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"WORKERS DEMOCRACY AND THE
SOVIET ECONOMY"

by Joseph Seymour, April 1973

This 16-year-old draft is prescient, particularly regarding, but by no means limited to, the economic sources of antagonism between the deformed workers states and corresponding tendencies toward disintegration.

So the military brigade to Afghanistan turns out to be a political brigade to East Germany. --J.R. 06 December 1989

discussion material

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WORKERS DEMOCRACY AND THE SOVIET ECONOMY

"Only the interaction of three elements, of state planning, of the market and of Soviet democracy can provide the country with proper leadership in the transitional epoch."

--Trotsky (Opposition Bulletin #5, 1932)

During the 1950's, the American ruling class regarded the rapid growth of the Soviet economy with some alarm. Indeed, a major issue in Kennedy's 1960 campaign was to catch up with the galloping Soviet growth rate. Khrushchev's conception of the abolition of capitalism through peaceful economic competition was an example of bureaucratic utopianism, but nonetheless the U.S. ruling class regarded the unquestionable dynamism of the Soviet economy as a key element of its political-military threat. Today, the attitude of the American ruling class to the Soviet economy seems to have changed 180°. Soviet economic growth is welcomed in the short run as a source of export demand and as the long-run motive force for the inevitable bourgeoisification of Soviet society. While this widespread belief in the imminent capitulation of Soviet society to Western capitalism is mainly wishful thinking (i.e., bourgeois false consciousness), it also reflects the fact that the Soviet economy has clearly lost its dynamism and has entered a time of troubles.

The changed attitude of the American bourgeoisie to the Soviet economy is only partly caused by changes in that economy. Rather it also reflects the general change that has occurred between U.S. imperialism and the Soviet-led bloc since the '50's. The decisive change was brought about by the Sino-Soviet split in the early '60's. The Sino-Soviet split convinced even the most backward bourgeois politicians that the Stalinist bureaucracies were nationally limited and would sacrifice the interests of Communism for national advantage. Bourgeois cracker-barrel philosophers, like Walter Lippmann, began prating about how "nationalism was, of course, stronger than Communism." The American ruling class was won to a policy of playing off the various Stalinist bureaucracies, including the Soviet, against one another. The resurgence of inter-imperialist rivalry in the late '60's - early '70's further contributed to the tendency of the American ruling class to look toward the Soviet Union for temporary alliances against other powers. Thus, the recent tripling of U.S.-Soviet trade is motivated as much by a desire to undermine the political advantages which Japan and the Common Market had through their high level of Soviet trade as it was by purely commercial gain.

The Growth Machine Falters

If the American ruling class no longer considers Soviet economic performance extraordinary, that is because it is now quite ordinary. Compared to one of the highest growth rates in the world in the '50's (10.8% a year) the Soviet growth rate fell sharply in the '60's to 6.5% (Slavic Review, April 1966, and U.N. Economic

Bulletin for Europe, 1970). This relatively poor performance was highlighted by two very bad years (1963 and 1972) when crop failures led to massive grain imports from the U.S. Soviet economic growth in the '60's was comparable to that of Gaullist France and substantially below that of Japan. With the sharp falling off of economic growth, Khrushchev's boast that the Soviet Union would overtake U.S. output by 1970 has become a positive embarrassment for the Brezhnev-Kosygin leadership and not the least of his sins that the present leadership holds against the ex-premier. Significantly, those U.S. economists concerned with such matters are now devoting themselves to figuring out when Japan will overtake the U.S. output.

The sharp decline in Soviet growth can be marked in 1958 with Khrushchev's major "reforms." Probably too much impact has been attached to Khrushchev's agricultural policies since his "hare-brained schemes" in this area were an easy target for the Brezhnev-Kosygin leadership. Nevertheless, Khrushchev's agricultural policies highlight this weak link of the Soviet economy and are a particularly flagrant example of how bureaucratic subjectivism sabotages the planned economy. Khrushchev began by abolishing the Machine Tractor Stations (MTS) through which Stalin had sought to control the collective farms by a monopoly on farm equipment. The MTS equipment were sold to the collectives at excessively high prices. In the belief that the collectives now had enough equipment, the bureaucracy actually cut back the production of farm implements. And then Khrushchev decided to change the crop and geographic pattern of Soviet agriculture overnight. Maize was to become the principal fodder crop and maize was planted in Northern climes where it doesn't grow very well. Then there was the expansion of wheat to the Siberian "virgin lands" where it doesn't rain very much, a project considered and rejected as unsound by the Czarist bureaucracy. And finally, Khrushchev waged war on private peasant plots on the classic Stalinist grounds that the less the peasants worked on their own plots, the more they would work on the collectives. What happened was that the more energetic peasants fled to the cities, creating a serious shortage of competent agricultural labor. As a result of all these factors, Soviet agricultural output barely kept pace with population growth from 1959 to 1962 and in 1963 fell below the 1958 level. Shortly thereafter, Khrushchev fell below his 1958 level.

While Khrushchev's agricultural policies received more publicity, Khrushchev's changes in industrial planning were probably more important. In 1958, Khrushchev introduced the most fundamental changes in economic planning since the onset of the First Five Year Plan. Administration by nationwide industrial division (the ministerial system - e.g., the Ministry of Machine Tools, of Tractors and Agricultural Equipment) was replaced by regional planning. Thus, by 1962, Khrushchev could say that the function of the State Planning Commission (Gosplan) was simply to "dove-tail" the various regional plans (Pravda, November 20, 1962). At one level, the change to regionalism represented a victory for the local party activists over the central planning hierarchy. (A similar conflict took place at about the same time in China, on the eve of the Great Leap Forward, with much more disastrous results.)

While regional planning economized on transport costs, the system was qualitatively inferior to the older ministerial system. Regionalism deprived the economy of the full advantages of a nationwide division of labor and the economies of scale associated with it. Inevitably, there was a duplication of small plants servicing the regions. The regional planning authorities quickly revealed tendencies toward autarchy and regional chauvinism. The Soviet press was replete with scandals of enterprises breaking supply contracts with enterprises outside their region in order to supply enterprises within it. To make matters worse, the local party cadre promiscuously interfered in the economic planning machinery. Regionalism was a major contributor to the fact that Soviet industrial growth in 1959-64 was two-thirds that of the 1950-58 period.

The weaknesses and failures of the Soviet economy in the early '60's were a major cause for Khrushchev's fall, and it was to be expected that the Brezhnev-Kosygin leadership would introduce major changes in economic policy. These major changes were introduced in 1965 and have largely defined the structure of Soviet economic planning through the present. On the agricultural front, Khrushchev's war against the private plot was reversed, peasant incomes were raised somewhat and a conservative agricultural policy was pursued, avoiding Khrushchev's technical-geographical gyrations. Regional planning was abolished and the older ministerial system restored pretty much intact. The most heralded changes increased the control of enterprise managers over both internal organization and output mix. The pricing system was changed to increase enterprise profits. Out of these profits, enterprises were expected to pay for working capital and investment resources for the first time (they had previously been centrally disbursed). At one level, Khrushchev's fall and Kosygin's elevation was a victory of the operational managers over the party activists.

The economy improved markedly from 1965-68. However, a bad year in 1969 indicated that the problems of the Soviet economy went much deeper than Khrushchev's "hare-brained schemes." In 1969, the planned output for such major industries as coal-mining, ferrous metals, chemicals, railroad equipment and agriculture was not realized. By 1969, the internal contradictions of the 1965 "reforms" manifested themselves: in particular the 1965 measures had partially de-centralized investment finance, while continuing the planned production of producer goods. Thus, investment demand soon outstripped the supply of investment resources and the economy was stuck with a large number of partially completed projects. Since 1969, the faulty planning of investment related to the 1965 "reforms" has been a major source of problems for the Soviet economy. Commenting on the tasks of the 1973 plan, Kosygin stated:

"The principal shortcomings in construction are the scattering of funds, protracted periods for the construction of projects and an inordinate increase in the amount of unfinished construction... The amount of unfinished construction rose from 24.5 billion rubles worth in 1961 to 61.4 billion rubles' worth in 1972.... The U.S.S.R. State Planning Committee and the ministries must reduce the number of new construction starts in the plan for 1973."

--Planovoye Khozyaistvo, Nov. 1972

The Soviet economy recovered strongly in 1970. However, the growth rate fell by a third to 6% in 1971 and fell again to 4% in 1972, a year as bad as 1963. Not only did agricultural output fall by 5%, but both industrial and housing construction fell significantly short of planned output. In addition, plan targets failed to be met for gas, machine tools, machine building for light industry, light industry, lumber and paper (Pravda, January 30, 1973).

The historically high rates of Soviet economic growth have two major bases. One is the investment of a large share of total output (around 30%) concentrated in machine tools, primary metallurgy and power. The second is a superb technical educational system producing perhaps the best-trained labor force, at all levels, in the world. The Soviet investment pattern and educational system continue as before, but the old formulas don't work so well. The increase in output per investment ruble and additional man hour is substantially below that realized in the 1950's. Three factors can explain this decline in general productivity - a marked decrease in labor morale, a fall in the rate of technical progress and a general decline in the efficiency of the planning apparatus. Changes in labor morale are hard to measure. However, it is significant that in 1970, a new, tough labor code was introduced which brought back such hard-Stalinist measures as Siberian exile for excessive absenteeism. Likewise, rates of technical progress are difficult to quantify. However, in 1970 a group of prominent Soviet physicists addressed an open letter to Kosygin claiming that the technical gap between the Soviet Union and the United States had widened in the past period. This document asserted:

"The gulf between the United States and us is all the greater in the newest and most revolutionary sectors of the economy. We are ahead of America in coal extraction, but behind in oil, gas and electric energy; we are ten years behind in chemicals and infinitely behind in computer technology... We simply live in another era.

--Le Monde, April 11, 1970

For the first time, Soviet economic literature is very concerned with plant obsolescence, a problem arising from the absence of any mechanism for systematically re-tooling plants under Soviet-style planning. Since the late '50's, a section of the bureaucracy has maintained that central planning, as it evolved under Stalin, has become a fundamental obstacle to economic growth and that some form of decentralization should be instituted. This economic debate (popularly and somewhat wrongly associated with professor Liberman) raged fiercely in the early '60's. The 1965 "reforms" and their apparent success quieted the economic controversy. However, with the severe economic problems since 1969, the question of fundamental economic policy is again shaking the bureaucracy. The next few years will no doubt be ones of major changes in Soviet economic policy. The first wave of these changes has already occurred with the recent announcement that the primary unit of economic administration is to be transferred from individual enterprises to multi-plant "corporations." No doubt the bureaucracy believes this will increase central control over investment and that the large and flexible "corporations"

will be more technically dynamic than the ultra-conservative plant managers. The "corporations" are half-way houses between the old Stalinist ministries and the relatively autonomous post-1965 enterprises. And there is no reason to believe that they will not combine the worst features of both. There is no reason to believe that the "corporation" managers will not act toward the central planning authority with the same selfish irresponsibility as the present enterprise managers. And there is no reason to believe that the "corporations" can enforce efficiency at the plant level any better than Stalin's ministries, Khrushchev's regional councils or any other higher administrative body. Even the Soviet bureaucracy must sense that their economic difficulties are far deeper than can be solved through endless changes in the structure of administration.

Economic Reform Versus Political Revolution

While impetus for the decentralization debate comes from the weaknesses and failures of the Soviet economy in the past decade and a half, the debate itself reflects a conflict between the two principal economic divisions making up the Soviet bureaucracy - the operational managers and the planning and political hierarchy above them. The political and administrative hierarchy want the output pattern that they decide on to be produced with the minimum of resource expenditure. The operational managers try to meet the formal plan requirements with as little real effort as possible. Thus, the operational managers consciously and systematically sacrifice both the spirit of the plan and general social welfare whenever these conflict with bureaucratic standards of success. This manifests itself primarily in understating true plant capacity so as to be given easily fulfillable plans; in grabbing as much investment resources as possible (which until 1965 were financed through a non-repayable state grant) regardless of relative need; and in sacrificing quality and assortment to meet formal output targets.

It cannot be emphasized enough that the purpose of the Liberman proposals and similar measures are designed to get around the careerist dishonesty of the enterprise managers - a dishonesty which all spokesmen for the Soviet bureaucracy regard as inherent in the nature of things. This is how Liberman motivated his famous proposals:

"How is it possible to entrust the enterprises with the drafting of plans if all their calculations are, as a rule, far lower than their true potentials?...In order to achieve a high level of profitability, an enterprise must strive to place the fullest load on equipment and capacity....This means it will be in the enterprises' interests to increase the number of shifts and the load on existing equipment, to stop asking for excess capital investments and machine tools and creating unneeded reserves. While all these surpluses now serve the enterprises as almost a free reserve, under the new system they would 'drain the pockets' by cutting down the size of incentive payments. Thus, the

'struggle' waged by an enterprise to obtain lower plan figures would disappear."

--Pravda, September 9, 1962

This is how Kosygin motivated the 1965 "reforms":

"At present no charge is made for financing capital investments from the state budget. Enterprise managers are not much concerned with the cost of the reproduction of the enterprise or how effective the additional capital investment will be, because their enterprises are not obliged to refund the sums granted to them."

--New Methods of Economic Management in the USSR,
Moscow

No less an authority than Khrushchev testified to the incorrigibility of the operational managers: "No matter how we attempt to influence the MTS director, no matter what we tell him - it does not always get through to him. Apparently, reprimands are not enough." (Cited in New Directions in the Soviet Economy, Washington, D.C.)

The objective dynamic behind the decentralization controversy can be reduced to the following basic problem: economic planning under bureaucratic rule means the enterprise managers necessarily squander resources; attempts to correct this by detailed instructions from above result in internally inconsistent plans which are, therefore, impossible to fulfill. There is, therefore, a strong tendency to want to subject the operational managers to the discipline of the market.

What we as Trotskyists have against decentralization within the general framework of Stalinist rule is not primarily concerned with economic efficiency in the narrow sense, but its effect on the social character of the bureaucracy. The factory manager of an autonomous nationalized enterprise operates under conditions similar to that of a capitalist manager. His personal income and social power depend on his ability to successfully operate on the market - to buy and produce cheap and sell dear. He will soon identify with the accumulated wealth of his enterprise and oppose all policies which restrict the growth of that wealth. He will strive for monopolistic advantage and undermine the state control of foreign trade to acquire advanced technology and foreign capital. The long-term economic effects of "market socialism" under conditions of bureaucratic rule are well developed in Yugoslavia. While in itself not "creeping capitalism" it engenders the development of pro-restorationist appetites among sections of the bureaucracy.

Thus, the "great economic debate" offers the Soviet workers two intolerable choices. The status quo means a parasitic bureaucracy making genuinely arbitrary and wasteful decisions. Decentralization, whatever improvements it might bring in micro-economic efficiency, means subjecting the economy to the overall anarchy of the market and strengthening capitalist-restorationist tendencies within the bureaucracy. For that reason, we Trotskyists do not

take sides in the conflict between the decentralizers and the defenders of the status quo. Bureaucratic rigidity and anarchy, in varying mix, are an inevitable consequence of Stalinist rule; there can be no solution without the transcendence of the bureaucratic framework through workers political revolution. Workers' democracy is an absolutely essential condition for a healthy Soviet planned economy both in the sense of short-term efficiency and rationality and in its long-term social effects.

It would be workerist utopianism to assert that the restoration of Soviet democracy would solve all economic problems. The fundamental problem facing any isolated Soviet workers state is that of scarcity, which provided the objective basis for the triumph of bureaucratic rule in the first place. Scarcity means that any economic policy will produce some conflict and discontent. In addition to the fundamental problem of scarcity, there are practical limits to information-gathering even in a rationally planned economy. Moreover, economic projections feed into a necessarily uncertain future. Thus, there cannot be a perfect economic plan or policy in the sense that, with the benefit of hindsight, better decisions could always have been made. Workers democracy is necessary to insure labor morale, prevent bureaucratic misuse of resources and check tendencies toward capitalist restoration.

Consumption and Planning

Over and above the overall limits imposed by scarcity, it is clear the Soviet planning system does not meet the consumption needs of the Soviet people. The Soviet economy is characterized, on the one hand, by widespread shortages of certain goods and black marketeering, and on the other hand, Soviet stores are stocked with chronically shoddy merchandise which can't be sold at giveaway prices. Soviet planning is incapable of producing quality consumer goods in the output pattern desired by the Soviet masses. Among other reasons for this, the primitive state of Soviet agriculture means large annual fluctuations in urban worker expenditure for food. Whether food expenditure is 30 or 40% of the typical Soviet budget makes a big difference in the demand for other consumer goods. Given the present level of Soviet planning efficiency and general productivity, the output pattern of consumer goods should be governed by changing market demand and not long-term, detailed planning. Long-term planning should be restricted to investment, military expenditures, housing, schools, hospitals and the like.

It should be emphasized that the general pattern of consumer goods production is determined not by demand conditions, but by the structure of equipment in the consumer goods industries - that is, planned investment. One cannot bake bread with a power loom or weave cotton with an oven. Over and above the planning of consumer good output inherent in investment planning, it is both unnecessary and wasteful to try to anticipate the amount of raincoats sold in Kiev or lightbulbs in Leningrad a year or two in advance. That kind of thing should be left to the market.

Current consumer goods production should be governed by the market, while investment in the consumer goods industries should be planned. This division is economically rational since changes in demand are concentrated within rather than between general consumer goods groups. The demand for pots as against pans or for shirts as against sweaters fluctuates far more than the demand for clothing as against kitchen utensils.

Allowing the output pattern of consumer goods to be governed by market demand does not mean increasing the autonomy of individual enterprises. Increasing the role of market demand has been consistently and wrongly identified in Soviet economic literature with increasing the independence of enterprise managers. This is because the "economic reform debate" is not really about how to best use resources to meet the needs of the Soviet people, but is a conflict over power over the economy between two sections of the bureaucracy. What is wrong with Soviet consumer goods production is not that it is centrally controlled, but that it is inflexible and insensitive to the desires of the Soviet people. Even under conditions of workers' self-management, communists would not want production to be determined through the interaction of individual enterprises and final consumers - that is, through atomistic competition. Atomistic competition creates vested interests, leads to monopolistic abuses and most important, generates a narrow, commercial outlook on the part of the workers.

Consumer goods output should be controlled by a central distributive board standing between the enterprises and final consumers and representing the general interests of the workers state. The central distributive board should operate on the following principles. The relevant factories should be ordered to produce particular goods up to the point where they can be sold at a price equal to their cost of production. If, at a price equal to the cost of production, there is an evident shortage, the distributive board should order the factories to increase their runs. If, at a price equal to the cost of production, there are unsold stocks, the distributive board should order production runs cut back. If changing production runs is relatively time-consuming, prices can be temporarily raised or lowered from production cost to clear the market. Among other advantages, a central distributive board is in a better position to project future demand and, particularly, supply conditions (e.g., the opening of a new factory, a new import agreement) than isolated enterprises and their customers.

If consumer goods output is to be governed by changing market demand, the same principle must be extended to intermediate goods. The existing supply system is one of the horrors of Soviet economic planning. The supply plan consists of literally millions of annual contracts between individual enterprises. The very complexity of the system guarantees that the supply plan is never completely fulfilled. In fact, one of the main talents of a successful Soviet enterprise manager is seeing that his planned supplies are really delivered. The supply system is a major source of corruption within the Soviet bureaucracy, as enterprise

managers resort to barter deals, political pull and outright bribery to get their supplies delivered on schedule. An entire illegal profession, called pushers, has arisen to ensure that the planned deliveries are, in fact, delivered. The contract supply system should be scrapped and replaced with a central supply board, operating on principles similar to that of the central distributive board. The supply board should order the relevant enterprises to produce runs of certain model trying to meet the changing supply requests of other enterprises. In general, the prices charged for intermediate goods should equal their cost of production, although this rule can be relaxed in the face of severe shortages or surpluses.

A democratic workers state should seek to transfer the distribution of consumer goods from state retailing to consumer cooperatives. These consumer cooperatives would be the main customers of the central distributive board. Apart from their political value in drawing the masses into economic management, consumer cooperatives are necessary to eliminate the Stalinist practice of sacrificing quality and choice to maximize output quantities. The impressive Soviet output statistics are partly vitiated by the poor quality of goods. Soviet managers regularly exploit the letter of the plan to maximize statistics. Thus, if output is measured in units, only the smallest models are produced. If output is measured in weight, unnecessarily heavy objects are produced. (Silverware that can double as barbells is a standard item in Soviet households.) The factory managers and their superiors are well aware that this practice goes against the real interests of the Soviet masses. Kosygin put the matter quite bluntly:

"As seen from experience, the index of overall volume of output does not stimulate the enterprises to produce goods which are really needed by the national economy and the public and in many cases tends to limit the improvement in the assortment of goods produced and their quality. Not infrequently, our enterprises are producing low-quality goods which the consumer does not want and which therefore remain unsold."

--New Methods of Economic Management in the USSR,
Moscow

However, it is precisely the nature of bureaucratic rule that it is insulated from the pressure of masses and that economic functionaries are not rewarded on the basis of how well they serve the needs of the Soviet people, but by self-determined and arbitrary "success" standards. The combination of workers control in the enterprises and consumer cooperation on the distribution side offers the best possibility of reversing the deeply ingrained Stalinist practice of producing not what the Soviet people desire, but what will make impressive output statistics.

Prices and the Financing of State Expenditure

Under both capitalism and the existing Soviet economy, there

is an intimate relationship between the pricing of consumer goods and the financing of investment and state expenditure. Under capitalism, investment is financed by adding to the labor costs of production a mark-up based on a percentage of capital assets (i.e., the rate of profit). State expenditures are financed primarily by taxes, which (particularly outside the United States) are mainly sales taxes.

In the Soviet Union, investment and all other forms of state expenditure are primarily financed through sales ("turnover") taxes which are applied at different rates for different goods. Before 1965, a small share of state revenue came from taxes on enterprise profits. These profits were generated by adding a small mark-up on labor and raw material costs to the selling price at different rates for each product. After 1965, a larger share of state revenue came from enterprise profit which was now produced by adding a percentage mark-up on capital assets to get the selling price, again at different rates for different products. In addition, after 1965, enterprises were permitted to invest their after-tax profits at their own discretion.

An essential requirement of workers democracy is that economic policy be sufficiently clear that the masses can understand it and can weigh the real gains and sacrifices involved in alternative policies. By contrast, the Soviet price-tax finance system is so incredibly complex and arbitrary that it manages to confuse the bureaucracy itself and its ideologues. A rigid separation should be made between financing the reproduction of current consumer goods and the financing of investment, social services, the military and other forms of state expenditure. Consumer goods should sell at their cost of production (labor and raw material cost, replacement of used up overhead expenses - in Marxian terminology, constant plus variable capital). All forms of state expenditure should be financed by an income tax. Under this system, the Soviet people would know, for the first time, what the goods they are buying really cost and how much of their output and income are going to investment, military expenditures, education and the like. The system would have the further advantage of concentrating all investment finance in the state budget.

Investment

In a truly Soviet workers state, one of the most conflict-ridden decisions will be the division of output between current consumption and investment (i.e., the expansion of the means of production). In general, the vanguard party will desire a higher rate of investment than the mass of the workers. This is because a high rate of economic growth is needed not only for the future consumption of the workers, but because of the leading role of the Soviet workers state in the struggle for socialism both nationally and internationally. In particular, a high rate of growth is needed to absorb the peasant population into the industrial labor force and to provide the industrial-military muscle for an assertive foreign policy against the imperialist

powers. However, an appropriately high rate of investment should not be imposed through bureaucratic fiat, but should be determined through democratic political struggle. The central soviet should be presented with alternative long-term plans relating different rates of investment, divided in different proportions between consumer and producer goods, to different growth rates of output and consumption. The basic plan should be determined by debate and democratic decision.

The division of output between personal and collective consumption (e.g., health, education), the military and investment in producer and consumers provide the basic pattern for the plan. The allocation of investment among the major industries is determined through projection. Once the overall increase in per capita consumption has been decided, the future pattern of consumer demand can be approximated and this determines the allocation of investment to the major consumer goods industries (e.g., clothing, household appliances, furniture). Once the future investment rates are known, the pattern of machine tool production can be determined through technical projection. Once the pattern of final investment goods is determined, the intermediate (e.g., steel, cement, plastics) can be approximated through backward linkages. A final internally consistent plan can then be achieved through successive iteration.

The rate of investment and its division between producer and consumer goods is essentially a political decision. The allocation of investment between the major industry groups is largely a matter of projection. The further allocation of investment between specific projects and enterprises is a problem which has long plagued Soviet economic planning. In general, the more means of production per worker, the higher will be labor productivity and the lower the current cost of production. However, since investment resources are limited, it is not possible for every project to receive as much means of production as they could technically absorb. There is a necessary trade-off between economizing of limited investment resources and decreasing current costs (i.e., increasing labor productivity). In Marxian terminology, how is the technical organic composition of capital for particular investments determined in a collectivized, planned economy?

Before 1965, the Soviet bureaucracy did this through arbitrary administrative methods. Investment projects were ordered in priority. High priority projects had almost unlimited access to investment finance and their managers grabbed as much resources as they could possibly justify. Therefore, the investment plan was never fully realized as low priority projects, overwhelmingly concentrated in consumer goods and services, were never undertaken for lack of investment to finance. In 1965, the bureaucracy capitulated to managerial selfishness. Investment funds coming from the central budget or the banks now have to be paid back from enterprise profits with a small rate of interest. However, since the level of various enterprises' profits are generated by arbitrarily determined prices, the system substitutes one form of bureaucratized

anarchy for another. In addition, a growing share of total investment is now at the enterprises' discretion and, therefore, unplanned. This has led to the financial demand for investment outstripping actual producer goods leading to an explosion in the number of unfinished projects.

The two bases of a planned economy are the monopoly of foreign trade and central control of investment. A Soviet workers government must re-centralize all investment finance and distribute it between individual enterprises on uniform and rational principles. Particular projects and enterprises should receive investment finance up to the point where the reduction in current production cost per investment ruble is equal for all investments. This is the analogue, under economic planning, of the capitalist principle that investment should be carried to the point where the rate of profit is equal for all lines of production. It is a rational method of allocating limited investment resources.

Incredible as it may appear, there is no systematic method for replacing the equipment in existing plants (i.e., re-tooling) in Soviet planning. Historically, investment has been overwhelmingly concentrated in brand new construction. Until the late '50's, investment was large relative to the existing plant capacity, so that re-tooling didn't appear to be a major problem. However, in recent years the growth of obsolete plant has been a major weakness in the Soviet economy. To quote Kosygin:

"Under the existing system, capital investments are almost exclusively allocated according to the central plan, and in the main are devoted to the construction of new enterprises. In many cases operating enterprises do not have the necessary means at their disposal and thus cannot replace obsolete equipment quickly enough."

--New Methods of Economic Management in the USSR, Moscow

It is worth noting that the weight of subsidizing obsolete enterprises was the primary cause of the decline in production in Czechoslovakia which toppled the old-line Stalinist Novotny and brought to power the "liberal" "reform" Dubcek regime.

Not only doesn't the Soviet Union have any positive mechanism for systematic re-tooling, but there are definite obstacles to it. Enterprise managers are rewarded almost solely on the basis of meeting the current output plan. Since re-tooling usually involves some disruption of current production, managers are understandably resistant to it. In addition, re-tooling would mean the upward revision of plan targets, which is the last thing in the world any Soviet enterprise manager wants. Systematic re-tooling must be integrated into the central investment plan. In a healthy workers state, all factories should be subject to a technological overhaul. If necessary, the current plan would be modified or suspended and the enterprise staff and workers employed elsewhere temporarily. If the re-tooling creates redundant labor, the workers must be guaranteed comparable employment elsewhere.

Wages

A central element of Stalinist rule is a highly inegalitarian wage structure with grossly high incomes going to the bureaucracy itself. Since 1931, all official statements on wage policy began with a denunciation of "petty bourgeois egalitarianism" which, during Stalin's day, was attributed to "Trotskyites, Zinovievites, Bukharinites and other enemies of the people." In 1934, the average income of the top 10% of Soviet wage and salary earners was eight times that of the bottom 10%. Following the post-1953 reforms, wage differences were narrowed somewhat, so that in 1959 the average income of the top 10% of Soviet wage and salary earners was six times as much as the bottom 10%. (Yanowitch, Slavic Review, Dec. 1963). In 1966 (the latest year figures on Soviet income distribution are available), the income of the top 10% was about 4½ times that of the bottom 10%. (Wiles and Markowski, Soviet Studies, Apr. 1971). The basic pattern of Soviet wages is indicated by the fact, in 1965, the salary of a secretary was 60 rubles a month and that of the director of a scientific research institute was 600 rubles a month. (Yanowitch, loc. cit.) Bureaucrats and technicians receive the highest incomes in the Soviet Union, which are a multiple of most workers' incomes.

Under a revolutionary workers government, wages should be as egalitarian as possible, while maintaining those wage differences necessary to transfer labor between different occupations, industries and regions. Some wage differential is necessary to induce workers to take jobs which are particularly arduous, unpleasant or dangerous or which require long training periods. If all wages were equal, jobs in short supply could only be filled through coercion. Until the achievement of socialism, occupations such as miners, long-haul truckers and tool-and-die makers much receive higher than average wages.

A great deal of nonsense has come from the Maoists and Fidelistas about "moral versus material incentives." This whole "debate" is meaningless in the context of bureaucratic usurpation of control over the planned economy and reduces itself to a debate over economic vs. more direct coercion; until the ouster of the bureaucracy restores workers democracy (e.g., workers control of production, rational economic planning through workers councils) any talk of "moral incentives" is merely apologetics for the higher level of consumption by the bureaucracy.

But even in a healthy workers state, the belief that wages can be equal and all labor allocation be effected purely through moral incentives (propaganda campaigns and the social prestige attached to hard jobs) is sheer utopianism. In reality, moral and material incentives should be complementary. To the extent that workers can be induced to go into jobs in short supply through purely political means, smaller wage differentials would be required. Thus, if Soviet workers could be induced to the Siberian oil and gas fields through a propaganda campaign stressing socialist idealism and the spirit of adventure, wage differences between Siberian and Caucasian oil workers need be less than otherwise.

In addition to wage differences between different jobs, wage differences have historically been used to insure individual work discipline - the piece-rate system. While wage differences between jobs are an unfortunate necessity under all conditions of economic scarcity, the piece-rate system is a pernicious practice associated with the most reactionary forms of capitalism. Not only are piece-rate wages an enormous source of inequality, but they undermine the basic social solidarity of the working class, turning workers into competitors of one another. For that reason, the replacement of piece-rates by time rates has been a major historic goal of the labor and socialist movements. The reactionary character of Stalinist labor policy is shown by its widespread use of piece-rates. Before 1956, over 75% of Soviet workers were on piece-rates. (Yanowitch, loc. cit.) The deeply unpopular nature of the piece-system led to its gradual curtailment as part of the post-Stalin reforms. However, according to the present plan, 45 - 50% of Soviet workers remain on piece-rates. (Yanowitch, loc. cit.) There is no justification for the use of piece-rate wages in a workers state. Individual labor discipline should be generated by the moral authority of a democratic workers government and reinforced by the social pressure of workers' self-management committees in the shops. A marked decline in labor discipline is almost always a sign of working class discontent with the regime (for example, the disastrous fall in productivity following the 1968 Soviet invasion of Czechoslovakia). Piece-rates may be necessary in periods of total economic and social disruption, such as the Soviet Union in the early 1920's. They are definitely not justified in the Soviet Union today and they must be abolished!

The general economic need for some wage differentials does not justify the existing bourgeoisified pattern of income distribution in the Soviet Union in which officials, administrators and technicians receive salaries several times that of most workers. The high salaries of Soviet officialdom are sheer parasitism having nothing to do with rational economic necessity. Compared with production work, administrative positions are interesting, pleasant and prestigious and never lack for qualified candidates. In addition, a workers government would select its administrators from people of demonstrated socialist consciousness, not careerists. The old Bolshevik rule that party members holding administrative jobs should receive no more than a skilled worker should set the pattern for Soviet officialdom as a whole.

The salaries of scientists and technicians presents a somewhat different problem. The raw supply of technically trained people can be effectively controlled through the educational system (e.g., varying the number of scholarships for physicists, electrical engineers, etc.). However, there is an international market for technically trained people and Soviet scientists and engineers can earn high salaries in the West. The mass transfer of doctors and other scientifically trained labor from backward to advanced capitalist countries (the so-called "brain drain") is one of the most subtly destructive aspects of contemporary imperialism. And here again the moral authority of the regime is decisive. The intimate relationship between the political character of the Soviet government

and the emigration of the technical elite is highlighted by the current controversy over Soviet Jews. Only because of the pervasiveness of Great Russian chauvinism with its anti-Jewish aspects do significant numbers of Jewish professionals want to leave the Soviet Union. Wanting to be compensated for the expected loss of highly trained personnel, the Soviet bureaucracy resorted to the grossly reactionary measure of ransoming Jewish professionals to world Zionism at prices corresponding to their years of schooling, thereby giving the world bourgeoisie the perfect opportunity to denounce the Soviet Union as a slave state. A Soviet government clearly committed to socialist internationalism would have little trouble in keeping its Jewish professionals from heeding the siren calls of reactionary Zionism. And in general, a workers government clearly reflecting the desires and interests of the Soviet masses should have no difficulty in keeping its scientists and technicians from voluntarily becoming the pawns of corporate presidents and militarists regardless of the greater comforts available in the West. In a healthy Soviet workers state, there is no reason that the incomes of a diplomat, general, chief economist for the planning commission or head engineer in a factory should be qualitatively different from that of a tractor driver on a state farm or welder.

Agriculture and the Peasantry

The purchase of 28 million tons of American grain, equal to 17% of the Soviet harvest, is simply the most recent, spectacular proof that the wound Stalin inflicted on the Soviet political economy through the forced collectivization of agriculture and subsequent policy continues to bleed profusely. Despite the complexity and continual "reforms" in Soviet agricultural policy, the "problem" of Soviet agriculture amounts to this. From 1929 through today the Soviet bureaucracy has sacrificed total agricultural output and the political loyalty of the peasantry by forcing the peasants to deliver the bulk of the collective farm produce to the state free or at prices way below market values. During the 1930's, this policy led to the slaughtering of most Soviet livestock, a general fall of 15% from an already low standard of food consumption and mass starvation for a section of the peasantry. These policies contributed to the significant pro-Nazi activities by Ukrainian peasants during World War II. During the post-war period, Soviet agricultural policy has resulted in chronic food shortages and crop failures which have not only depressed the health and material well-being of the Soviet people, but have been the single most disruptive element in economic planning and have subjected the Soviet Union to periodic political blackmail by the United States in return for emergency grain deliveries. The grain deal is intimately linked to Soviet pressure on North Vietnam for a "peace treaty" acceptable to American imperialism. A section of the Soviet bureaucracy appears to be in favor of permanently importing a significant part of Soviet food needs, a policy now feasible because of the enormous export value of the Siberian gas and oil fields. This would be a very dangerous situation.

The Soviet bureaucracy has tried to increase agricultural output purely through technical change: either more investment in farm equipment and fertilizer or the radical changes in geographical

crop patterns associated with Khrushchev. However, the failure of Soviet agriculture centers on the attitudes and incentives of the peasantry. A few statistics indicate what is really wrong with Soviet agriculture. The peasants' private plots are equal to about 6% of all collectivized farm land, they receive about $\frac{1}{3}$ to $\frac{1}{3}$ of labor input and do not have access to modern equipment. The peasants' private plots account for $\frac{1}{3}$ of peasant income (in the 1950's the figure was closer to $\frac{2}{3}$) and produce over 60% of Soviet potatoes and eggs and over 40% of Soviet meat and vegetables. (Nimitz in Karcz [ed.], Soviet and East European Agriculture; Novc, The Soviet Economy). In other words, the peasants find it twice as remunerative to work their private plots as on the collective farms despite the greater technical productivity of the latter! Only a radical change in the system can increase peasant enthusiasm for collective farming and produce a productive Soviet agriculture.

Both from the standpoint of economic rationality and social policy, it might well be better to gradually liquidate Soviet farming and import most food. However, the only nation capable of feeding the Soviet urban population is the United States. And the American ruling class will not feed the Soviet workers except in return for a Soviet foreign policy which is benign, if not outright collaborative, toward American imperialism. Therefore, a Soviet workers government would be faced with a choice of two evils. Either it would have to create a viable domestic agriculture, which would mean a certain increased social weight and political influence of the peasantry. Or it would have to import most of its food from the United States subjecting itself to imperialist blackmail. Of the two, the former is clearly the lesser evil.

In reality, a revolutionary Soviet workers government probably won't have a choice. The peasants will play a significant role in any political revolution and concessions to peasant interests will have to be made if that role is not to be a reactionary one. These concessions should be along the following lines. The collective farms should be made into genuine cooperatives, whose internal organization will be determined by the members themselves without state interference. The state must pay market prices for the collective farm products. Any attempt to force sales at less than market prices will lead to widespread black-marketeering and the repression of the peasantry. This would be fundamentally corruptive of Soviet democracy. In return, the collective farms must sell all their produce to the state. This is essential to prevent the development of a merchant class with strong ties to the rural population. The bad effects of market price procurement can be partly offset by a progressive income tax on the collectives. The bad effect on consumers can be partly offset by food subsidies. If the collective farms are to be genuine cooperatives, they must have the legal right to disband back into private small-holding. The workers state has powerful means to maintain collective farming without using sheer state power. Collective farms should be taxed at lower rates than peasant smallholders; they should be given credit on easier terms than peasant smallholders. Should a class of smallholders arise anyway, it is essential to prevent them from

becoming capitalist farmers through rigid prohibitions on the hiring of labor. The universal moral repugnance at private wage labor in the Soviet Union should make this prohibition easy to enforce. Forty years of Stalinist oppression of the peasantry has unfortunately made the re-establishment of the Leninist alliance between the workers and peasants an important goal of the Soviet political revolution.

Economic Relations with the Imperialist Powers

The Siberian gas-oil deals have stirred widespread interest in the direct imperialist penetration of the Soviet economy. Contrary to the assertions of the bourgeois press, the Maoists and "Third Campers," the Siberian deals are not foreign investment. Both the extraction facilities and fuel output are wholly owned by the Soviet government. The agreements are forms of barter trade in which a definite amount of gas-oil is used to pay back the extractive facilities imported. After a certain period, the extractive equipment should be fully paid off. However, while the Siberian gas-oil deals are formally similar to the importing of other major productive complexes, such as the Togliatti auto plant from Fiat and the Kama River truck project from Ford, the magnitude involved creates a qualitatively new factor in the Soviet economy.

For the first time, the development of an entire major Soviet industry will be decisively dependent on the long-term cooperation with a few corporate giants. With the Siberian agreements, the reactionary Stalinist concept of "peaceful co-existence" is being written into the Soviet economic plan. To emphasize the political (and not purely commercial) nature of the Siberian gas-oil deals, Brezhev is reported to have told Nixon, while pointing at a map, "This wealth that we are prepared to share with you." (New York Times, Jan. 14, 1973). The Siberian gas-oil operation gives a major section of the world bourgeoisie, the oil companies, unprecedented leverage to influence Soviet policy. The oil companies involved in the Siberian operation will be eager to trade economic concessions to help shape Soviet foreign policy and the actions of the pro-Soviet Communist parties in the Middle East. Given the nationalist selfishness of the Soviet bureaucracy, what could emerge from the Siberian deals might be much more than the trading of pipelines for natural gas.

Because the Soviet bureaucracy is not controlled by the working class, it is corruptible by the social influence of the bourgeoisie. And for the first time, capitalist management will help administer a key section of the Soviet economy. Socially, if not economically, the Siberian gas-oil fields will be a foreign corporate enclave in the Soviet Union. That section of the Soviet bureaucracy administering Siberian operations will tend to absorb the outlook of the corporate management with whom they work. Under conditions of bureaucratic rule, the presence of capitalist managers in the administration of the Soviet economy is indeed a potent source of bourgeoisification.

A revolutionary workers state may find agreements similar to the Siberian gas-oil deal economically advantageous. But such projects

must always be undertaken with great care. The terms should be governed by strictly commercial considerations. If the corporations involved use their economic leverage to interfere in domestic politics or influence foreign policy, the agreement should be cancelled, despite economic loss. Careful supervision should be used to insure that the Soviet administrators working on the project do not begin to identify with their fellow managers - that they always realize they are dealing with the class enemy. And, of course, workers control at the point of production is the best guarantee against the bourgeoisification of Soviet society arising from joint projects with imperialist firms.

A Soviet workers state should take advantage of the international division of labor. In general, the economic plan should be geared to maximize imports and exports. This general rule is subject to some important qualifications. Long term cooperation with particular capitalist firms should be minimized. Capitalist firms should not insinuate themselves into the Soviet economy as permanent major suppliers, creditors or advisors. The Soviet Union should not become dependent on imports of critical goods, such as food grains, thereby subjecting itself to potential economic blackmail. The Soviet Union should not drift into a colonial pattern of trade, exporting raw materials and simple manufactures and importing technically advanced products. Regardless of existing world price-cost configurations, the Soviet Union should invest in technically advanced industries since a major factor in reducing their costs is the experience of production itself.

For the Economic Unification of the Sino-Soviet States

There are fourteen bureaucratically ruled workers states with fourteen separate national economic policies. And the economic relations between them have been so conflict-ridden that they have provided a major opportunity for the counterrevolutionary maneuvering of the imperialist powers. In every case where a national bureaucracy has broken with the Soviet leadership, the disadvantages of trading within the Soviet bloc as against the better terms offered by the imperialists has been a major cause. The immediate cause of the 1948 Yugoslav split was the failure to negotiate the desired terms for imports of machinery from the more developed Soviet-bloc countries. An important factor in the Sino-Soviet split was the fact that China could get better prices for her traditional raw material and light manufacture exports from the advanced capitalist countries than from the Soviet bloc where Chinese exports are largely redundant (during the '50's, the Soviet Union re-exported Chinese tin at giveaway prices). And Rumania's "independent" foreign policy is associated with a transfer from East Germany and Czechoslovakia to West Germany as its major supplier of machinery.

It is necessary to destroy the myth that the Soviet Union exploits the smaller bloc countries through trade relations. Far from "exploiting its satellites," the Soviet bureaucracy, particularly

in the Stalin period of 1945-54, sought to minimize foreign trade within the bloc. The problem arises from the fact that it is more advantageous for all the bloc countries to trade primarily in the world market than with each other. Eastern Europe, including the Soviet Union, is not an economically rational trade bloc and before World War II did little trade with one another. It should be obvious that it is almost always possible to buy goods cheaper on the world market than in a geographically limited one and it is often possible to get better terms for one's exports. Thus, there is a strong tendency for all bloc countries, including the Soviet Union, to shift primarily to world market trade, abandoning the East European trade organization, the Council of Economic Mutual Assistance (COMECON). With the recent West German deals, the Soviet Union's liquidation of the East European trading bloc by shifting its exports to the advanced capitalist countries is beginning to be realized. According to a Hungarian trade official, in order to expand oil exports to the West, the Soviet government backed out of a plan to supply oil to Hungary's chemical industry, giving Kadar the "fraternal advice to satisfy oil needs in Iraq": (NY Times, 20 May 1973.) Should this centrifugal force destroy COMECON the East European countries would likely be absorbed economically by a resurgent West European, particularly German, imperialism.

One of the most powerful weapons world capitalism has against a backward workers state is that, due to its superior productivity, it can undersell the products of a collectivized industry. For this reason, Lenin insisted that a state monopoly of foreign trade was an essential part of any workers state, to be maintained even with the widespread market use and concessions to capitalism associated with the NEP period. The COMECON is a fundamentally inadequate and internally contradictory attempt to extend the monopoly of foreign trade beyond the individual states of the Soviet bloc. Despite its inadequacies, the COMECON is progressive as against a purely nationally-determined trade policy. However, the contradictions within the COMECON are of such a nature that they must explode the trade bloc, with disastrous consequences for the defense of the East European workers states against imperialism.

COMECON economists and their bourgeois academic colleagues have invested great efforts to figure out optimum or equitable terms of trade for Soviet bloc countries with one another. This is an impossible task. As long as economic plans are determined nationally, COMECON trade prices can only result from the arbitrary interaction of world prices, domestic costs and political maneuvering. The problem can be indicated by contrasting price-cost relationships within a COMECON country and between those countries. In most Soviet bloc countries, wholesale prices are set equal to average costs of production. Newer enterprises producing at below average costs make profits which are largely taxed away; older, high cost enterprises make accounting losses and are subsidized. This system is only possible with central control over total costs. If subsidies are deemed too large, the high cost enterprises can be re-tooled, switched to different products or shut down. This control

Of costs is precisely what is lacking in trade between planned economies. The Polish government has no influence over the costs of Soviet steel, which it imports and the Soviet government has no influence over the costs of Polish agriculture which it imports. Prices in COMECON trade fluctuate between two poles both of which generate intense national conflicts - export costs of production and world market prices. If export costs of production are used, it means the importing country undertakes an open-ended subsidy of its trading partner's export industry. Where these costs are very high relative to world prices (say, for types of East German machinery), the importing country (say, Rumania) starts ranting about "exploitation" and inviting Nixon for state tours. Thus, export cost pricing drives importing countries to escape from COMECON to the cheaper pastures of the world market. The use of world market prices in COMECON creates pressure to contract high cost industries. As a Soviet COMECON economist bluntly put it, "Some socialist machinery could be resold on the world market only at sharply reduced prices" (Bogomolov, Mirovaia ekonomika i mezhdunarone otnosheniia, No. 5, 1966). Some lines of Czech machinery couldn't cover labor costs if sold at comparable West German prices and Soviet collective farmers would starve if they had to compete with Egyptian cotton or Australian wool prices. If COMECON systematically used world market prices, it would be as if each Soviet bloc state traded in a purely capitalist world. Except for the Soviet Union, which can approximate self-sufficiency, such a trading system would qualitatively weaken the effectiveness of economic planning, as the various states would be forced to adapt production to their existing international competitive situation. Since there would be virtually no economic advantage to the very existence of the Soviet bloc, the political bonds holding the states together would soon break.

Only effective economic integration can prevent the Soviet bloc from being further ripped apart by the pressure of imperialism. There must be a unified economic plan from North Vietnam through East Germany, with a pooling of investment resources and the transnational movement of labor. A unified economic plan would not, in itself, resolve the underlying problem that different economic policies bring differing national advantages. However, this national problem, which now leads to dangerous national bureaucratic conflict, would be brought under the sway of workers democracy in the form of regional planning.

Not only would economic integration mute the national conflicts among the workers states, but it would lead to an enormous increase in productivity through a far greater division of labor and economies of scale. The economic policy of the Stalinist bureaucracy has generally tended toward autarchy. This has resulted in unnecessary duplication of production, uneconomically small runs and small scale operations and wasteful prestige projects. Czechoslovakia, a small nation of about 15 million people, is reputed to produce 80% of all the different types of machinery produced in the world! (Wiles, Communist International Economics.) East Germany, likewise, is plagued by small production runs. According to an East German economist, "the limited scope of the existing international division of labor

Within COMECON - JS leads to a situation in which production is not always equipped with modern techniques, especially in machine building....the proportion of mass production is at present still unsatisfactory. Some types of output are produced in very small quantities, using a wide variety of principles of design." (Ruschick, Neues Deutschland, March 6, 1960). Striving for self-sufficiency, many projects are established with scant regard for supply or raw material costs. Enterprises in which supply costs exceed the value of output are not that uncommon (e.g., the Dunapentele steel works in Hungary). The enormous increase in productivity brought about through economic integration combined with a single state trading apparatus would enable the Sino-Soviet nations to get far better terms of trade from the capitalist powers than they now do.

One of the most reactionary aspects of Stalinist economic nationalism is the strict prohibition on the trans-national movement of labor. Not only does this policy forego opportunities to increase labor productivity, it helps perpetuate a large, impoverished and politically disaffected peasantry. For the past several years, the most serious economic problem in East Germany has been an acute labor shortage, while neighboring Poland and Hungary have swollen and socially backward peasant populations. For decades, the Soviet bureaucracy has sought to encourage emigration to southern Siberia without much success. For millions of Chinese peasants, farming and labor in southern Siberia would mean a great improvement in their condition. The widespread use of trans-national labor within the Sino-Soviet states would not only be a source of increased productivity, but would deepen the social weight and internationalist consciousness of the proletariat.

In the long run, a backward workers state or group of states can only survive through fostering socialist revolution in the advanced capitalist countries. For that reason, the victory of the nationalist bureaucracy in the Soviet Union under the principle of "socialism in one country" was deeply counterrevolutionary both with regard to the workers under capitalism and to the defense of the Soviet workers state. Because the expansion of bureaucratically ruled workers states in East Europe and China was associated with the Soviet victory in World War II and the U.S.-USSR Cold War polarization, the destruction of the Soviet bloc through national conflict seemed remote. After the Sino-Soviet border clash and Nixon's visit to China, it is clear that national bureaucratic conflict poses the greatest internal threat to the existence of the workers states. The political, military and economic unification of East Europe, the Soviet Union and China is probably the most urgent task of a workers revolution against the Stalinist bureaucracy.

--Seymour
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