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## Organization and Management in the Soviet Economy: The Ceaseless Search for Panaceas

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### **Introduction**

Over the past decade, the USSR has been engaged in an effort, unprecedented in scope and intensity, to improve organization, management, and incentives in the economy. Most of the measures adopted stem directly from the program of reform outlined by Kosygin in 1965; other approaches, such as the effort to computerize everything computerizable, are ancillary to it. The effort as a whole is aimed at raising economic efficiency as measured by labor and capital productivity and improving the quality and mix of output.

The wide-ranging approaches may be conveniently grouped under five rubrics: (1) planning; (2) organization; (3) incentives, including those for improving quality of products; (4) computerization; and (5) miscellaneous programs. The first sections of this paper (1) review developments in each area over the past decade, with particular attention to changes during 1973-77, and (2) indicate the apparent future directions as reflected in the Directives for the 10th Five-Year Plan (1976-80) and the general literature.<sup>1\*</sup> Final sections assess the success of the overall program in achieving its objectives up to now, its likely effects in the near term, and the prospects for effective reforms in the longer term.

### **Developments During 1965-77**

#### **Planning**

Kosygin's program called for implementation of his economic reforms strictly within a framework of centralized planning, which was, however, to be improved in fundamental ways. First, the role of long-term plans was to be upgraded. To this end, the Five-Year Plan (FYP) was made legally binding

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\* For a discussion and list of source references, see the appendix.

and was to be a directive for enterprises. Annual plans are now drawn up taking into account the annual breakdowns set in FYPs, and incentive arrangements are supposed to allow for the degree of progress toward meeting FYP targets.

In addition, FYPs are being formulated within the framework of a 15-Year Plan (1976-90). During 1970-72, a great deal of work was set in motion to draft this plan. However, the effort was delayed by bureaucratic wrangling over planning methodology and probably also by the sheer magnitude of the task and the difficulty in getting agreement on long-range forecasts. Meanwhile, the Academy of Sciences and the State Committee for New Technology have drafted a "Comprehensive Program of Scientific-Technical Developments and Socioeconomic Consequences, 1976-90" with some 200 targets.<sup>2</sup> However, the draft of the overall 15-Year Plan is still in process of formulation.<sup>3</sup> At the 25th Congress of the Communist Party of the Soviet Union (CPSU) in 1976, Brezhnev again stressed the importance of long-term plans and the urgent need to improve their quality.

Second, the "scientific basis" for planning was to be radically upgraded. In practice, this has meant the more extensive use of mathematical forecasting models, input-output data, and optimizing techniques in planning. Although the traditional plan-formulation process remains intact, these approaches seem to be used extensively (notably in the economic research institutes) in preliminary planning work, in testing the consistency and balance of various kinds of plans, in calculating plan variants, and in making decisions about location, distribution, and mix of product in particular sectors. The "Comprehensive Program" for 1976-90, which used these techniques, aided the drafting of the 10th FYP, thus allegedly raising its "scientific basis."

Third, the system of plan indicators was to be directed more specifically toward solving problems of efficiency and product quality. As a result, an exhaustive discussion has taken place over the "correct" way to measure the efficiency of labor, capital, materials, new technology, computerized management systems, and much else. While the arguments have raged, the State Planning Committee (Gosplan) has introduced many new indicators of efficiency and product quality in national and enterprise plans. The national plan for 1976-80 and the annual plan for 1977 include over 500 such targets, and reporting is required in respect to their fulfillment.<sup>4</sup> At present, Gosplan is drafting proposals for further revision of these plan indicators to stress the use of long-term norms. In particular, a reorganization of the planning of wages and investment on the basis of such norms is under active consideration.

Fourth, some planning authority was to be delegated to the enterprise level, with the aim of spurring initiative on the periphery. To accomplish this

objective, the number of directive targets set centrally for enterprises was initially cut sharply as part of the economic reform. However, all important targets were retained; in the process of implementing the reforms, new ones (labor productivity, product quality, contract fulfillment) were added through formal changes in the rules; and in practice the ministries have set many others.

Finally, to the end of "improving planning," an extensive discussion has taken place concerning so-called "complex" planning, a "system approach" to planning, and the "program-goals" approach in planning. The discussion seems to concern mainly the planning of regional complexes (such as Baikal-Amur) and the planning of integrated programs aimed at fostering scientific-technical progress (such as mechanization of labor). Judging from a barrage of discussion and criticism,<sup>5</sup> satisfactory integration of national and regional planning remains an elusive goal. Despite the increased role given to republic and local planning agencies, regional planning seems to amount mostly to adding up the relevant sectoral plans, which continue to have priority. Much work was done by economists and planners during the Ninth FYP (1971-75) to develop "complex" approaches and efficiency calculations for various kinds of regional and functional complexes. The 10th FYP includes a number of such "complex programs"—for fuel and energy, building materials, development of agriculture and associated branches, the non-Black Soil area, and Eastern regional raw materials. The Plan Directives call for further "improvements" in plan formulation via use of the program goals and "comprehensive" approaches. A revised set of methodological instructions to accomplish these and other improvements in plan making is to be published in 1978.<sup>6</sup>

**Prospects**

Despite the revival of some discussion of economic reform in the Party press in 1976, the likelihood of radical changes in the established system of economic organization and management is remote at present. In respect to organization, discussions are taking place on the desirability of creating supraministries of some kind to manage groups of related activities. No concrete steps have yet been taken in this direction, and the whole idea is likely to encounter strong bureaucratic opposition. The scheme is reminiscent of Khrushchev's piling up of coordinating bodies and, even if implemented, is likely to do more harm than good.

The leadership seems fully committed to pushing the merger of producing units into ever-larger entities. In the industrial sector, this movement is in full swing and is scheduled to be completed by 1980. It is unlikely that large gains in efficiency will come from this source. The initiative and independence of individual producing units will be severely restricted in favor of greater power for the production associations. What is more important, it seems clear that the associations and their components will be operating within an essentially unchanged economic environment. Hence, their behavior is likely to resemble that of their predecessor independent enterprises. Moreover, the associations are likely to receive detailed and tight supervision from the industrial associations, as well as the ministries, which are ultimately responsible for the performance of their sectors and whose powers are actually being strengthened. The ministries are the organizations that administer the system of rewards and penalties for the associations. In agriculture, the giant collective and state farms, which are coming to resemble one another more and more, will remain the basic form of organization. Sizable extension of the private sector in agriculture and services does not seem likely, even though present policy shows more tolerance toward this activity.

No fundamental reform of economic incentives is currently under active discussion. At the 25th Party Congress, Brezhnev stressed the importance of rewarding enterprises and workers for "final" (net) results, rather than gross output, and experiments to test such measures are continuing. Although further modifications of success criteria are likely, the benefits will be inconsequential, as long as incentives remain tied to fulfilling plans for whatever target or targets. The cutting of this Gordian knot is not being seriously advocated, at least in the open press. Because rewards are linked directly to fulfilling plan targets, variously defined, the relationships among units in the entire chain of suppliers, shippers, manufacturers, and distributors are administrative, rather than economic, in nature. The behavior of each unit is oriented toward meeting its own particular plan targets, rather than satisfying its clients. This perverse effect of incentives is reinforced by the fact that each link also is aware that its clients lack alternative suppliers, shippers, or customers—there is no competition.

In the Directives for the 10th FYP, the present conservative leadership has opted for continuance of the status quo. Although experimentation with organizational forms and incentive schemes is continuing, they do not entail any essential modification of the traditional system. Since the Soviet Union's persistent difficulties with efficiency, technical progress, and product quality are rooted in the nature of the bureau-administered economic system itself, these problems are likely to persist and to defy solution through modification of organizational forms and administrative rules. These chronic difficulties will be reflected in a continuing sluggish growth of productivity.

In the long run, radical economic reforms involving the introduction of market arrangements in some form might help alleviate these chronic problems and raise the rate of productivity growth. To be effective, such reforms would have to include abolition of directive plans for enterprises, replacing the rationing of most producer goods with markets, freeing most prices, and introduction of profit-based incentives. Transition to such a "market socialism" would surely cause serious economic disruptions in the short run, including inflation and unemployment. Moreover, such a move would disturb established balances in both political and economic power. It would be strongly opposed by the state bureaucracy, where jobs, careers, and political influence would be at stake, as well as by the Party bureaucracy, whose control over economic decisionmaking and resource allocation would be threatened. Faced with uncertain long-run benefits, probable high short-run costs, and certain strong opposition, a Soviet leadership of any foreseeable composition would probably opt against taking such risks. The political leadership probably would consider such a radical move, only if faced with a severe economic crisis, such as stagnating or declining production or serious popular unrest. As long as present organizational arrangements continue to yield modest, even if declining, rates of growth, the leadership will probably prefer to put up with the familiar deficiencies of the systems, rather than to launch major changes with unknown payoffs and known political risks.