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## CURRENT SUPPORT MEMORANDUM

THE SOVIET ENTERPRISE AND HOW IT OPERATES

OFFICE OF RESEARCH AND REPORTS

CENTRAL INTELLIGENCE AGENCY

This report represents the immediate views of the originating intelligence components of the Office of Research and Reports. Comments are solicited.

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## FORWARD

This CSM presents background information on the operation of one part of the Soviet economic system rather than the customary spot current intelligence item. This information, however, appears to be of sufficient general interest to warrant publication in this form. If interest warrants, similar memoranda on other aspects of the Soviet economic system will be published from time to time.

## THE SOVIET ENTERPRISE AND HOW IT OPERATES

### Introduction

The Soviet enterprise is the basic operating unit in the organization of the fully socialized state sector of production. This paper deals with the formal organization and control of such an enterprise.

Almost all Soviet production is socialized. There is only a small private sector which accounts for less than ten percent of all production and consists mainly of agricultural production on private plots and private housing construction.

The socialized sector is itself divided between the fully socialized state sector wherein all means of production are owned by the state and the collectivized sector wherein the means of production are merely owned collectively by the workers and not yet by the state. This collectivized sector is represented by the collective farmers and the producer and consumer cooperatives.

The state sector is by far the most important. Out of 53 USSR ministries, 40 are concerned with the operation of the state sector of industry and construction. Each ministry has under it a number of chief directorates (main administrations). These chief directorates, in turn, have under them the operating units--the trusts, combines, and enterprises.

### The Concept of Khozraschet

In the operation of their state production sector, the Soviets have developed the concept of an enterprise operating on the basis of khozraistvennii raschet, or khozraschet. This can be translated as "operating on a commercial basis", or perhaps better, "operating on the basis of economic accountability." In contrast to a "budgetary institution," which draws all its expenditures from the budget and returns all its receipts to the budget, an enterprise on khozraschet uses its receipts to pay its expenses and its receipts are supposed to be sufficient to pay its expenses. The ministries and chief directorates usually operate on a budget basis while trusts, combines and enterprises are on khozraschet.

A khozraschetny enterprise is an independent juridical person. It has its own assets, makes contracts, and can sue and be sued on these contracts in court. It differs from a typical American incorporated enterprise because it does not try primarily to make or to maximize profits as such. Its purpose is rather that of carrying out a certain prescribed production plan

as efficiently--that is, as economically--as possible. The standard of its success is the degree to which it proves able to carry out its production plan and operate more economically than planned. It is by such economies in operation that it gains the profits--in excess of planned profits--from which it has some possibility of distributing extra pay and benefits to its personnel.

#### The Tekh-Prom-Fin Plan

The "Tekh-Prom-Fin" Plan (the Technological-Industrial-Financial Plan) of an enterprise has seven elements: production plan, plant utilization plan, technological innovation plan, labor plan, materials and fuels plan, cost plan, and financial plan. It is made up by the enterprise, for a calendar year at a time, several months before the calendar year begins. From the enterprise the plan goes through the chief directorate to ministry to become a part of the ministerial plan. It then is coordinated by the State Planning Committee (Gosplan) and the State Economic Committee (Gosekonomkommissiya) with the National Economic Plan. Enterprise plans are amended as necessary and returned as the approved, operational plans for the coming year. Besides plan changes made at this time, additional revisions can be made during the year by orders from above.

1. The production plan, combined with the plans of other enterprises, makes up the National Economic Plan production totals and is the basic requirement put on the enterprise. The production plan includes planned "cooperative production," i.e., work to be done for another plant on a sub-contract basis.
2. The plant utilization plan is the production plan turned around and assures effective utilization of the fixed plant and machinery. Statistics are made up for production per machine, and even for production per square meter of floor space.
3. The technological innovation plan sets forth the technological innovations to be put into effect for the coming year.
4. The labor plan, becoming more important as labor becomes a scarcer commodity, details the labor to be used, its wages and benefits. It sets forth the new figure for "labor productivity" as well as comparing it with figures of previous years.
5. The materials and fuels plan covers material inputs to the proposed production in the same way as the labor plan covers labor inputs. An enterprise's material inputs fall into four categories according to the way they are obtained:
  - a. Funded commodities--important key commodities allocated on the authority of the Council of Ministers. These include: the basic raw materials (both agricultural and industrial), electrical energy, the fuels, a few building materials (cement, glass, asphalt), all the ferrous metallurgy products and non-ferrous rolled products, and all important finished machines. After receiving a funded commodity allocation, a user must make his own direct contract with the supplier covering detailed specifications and delivery dates.

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- b. Quota commodities--less essential commodities of fairly predictable rate of use, such as spare parts for tractors and for agricultural machinery. Their distribution is delegated to the respective ministries responsible for their production by the Council of Ministers.
- c. Decentralized commodities--those commodities not allocated by any central authority and contracted for directly between seller and buyer. They are best represented by locally produced construction materials.
- d. "Cooperative supply"--the other aspect of "cooperative production," representing the items an enterprise receives as the result of the sub-contracting arrangements made.

Two further concepts--material balances and the official, centrally set, material norms--are used in drawing up allocations of funded commodities. A material balance weighs the expected supply against the expected requirement for a single funded commodity. In 1951 about 1,600 separate material balances were made. Since that time, by a drastic combining of categories, the number has been reduced to less than 500.

Each material balance has three parts: 1) Part one covers supply of a given commodity or category of commodities. 2) Part two covers their conditions of use and includes the material norms. A material norm specifies the amount of a commodity to be used to make a unit quantity of each different product--for example, the quantity of coal allowed in the making of a ton of steel. Specific material norms are set up for each separate enterprise in its materials and fuels plan. These specific plant norms vary between enterprises but the overall norms for the entire ministry must conform to the official norms. 3) Part three covers distribution of the commodity. Formerly distribution was made to ultimate users by a detailed schedule of distribution. A recent report, however, states that it is now made to ministries who in turn make their own distribution to the enterprises under them.

6. The cost plan evaluates the proposed material inputs of an enterprise in money terms. To the money cost of material and labor, it adds the officially-set amortization costs covering its fixed assets and the various non-productive expenses which constitute overhead. The total gives the planned plant production costs. Production is disposed of at established wholesale prices set by central authority at levels intended to cover the costs of a representative firm plus some profit. From time to time these prices are lowered to reflect increased efficiencies in production. The expected proceeds of production, less planned costs, shows the planned profits, or--it could be--planned losses. An enterprise which fulfills its production plan and meets its cost plan has operated satisfactorily, even if it makes losses. In such a case, its losses would be planned losses and would reflect the fact that the enterprise was operating an inefficient plant, not that the enterprise was doing its job inefficiently. It is the ministry's business to balance these planned losses against the planned profits of its more efficient plants.

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Established wholesale prices are set both "free of selling costs" and "including selling costs". If the product is turned over by the enterprise to a separate, selling organization or to a trust handling the output of several subordinate plants, the product passes from the enterprise to this other organization at the lowest of these two prices. This price differential, or mark-up, gives the trust or separate selling organization its income, thereby enabling it to operate on khozraschet.

7. The financial plan, the final part of the Tech-Prom-Fin Plan, is a statement of proposed income and outgo in money, and, thereby, a summation of the whole proposed operation. It reflects the detailed plan for acquiring materials during the course of the year and for disposing of production promptly. During the periods when operational outgo is expected to exceed operational income, the enterprise will plan to take short-term bank loans. This planned credit does not in any way interfere with unplanned loans granted to meet operational emergencies as they arise.

Financial Controls System

In carrying out the Tech-Prom-Fin Plan, the enterprise is subject to the supervision of its own chief directorate and ministry. It is also subject to a financial control system centered in the State Bank (Gosbank), and participated in by four "Special Banks", also referred to as the four "Long-term Investment Banks". These four banks are the Industrial Bank (Prombank), the Trade Bank (Torgbank), the Agricultural Bank (Sel'khozbank), and the Communal Bank (Tsekombank).

Briefly, the functions of these five banks are as follows:

The State Bank supervises the whole system. Besides its regular banking functions, it exercises direct control over practically all production in the state sector.

The Industrial Bank specializes in the financing and control of capital investment in industry.

The Trade Bank handles long-term financing of trade, and producer and consumer cooperatives.

The Agricultural Bank serves agriculture and other needs of the rural community.

The Communal Bank serves the city communities.

The financial control of production, as exercised by the State Bank, rests primarily on the settlement account. All enterprises on khozraschet are required to keep their ruble balances in a settlement account, carried, in nearly all cases, with the nearest State Bank branch. The few exceptions bank with the special banks. A settlement account, unlike an ordinary bank account, records all of the enterprise's monetary transactions. Full detailed statements of all payments and receipts are required before a transaction is completed. In this way, the bank has its own records of every monetary transaction made by the enterprise and can review these transactions at its own leisure. An additional element of financial control lies in the bank's short-term credit monopoly. Inasmuch as every enterprise is allotted only

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a minimum working capital, any financial difficulties encountered are brought to the bank's immediate attention by the enterprise's application for short-term credit.

Additional responsibilities were given to the State Bank in the past year, including the right to declare insolvent those enterprises which after a six-months warning period continue to underfulfill their production and costs plans.

Capital Investment and Construction

To complete the picture of the operations of a Soviet enterprise, a few concepts relating to capital investment and construction should be mentioned. Construction-installation work can be done by contract, or by the enterprise itself. The contrasting concepts are: "construction installation work done by contract organizations" and "construction-installation work done by own facilities" (khozyaistvennym sposobom). Work done by a contract organization carries a profit enabling the contract organization itself to be an enterprise operating on khozraschet. These are the enterprises which bank with, and take their short-term loans from the Industrial Bank. Construction-installation work "done by own facilities" is done by the enterprise at cost. Any short-term loans needed for "planned" work done by the enterprise itself are also obtained from the Industrial Bank.

The long-term financing of capital investment in the state sector is handled by "non-returnable financing," which comes from budgetary contributions and from the enterprises' own funds, primarily, retained profits and amortizations.

Analyst:

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