the company; democratic decision-making; accountability of the company to the labor collective which founded it; opportunities to manoeuvre resources, use them rationally and concentrate them in key directions; the cult of innovation and enterprise, etc.

It would seem that this path should make all the links of the economic system favor the functioning of companies, the more so as "the ice is broken", i.e. when dozens of companies are in the making. It must be clearly understood that the new form of economic management is incompatible with outdated schemes of centralized planning, the monopoly system of resource funding, and the sectoral principles of investment distribution.

Companies became "islands in the ocean" of old orders, business relationships, procedures and instructions. Ministries which let go of their enterprises suspended fulfilment of the long-term commitments that arose from governmental decisions taken earlier. Agencies providing materials and expertise stubbornly resist any change in the operation of their services. Planning and financial bodies refuse to take account of the specific conditions in which extra-ministerial structures are functioning. Various departments impose detailed and unnecessary book-keeping requirements upon companies, claiming the right to make decisions and place orders in the name of enterprises, disregarding the associate character and the essentially new type of industrial amalgamation.

The first companies were more successful in developing new relationships with state bodies, departments and other "external" organizations. It is the sphere of these relations that now constitutes the main barrier to the well-adjusted operation of economic organizations of the new type. As in other instances, the interrelation and interdependency of all elements of the economic mechanism move to the foreground. Domestic and world experience shows that the problem of effective functioning of large organizations should not overshadow the vast possibilities associated with the growing role and all possible developments of "minor forms" - small enterprises and small-scale production.

In 1987, the Russian translation was published of the book by T. Peters and R. Waterman, well-known American scholars of production management. Its title was "On the Way to Perfection" - this is how the authors expressed their intention to demonstrate the up-to-date level of organization and methods of management of American corporations. Scarcely had a few years passed, Peters published a new book, "Prosperity in Conditions of Chaos: Guidance for Making a Revolution in the Sphere of Current Management". One book essentially contradicts the other: from "superiority" to "stable chaos", from already achieved "perfection" to the need for a "revolution in management".

What is the matter? What is the reason for such a change of criteria?

Existence of a great many large corporations and companies is associated with the concentration of production and management, and with diversification. According to the author, these super-powerful structures, having taken monopolistic positions on the markets, directed their main efforts exclusively at ensuring their financial stability. And the problems of raising the competitive capacity and building up real market superiority were pushed to the background. The book refers to the practice of General Electric Corporation which, according to the author, lately has been seeking to raise the value of the company's shares and to speculate on the stock market, rather than to improve the quality and technical characteristics of its products. Since 1981, the corporation has acquired 325 enterprises worth 12 billion dollars and has sold 225 enterprises for a total of 8 billion dollars.

To counterbalance the "megalomania" which prevents constant change from having an effect on production proper, Peters calls for the instability of conditions and targets to be encouraged, and in this connection he points to new interest in the USA in small businesses. Small businesses have the potential to restore innovation and competition, to reinstate the priority of consumer demand. To keep an old customer is five times cheaper than to acquire a new one. The author believes that the future belongs to those companies which maintain permanent ties with their customers, follow their demands and are oriented to their unconditional satisfaction. To use his terminology, "stable chaos" is precisely a great multitude of simple organizational forms continuously renewed under the impact of changes in consumer demand.

This kind of organizational development of the basic level, when widespread in the national economy, must be enabled to work with the world trend towards changes in production and management structure, bearing also in mind the necessity to overcome monopolist trends by means of organizational measures, such as decentralization of production, establishment of competitive enterprises, and disbandment of ineffective associations of a monopoly type.

Narrow specialization, dynamism, flexibility of production programme, close relations with customers - all these allow small enterprises to make a sizeable contribution to the satisfaction of consumer demand. At present, there is no force in the country, except the ministries, that is capable of ensuring rational correlation of the large, medium and small enterprises, that are characteristic of the economies of other industrialized countries.

The vast possibilities hidden here are revealed by, for example, some data on the newly formed Ministry of Automobile and Agricultural Machinery. Large structural formations (state industrial associations, production, scientific and production associations) account for 53 percent, and independent medium and small enterprises for 47 percent of all industrial production. But in terms of

proportion of workers, the share of medium and small enterprises is only 6.2 and 5.6 percent respectively.

Considering Soviet industry as a whole the proportion of enterprises with workforce below 500 is 70.5 percent, but their capitalization and gross production are very low: they account for only 10.3 percent of the capital funds, 14.7 percent of output, and 5.3 percent of the power consumed by industry.

In this connection, it is of interest that, according to the latest data, small firms of the USA employ nearly half of the workforce; over 37 percent of the gross national product comes from small business; most new ideas and innovative products are developed by new and small enterprises. It is also known, that approximately two out of every three new jobs are created by small business. Small enterprises account for 99 percent of the total number of American firms. Government programmes for the support and development of small business, as well as numerous publications on this problem invariably describe them in such terms as "the largest resource of America", "the driving force of prosperity", "the backbone of the US economy".

Small state, cooperative and lease-based enterprises are becoming prominent forces for improving the management structure of the socialist economy. Much is still to be done, with particular need for suitable legal, organizational and economic measures.

Reform of the organization of economic management - establishment of enterprises and associations, consolidation and development of modern management techniques are only a few aspects of the problem. Economic reform has brought to the foreground the problem of what function the sectoral ministries have, and how they should perform it.

It is not a question of whether or not there is a need for state organs of economic management in the socialist economic system. They are vitally important and necessary. The question actually is: what must be the tasks of these organs during the complex and difficult transitional period of restructuring the overall economic mechanism with the radical changes in the organization and methods of management that are necessary. It is not supervision of the current operation of enterprises or their replacement, but their management in accordance with their targets and investment, scientific, technical, and social programmes. Particularly they must ensure the needs of the national economy are met. These are the main differences between the functioning of the new type of ministries and that of the traditional ministries which we have for the present.

Intensification of economic reform, introduction of the socialist market, extensive development of direct ties among enterprises and accumulation of experience in regional cost-accounting will pave the way for further consolidation of state organs of economic management. Strategic and controlling functions will be strengthened, with the abolition of direct rule by orders. This course must be pursued consistently and unswervingly in order to overcome the cumbersome,

complicated structure of state administration of the national economy, with delegation of many functions to lower levels, and an increase of dynamism and flexibility in the work of the top ranks of the executive.

This is why it is of paramount importance to redirect sectoral ministries from their function of management enterprises to the organization of the restructuring process, and as a top priority to create all necessary organizational and economic mechanisms for full scale cost-accounting and self-financing of enterprises. What is the practical meaning of this?

Firstly, it requires consistent, programmed work to reshape the basic unit (state and lease enterprises, cooperatives). It is important immediately to start setting up large production units (companies, corporations, industrial associations, inter-sectoral state associations, consortia) which will be able to ensure - on a cost-accounting basis with direct personal interest of all participants - the concentration of management, scientific, technical and other resources for the establishment of production. Flaving economic independence, these complexes will assume responsibility for the solution of a wide variety of problems previously in the competence of ministries. They lay the foundation for the future transition to essentially a non-ministerial system of production management.

For the same purpose, establishment of the system of cost-accounting, in parallel with that of large-scale organizations of a corporative type, will be spread over the sectors themselves characterized by shared technological processes and close internal cooperation in the manufacture and marketing of the final product.

World experience related to functioning of large production units as autonomous cost-accounting and self-financing systems suggests the regime which governs the functioning of state corporations should be introduced, implying:

- transition to cost-accounting and self-financing of a whole economic complex which may include economically independent, and differently managed, organizations which in the aggregate make up a sector or a sub-sector of industry;
- development of the complex's management system on democratic principles with such institutions as shareholders meetings, a board of directors, management, etc., with distribution of authority among them.

It has been established that such sectoral cost-accounting complexes (state corporations) could successfully operate in the complete cycle of extraction, transportation and distribution of natural gas, in the gold-mining and diamond industry, in the oil refining industry, in the production and marketing of fertilizers, etc.

The principle of voluntary participation on equal terms of enterprises and associations must be strictly adhered to. It is important to draw lessons from the past which have shown substantial losses to accrue in the course of

restructuring sectoral management organizations. For example, state industrial associations whose formation was really intended to revive the middle link in sectoral management are known to have been established by order, through artificial unification of groups of enterprises, with complete disregard of their interests. The results were deplorable.

Secondly, radically restructuring the work of ministries and shaping essentially new state sectoral and intersectoral management organs, necessitates consideration of their past function as controls of the command and administration system. The monopoly position of almighty departments which commanded the fundamental sectors of the national economy allowed them unchallenged control over the economies of Union republics. Taking advantage of their dominant position in the national economy, they frequently neglected the interests of republics and regions, which often had imposed upon them a ministerial decision which ignored their local conditions and their prospects of development, and local public opinion. This gave rise to discontent over the actions of central government, and to inter-ethnic tensions.

This must be radically changed. A change in the relations between ministries and economically independent enterprises involves a transition to republican cost-accounting, to decentralized formation of the budget system, and to substantial consolidation of republics' sovereignty. Further, the competence of All-Union and republican organs must be changed to conform to contemporary realities of the greater independence of provinces, taking due account of the interests and peculiarities of each republic of the Union.

The interests of economic sectors and of the republics and regions must be coordinated. This may involve many channels, including elaboration of plans, distribution of productive forces, definition of the profile of newly-built enterprises and those which are undergoing reconstruction. It is no less important to seek mutual benefit in the development of production and social infrastructure, utilization of labor and production resources, and the improvement of the environment.

Thirdly, the role of ministries in the realization of restructuring processes must be made very obvious in the consolidation of economic reform, the consistent democratization of management, full cost-accounting, self-financing and autonomy of enterprises. While delegating many functions of management down to enterprises, sectoral ministries must guarantee economic independence and rights. Supplying enterprises with initial planning data (including state orders and quotas) the ministries are expected to shape step-by-step a new system of economic relations based on utilization of economic levers, observance of mutual profitability and legal commitments, development of competition and direct ties between enterprises, horizontal integration of enterprises, etc. Ministries should encourage enterprises to withdraw from their jurisdiction

and to switch over to leasing, or to convert into cooperative and stock-holding enterprises with membership of inter-sectoral state associations and companies.

Hence, departure from strict administrative subordination and jurisdiction of enterprises will be inevitable. To manage through service, to lead through assistance, to control through rules - this is what the ministries must have in mind in their relations with enterprises. The task is completely to overcome the concept of "jurisdiction" which defined the administration-dominated hierarchy of management. It is the labor collectives - the productive units, rather than administrations, that are to be the new holders of power. And enterprises which enter into relations with ministries and other bodies on the basis of equality and partnership must be subordinated only to labor collectives and to law.

The more complete the economic reform, the more widespread must confidentiality of contract details become, taking into account the mutual interests of the sides. At present, confidentiality of contract is being established between ministries and extra-departmental companies and associations. In future, it will be characteristic of relations among any enterprises, including those which are affiliated with respective sectoral systems.

Such an approach to the organization of management will allow the ministries, in pursuit of the targets of national economic and social development, to concentrate in practice on their proper functions, such as direction of investment, strategic research and development, encouragement of cooperation within and among the sectors, relocation of enterprises to suitable regions, assistance to the maturing of the socialist market. Solution of the problems at national economic, sectoral and regional levels is a main aspect in their activity.

To meet the new challenges, the state organs of economic management must be equipped with three main instruments:

- (1) programmes of national significance;
- (2) orders for carrying out the programmes (with control of all economic levers);
- (3) control over effective functioning of the cost-accounting sphere.

Many functions such as productive and technical supplies and sales; technical, information and legal service; training and re-training of personnel have previously been performed by the central authority and these must be replaced by cost-accounting contracting organizations to service enterprises. On this path, the old system of merging state administration functions with economic management functions must be resolutely and uncompromisingly overcome.

Chapter VI

The economy of a region: planning, management, cost-accounting

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A peculiar feature of the present stage in the development of the socialist economy is that the further socialization of all stages of production requires new forms of organization of economic activity covering each geographic unit and the whole national-economic complex. As major industrial-economic complexes and various kinds of horizontal integration of the main links emerge, establishing the territorial level of economic activity, and turning regions into relatively independent economic formations, is acquiring primary importance.

One must be aware that territorial cost-accounting, as introduced recently, is not absolute. One can speak of cost-accounting and self-financing in the proper and complete sense of the terms only in relation to a commodity producer - the main unit of the economy. But when we speak of a region, of a union republic, then we mean in practice that the quality of life of the population and the volume of resources created by its own labor must be in relation to each other.

The resolution of the XIXth All-Union CPSU Conference "On International Relations" says: "We should organize everything so the working people understand clearly what the volume of production in a republic or a region is, what contribution into the economy of the country it makes and how much it earns. The idea of a transition of the republics and regions to the principles of cost-accounting with an accurate estimation of their contribution into the implementation of the All-Union programmes is worth our attention".

The switch-over of the whole system of managing regions and republics according to the principles of cost-accounting should ensure their independence in using their resources, in working out and successfully implementing socio-economic programmes, and should permit independent action and initiative in deriving profits, thereby ensuring a high standard of living for the population. Every region, and every republic should be interested in improving its economy to assure its prosperity, thus multiplying the common wealth and might of the Soviet state.

1. Basics of Regional Economics

The united economic complex of the country is based on the nationwide processes of socialization of production, specialization and cooperation, and of the All-Union division of the collective labor of society. Many factors influence these processes - specific features of the branches of industry, the existing distribution of productive forces, capabilities of technological systems, the nature and value of the commodities produced, natural, historical, demographic and other features unique to each region. Under such conditions the united national-economic complex cannot be just an arithmetic sum of the economies of the regions. The whole of the industrial-technical potential and the material-resource basis determine the economic independence, stable and dynamic development of both the USSR as a whole and each of the republics in particular.

Turning regions into relatively independent economic formations is possible provided they are components of the united national-economic complex and at the same time they themselves represent an integral regional national-economic complex. It is conditioned by logical processes in the development of the public organization of production, including the territorial division of labor, specialization and cooperation of production.

The territorial division of labor is directly connected with the division of labor in general, and it determines the specialization of regions and the emergence of inter-regional economic links. The specialization of regions means giving up self sufficiency and isolation. It is aimed at developing mass production of certain goods or groups of goods for exchange with other regions which are themselves specialize in different ways. Thus the specialization of the regions ensures their organic involvement into the united integrated national-economic complex, and determines the volume of the region's contribution to the economy of the country and to its own development.

The territorial division of labor and specialization of the regions is only one factor determining the place of the region in the economy of the country. The other factor is territorial cooperation of production which makes the regional national-economic complex self contained within its specialization. A region should be considered not merely as a location for factories, but also as a large-scale combination of various natural material and human resources, connected with industrial projects by a complicated system of stable mutual links.

The existence of a sum total of various stable interconnections, comprising the productive and territorial unity of interdependent projects, forms a region.

Definition of regional boundaries must be in terms of economic structures whose components are the union and autonomous republics, the territories and regions, the cities and administrative districts. The effectiveness of the national-economic complex of the region is determined by factors among which is the optimum combination of enterprises, the improvement of the structure of

production, the usage of local natural and labor resources, the protection of the environment, the training of the management and workforce.

The effectiveness of the regional national-economic complex is directly connected with integrated development for communal use of the regional infrastructure of production.

The development of social infrastructure, planned use of local opportunities for increasing the efficiency and volume of production of foodstuffs and consumer goods are of special importance.

At the present stage in economic development direct productive links between enterprises in the same territory, and the organization of joint activities to achieve solution of economic and social problems are seen as indicating the successful functioning of regional complexes. Under the conditions of an emerging market economy the formation of regional markets of commodities and services, the development of a corresponding infrastructure are of great importance for the growth of efficiency.

One can single out the following types of regional complexes: agro-industrial complexes within administrative regions, industrial complexes within the regions and autonomous formations, complexes based on the union republics, and complexes of major economic districts, embracing a number of regions and even republics.

The development of economically developing or underdeveloped territories brought about the emergence of territorial industrial complexes (TIC). TICs are established in order to make it possible for the enterprises of several industrial branches to find joint solutions of economic problems on the basis of developing natural resources of poorly, or patchily developed districts. We mean such TICs as Kansko-Atchinsk, Pavlodar-Ekibastuz fuel and energy complexes, the TICs of the Kursk magnetic anomaly, the West-Siberian oil and gas complex and others which are being formed with centralized capital investments.

At present the planning of comprehensive economic and social development of the regions is undergoing radical changes.

First, these changes require the realizing of huge and so far poorly exploited resources, raising the efficiency of public production, and the accelerated solution of economic and social problems. Republic and regional plans must give up their former role as being consolidated and summarizing documents and become effective instruments of defining and regulating the processes of optimizing territorial division of labor, and of strengthening territorial cooperation of public production.

Second, territorial plans change their nature in connection with the switch-over to the use of primarily economic methods of management of economically independent enterprises. Territorial plans should set the tasks of developing a regional national-economic complex taking into account the interests of the country in general and should determine the ways of carrying out those tasks on

the basis of using economic regulators. Such regulators are state and regional orders, local rates of pay for labor and prices for natural commodities, taxes and tax privileges, subsidies, grants and fines.

State orders are to be placed on territorial basis for the union republics (to supply vital foodstuffs and agricultural produce to All-Union stocks) and for ministries and departments of the USSR on other types of produce determining the specialized division of labor of the republics and districts. Together with state orders, and in order to ensure their fulfilment the republics are given limits for centralized capital investments and material and technical reserves. As the economic independence of the main enterprises and amalgamations strengthens and the socialist market is expanding, the number and volume of state orders placed on a territorial basis will be reduced.

The use of scientifically based territorial planning for effective and balanced development of the republics and regions will enhance the importance at the All-Union, republican and regional levels of regional forecasts and pre-planning research on the development and distribution of productive forces.

Regional programmes of socio-economic and scientific and technological development should be used as a major instrument of planning under the new economic mechanism. Fair play in inter-regional economic relations and a guaranteed minimum standard of services in all regions for all citizens of the USSR should be ensured through the use of planning levers.

2. Restructuring the Management of the Economy and the Social Development of the Regions

A new approach to territorial management is being implemented in fundamental restructuring of national economic management. Principally, the economic independence of the union and autonomous republics, and of other national formations is being strengthened, and the development of the regions is being promoted, with favorable conditions for business management on the basis of complete cost-accounting and self-financing being created in all the regions.

The management of the economy and the social development of the regions is being restructured so as to ensure a new standard of living for the population, with a modern level of productive and intellectual activities, and the highest standards of functioning of the territories, through effective management promoting economic independence.

This implies solution of the following problems:

- in the field of social development - the creation of conditions for the most complete satisfaction of material and spiritual needs of the population, guaranteed social justice in the distribution of the disposable income, improvement of labor conditions, living and recreational conditions;

- in the field of economic development - effective use of the scientific, technological, productive and intellectual potential of the region, the introduction of a modern system of businesses, integration of the economic interests of the regions, the enterprises and the population, further specialization of the regions regarding labor and the formation of a united socialist market;
- in the field of management - a clear distinction of the functions of the All-Union, republican and other territorial organs as far as the economy of the region is concerned, the creation of an efficient structure for territorial management;
- in the field of employment and demographic development - the creation of permanent yet flexible employment of the population, the stimulation of its growth, and the regulation of migration processes.

A number of requirements must be taken into consideration when switching over to these principles of territorial economy.

First, the new economic and legal conditions must strengthen the legislative authority of the elective bodies, namely the Soviets of People's Deputies at different levels, while preserving the unity of the region as a single socio-economic unit.

Second, the new economic independence of territories must not infringe on the cost-accounting rights of businesses, but it should ensure their complete implementation. The relations of the regional organs with enterprises and amalgamations must comply strictly with the laws of the USSR as they relate to property, land and land utilization, leasing and leasing relations, the uniform tax system, socialist enterprise, and general principles of managing local government, the economy and society in the union republics.

Third, restructuring the management of regional economies presupposes development of inter-territorial links, expansion of the economic relations between different regions, with maximum usage of the advantages of the specialization of individual regions and the All-Union division of labor.

The fundamental basis for these developments is definition of the forms of ownership of property as they exist in different levels of the socialist national economy - All-Union, republican, and local. The plurality of the kinds of property owned must also be recognized. By that we mean that in order clearly to determine rights and responsibilities of ownership and custodianship of property, the affiliation of industrial, transport, agricultural, trade, communal and other enterprises to types of socialist property should be established. Ways of regulating the relations of property are to be agreed and established on the All-Union scale.

The law states that property might be in the name of a district, a city, a region, a territory, a republic provided the property itself does not cease to be socialist. In any case the objects owned are to be defined in terms of stages in socialist production. Singling out this or that item of property must be

accompanied by a statement of its extent: if any objects of property are made over to the republic, one should be at the same time aware of what objects still remain All-Union property and which are to be given to the local Soviets. Endowing republican and local Soviets with property from the socialist stock lays an economic foundation for their political power.

With that in mind, the united fund of public property is to be distributed first of all among the Union of SSR, the union and autonomous republics, and local Soviets of People's Deputies on a democratic basis. State property acquires a really national nature only as a result of distributing the means of production between the Union of the SSR and the union republics. The delimitation of property takes place at different levels: the Union of SSR, the union and autonomous republics, local Soviets of People's Deputies.

The democratization of the management of the national economy requires the updating of all tiers of management. It has become necessary to grant and legally to consolidate to union republics and regions the new rights of the being in charge of property and natural resources. This is a decisive prerequisite for restructuring the management of the economy and society on the basis of self-government and self-financing.

The elected representatives (or the instruments of government under their control) should perform the duties of the guardians of socialist property - to guarantee its maintenance and growth by appropriate management. The use of such new forms of management as leasing, cooperative ownership and joint-stock companies can turn what was purely state property into property of the people while preserving the role of the state as one of the owners of property and as the economic center.

Those responsible for state property are:

- in the case of productive enterprises and economic organizations at the All-Union and republican level - the corresponding union and republican executives;
- in the case of enterprises producing consumer goods, of industries servicing territories, and bodies controlling other material and natural resources (land, water, public buildings and works, etc.) of territorial usage - the corresponding Soviets of People's Deputies;
- in the case of local enterprises and economic organizations, and other material and natural resources of local importance and usage - district Soviets of People's Deputies.

Soviets of People's Deputies or their executives are empowered to enter into economic relations with labor collectives of state enterprises and organizations, cooperatives, joint-stock companies, and individual producers which may then, under the law, own or have the use of socialist property under an agreement, lease or contract.

Diversification of forms of ownership will ensure the most effective use of property under present-day conditions and this has become the foundation of a considerable increase in economic independence of the Union republics. This new philosophy is a consequence of the democratization of all aspects of public life, by the move towards the comprehensive use of resources and the development of production, by rectifying the distortion arising from the centralization of the management of economy. The underestimation which has existed for many years of regional and local opportunities for development of the national-economic complex of the country must be overcome in this process.

Lenin's understanding of the paths for the development of the regions in a socialist state is again becoming topical. "... In the same way as democratic centralism does not at all exclude autonomy and federation, it does not at all exclude but, vice versa, presupposes a complete freedom of various localities and even different communities of the state in working out diverse forms of state, public and economic life. Nothing can be a greater mistake than mixing up democratic centralism with bureaucracy and conventionalization."¹

Economic independence cannot be granted to the republics without reference to all the other elements of radical reform of the economic mechanism. Three fundamental factors must be considered: firstly, the increase in the economic independence of the main businesses (the enterprises and amalgamations of various types) and the completeness of their switch-over to cost-accounting and self-financing; secondly, the balanced development of the national-economic complex of the country and the degree of economic independence of the region in so far as they are connected; thirdly, the necessity to make the economic independence, rights, and responsibilities of a republic conformable with management on the country-wide scale. A pragmatic approach will be necessary in taking these factors into account according to local conditions in this or that republic.

The completion of economic reform which has as its basis complete cost-accounting and self-financing of the main businesses clearly requires a proliferation of horizontal ties, with organizational integration of management among businesses and within the territory. The reorganization of production through creation of enterprises such as: those independent of government departments, socialist companies, inter-republican and inter-business, amalgamations, joint ventures with foreign firms, consortia, and other progressive forms of business organization is to be the direction taken by the re-organization of the economic activity in the republics.

¹ V.I. Lenin, *Collected Works*, Vol. 36, pp. 151-152 (in Russian).

The break with the branch (departmental) principle which worked by administrative subordination of businesses, makes possible the economic independence of the union and the autonomous republics, thereby creating normal and legal relations between local authorities and businesses.

Regional economic management must not be established simply by a switch-over of administrative powers from one level to another - from the union level to the republican or local. In practice it means the substitution of the departmental administrative system by an analogous regional system.

Interrelations between businesses and local management must not be on the basis of administrative subordination but rather on the basis of the legislation determining the participation of the enterprises in forming the financial foundation of the republics and regions, and in using of natural and labor resources and the social infrastructure. The union, autonomous republics and other national-territorial formations must be granted maximum independence in the organization of social and economic life in order to develop the cultures of our peoples. It is important to ensure a social orientation of productive and economic activities, and to raise to prominence the economic significance of environmental protection and the wise use of resources.

Taking into consideration these and other conditions we are implementing the organic combination of the interests of labor collectives and the interests of the regions, with the inter-connection and inter-dependence of the application of cost-accounting principles in the activities of enterprises and on the territorial scale.

3. The Fundamentals and Methods of Regional Cost-Accounting

Today regional cost-accounting is becoming one of the important economic methods available for management of the national economy.

In the process of reforming the political system, moving to the rule-of-law state and restructuring the organization of management, the rights of local and republican Soviets are expanding, with their material basis being consolidated. This enables them to make a real contribution to development of every territory, and of the country as a whole. The Soviets won't be able to act as the political basis of our state unless they enjoy economic power. On the other hand, considerable powers which previously belonged to central government are being devolved to them. All necessary measures are being taken legally to consolidate the clearly distinguished functions and rights of the union, republican and local managements.

A principle for distinguishing the spheres of the activities and functions proper to the union, from those proper to the republics must arise from the concept that the independence of the union republics and their responsibility

for meeting various needs of the population should be considerably broadened. These needs include housing, consumer goods, service industries, social and welfare provision. That means that the material and technical basis of the consumer sector of the economy must be managed directly by the republics, that is, we must transfer businesses of agro-industrial type, light industry, elements of the construction industry, the services and the production of consumer goods. Projects relating to the means of production of regional importance and inter-branch enterprises must be managed by republican and local government. Administration of housing facilities and public utilities, local transport, health care, education and other establishments servicing the population are to be subordinated to the regions.

Only the functions which stem from the organization of the All-Union division of labor should be maintained at the national level. The prime influence of central government in solving these problems should be the placing of state orders and the planning of major investment, scientific and technological programmes, which are important for more than one union republic.

The following examples illustrate the prospects opened up for raising efficiency of the national economy.

The excessive centralization of the management of the economy, and the dominating role of the departments have led to the current situation that republican industry accounts for less than 5 percent of total production. The republics were in charge of only one fifth of the state centralized capital investments.

According to preliminary estimates republican industry will produce approximately 80 percent of the total volume of consumer goods. In general the share of the republican industry will increase 8-10 fold while in the Baltic republics, Central Asia and Moldavia it will comprise 60-75 percent of the total industrial production. The share of the republics in state centralized capital investments will increase 1.5-2 fold.

At the All-Union level, management in the union republics uses, primarily, economic methods. Reducing the number of administrative layers, simplifying the management of enlarged business, changing to ministries of a new style must all be functionally correlated with restructuring the management of the economy of the republics. The switch-over to new forms of management must not lead to excessive independence of the territorial economy. Administrative procedures must not be discarded only to be introduced at the republican level. These structures must not interfere with, but rather promote the organizational integration of major businesses irrespective of their departmental or territorial subordination. They can be formed on a branch, inter-branch and inter-territorial basis reflecting natural laws of the development of productive forces.

The precise pattern of cost-accounting, economic methods and forms of management may differ. Though the basic principles are the same, they may be

put into effect differently, according to the republic. The degree of socialization of production and the structure of the productive forces will influence the pattern. It is also necessary to take into account economic efficiency and social justice. Regional cost-accounting and the economic independence of the regions will be a vital component of the new, national economic mechanism. This mechanism embraces economic relations between: a) the local Soviets and all the business in that territory; b) the Soviets and local, republican and union managements; c) the Soviets of various regions as they may collaborate to solve general problems of the socio-economic development of the territories.

There is a basic distinction between cost-accounting as it applies to a business and as it applies to a territory. The gist of it is that cost-accounting is a feature of commodity production and in the proper sense of the word one can speak of cost-accounting only in relation to the commodity producer, an enterprise. Cost-accounting is a system of production relations which arises from the economic independence of a commodity producer. Earning money through the production and marketing of goods or services, refunding production costs (self-repayment), developing production (self-financing) all confer independence in taking management decisions connected with the use of the money earned (self-government).

As for the region and, even more so, for the Soviet of People's Deputies as management executives it would be absolutely wrong to consider that they have to "earn" their income in the same way as commodity producers. Of course, a region cannot be considered to be a commodity producer. A region is a complicated complex of independent producers and this is another reason why the Soviet of People's Deputies cannot be treated as a commodity producer. The activities of any organ of state power and management, whether a local Soviet or an All-Union ministry, cannot be considered as commercial, as requiring payment for the management services they provide. In this respect it is not correct to speak of pure territorial cost-accounting or cost-accounting of a ministry.

One cannot, of course, deny that territorial governments might carry out commercial activities, perhaps earning money, by leasing their property or investing in joint-stock companies, etc. But commercial activities do not define the economic rights of the Soviets of People's Deputies as organs of state power.

Other production relations differ qualitatively from the relations between commodity producers and these define the incomes of the Soviets of People's Deputies. Deriving profits from the resources belonging to society is a realization of socialist property, the sovereign owner of which is the government of the people as a whole. That is the key distinction between territorial cost-accounting and enterprise cost-accounting.

Cost-accounting relations between the territorial economy and enterprises must be based on the following fundamental principles: reimbursement, with

the relations between parties being based on an equivalent exchange; mutual benefit of transactions between the region and enterprises; responsibility of the transactors for any breach of contract. The change to that system must not precede, but follow or take place simultaneously with the introduction of real enterprise cost-accounting.

The use of new principles in forming republican and local budgets is of basic importance. In earlier periods the budget was made up of expenses envisaged, to cover which the necessary means including subsidies were produced. After the switch-over to self-financing the budgeting of the republics, cities, and districts will be carried out on the basis of the amount of the money earned by this or that region. At the initial stage subsidies can also be used.

The income of the union republics will arise from: the profits of the subordinated enterprises excluding that part transferred to the union budget; the payments for land, water, labor resources; state taxes paid by the population; all local taxes and dues; export profits. A union republic plans and balances its budget independently using such economic levers as prices and credits.

Not only the business which are subordinated to the republic will contribute to the budget, but also other enterprises located in the territory and subordinated to ministries or All-Union companies, associations, amalgamations. An enterprise owned by a union, located in a republic and using its labor and natural resources must participate in financing its social and productive infrastructure. Contributions of the enterprises into republican budgets (tax from profits), payments for natural and labor resources, will make up a considerable part of the income of the republics. The residents of a republic irrespective of the nature and remuneration of their work must enjoy all the social benefits created on its territory.

All kinds of activities should be assured of financial support from the budget of their corresponding Soviet, and of reimbursement of the costs incurred by: a) meeting the needs of the population (material, spiritual, social); b) ensuring regional conditions for an effective operation of all the enterprises in the region (production, supplies, infrastructure, etc.); c) preserving historical and cultural monuments; d) maintaining the quality of the environment.

Effective inter-regional relations are important for the applying of cost-accounting principles and creating economic independence of the republics. In the framework of the development of the All-Union market the terms of economic exchange between enterprises and organizations as well as between the republics must be determined on a contractual basis. Because of uneven development and the necessity of a structural reconstruction of the economy we have to face the fact that some regions will lag behind, and advanced republics should render voluntary assistance. All republics participate in creating an All-Union fund for supporting underdeveloped regions as well as those which are victims of natural disasters, or which are developing new territories.

According to official statistics, only two out of the fifteen union republics have a favorable balance of the trade in inter-republican commodity exchange. The use of one or two indexes in assessing such complicated processes does not reflect the real system of economic interrelations between the republics and may lead to incorrect conclusions. There are various proposals as to the methods of calculations, but no uniform approach has been worked out so far. The assessment of imports and exports of goods must, of course, take into consideration various price proportions and changes, correlations between the exchange of domestic and foreign-made goods, the volume of export-import operations and other factors.

One of the characteristic features of economic independence of a republic could be, for instance, the correlation between the produced and the disbursed national income. Using such an index makes obvious the degree of the utilization of domestic resources for socio-economic development. But one cannot disregard the justified redistribution of the national income between the union republics for the purposes of stable and balanced development. This makes calculations of a correlation between the produced and the disbursed national income not fully correct. Besides, we should also take into special account the redistribution of funds in connection with local features of the investment policy and economy in the republics and in the interests of the country as a whole, as well as the need to render international assistance (for instance, in connection with the earthquake in Armenia, the catastrophe at the Chernobyl atomic power plant in the Ukraine, etc.).

Under the conditions of the socialist economic system an important task of the union organs is to help the republics to combine their efforts and resources in bilateral or multilateral projects. When necessary, inter-republican commissions on economic, scientific and technological and cultural cooperation should be established. It should also be taken into account at the same time that the establishment and organization of mutually beneficial inter-regional links is directly dependent on the solution of such key problems of the economic reform as the development of commodity and money relations, wholesale trade, and the formation of a united union socialist market. The strengthening economic independence of the republics, the growth of their national-economic potential, and the growth of their well-being are inseparable from the process of deepening specialization, economic integration, and build-up of their common scientific and technological potential.

The Supreme Soviet of the USSR has granted economic independence on the principle of cost-accounting to Lithuania, Latvia and Estonia. These principles mean a considerable broadening of the republics' authority in their finance and crediting activities, in taxation, price setting, and in using their incomes. Similar principles will become the foundation for the development of economic independence of other union republics as well. The very notion of

economic and political sovereignty of a union republic is becoming real and full-blooded. Going beyond the framework of the economy proper, the switch-over to these principles opens up vistas for considerable progress in all aspects of life, for further development of democracy, and for increasing the well-being of the population of the republics.