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MANAGEMENT OF THE SOVIET INDUSTRIAL ENTERPRISES

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FOREWORD

The purpose of this report is to contribute to an appraisal of the strengths and weaknesses of the Soviet economy and of its capability to meet economic goals, both in normal times and during periods of national emergency, by investigating and evaluating those current managerial practices in the USSR which relate to the formation and implementation of economic plans. The report pays primary attention to the role assigned to the managerial staffs of individual enterprises within this scheme and examines the day-to-day responses of management at all levels to the operating conflicts inherent in the needs of a centrally planned economy for centralized decision-making, for control, and for tangible results.

The research was conducted on an all-source basis. []

[] was focused on the machine-building industry, because of its economic and strategic importance to the USSR and because of the substantial amount of information available and the wide variety of managerial problems illustrated. Although the findings of this report relate primarily to heavy industry, the most favored sector of the Soviet economy, [] sources indicate that managerial practices found in this sector also exist in other sectors.

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(ORR Project 41.527)

MANAGEMENT OF THE SOVIET INDUSTRIAL ENTERPRISE*

Summary and Conclusions

To accomplish Soviet production goals the Sixth Five Year Plan (1956-60) again calls for great increases in productivity, to be brought about primarily through better utilization of existing equipment and labor as well as technological improvements and automation. Achievement of the plan goals will depend largely upon the ability of management to carry through these measures successfully. Thus management -- ranking with land, labor, and capital as a basic factor of production -- is as essential to the centrally planned economy of the USSR as it is to a capitalist economy; indeed, managerial efficiency may be even more important in the former than in the latter system. Soviet leaders have placed increasing emphasis in recent years on the need for good management and have launched a broad program for managerial improvement.

In the Soviet economy the objectives of the regime are achieved by coordinating production and consumption through a complex system of centralized planning and administration operated by an intricate pyramidal hierarchy, the base of which is formed by thousands of firms, or enterprises. All higher echelons in the chain of command share responsibility for the performance of these firms. The enterprise must conduct its operations in accordance with directives from superior organs and within the framework of an approved plan establishing output goals and input limits. The firm's activities are thus

* The estimates and conclusions contained in this report represent the best judgment of ORR as of 15 June 1956.

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coordinated with those of related supplying and producing enterprises, and various legal and administrative controls are imposed to ensure that directives and plans are carried out.

Although each enterprise draws up its own draft plans, those plans must conform to objectives previously fixed by central planning authorities. The planning process has become so complex and time-consuming that usually enterprise plans have not been approved finally until several months after the beginning of the period to which they apply. Recently, however, the government has taken a number of measures to improve and simplify planning. In spite of some initial difficulties in implementation, these measures apparently have shortened the planning process, at least for the 1956 Plan.

Although Soviet leaders have repeatedly emphasized the importance of giving plant directors authority commensurate with their responsibility (the doctrine of yedinonachaliye, or one-man management), their formal powers in fact have been limited to a greater extent than would seem to be required even in a centrally planned economy. Furthermore, in supervising enterprise execution of plans and supplemental directives, officials of the responsible ministry and chief directorate frequently have been accused of exercising "petty tutelage" over the firm, to the detriment of enterprise efficiency and initiative.

In view of this situation, the government during the past several years has undertaken a broad program to increase the operational independence and economic efficiency of individual enterprises, as well as to streamline operations and partially decentralize decision-making throughout the administrative apparatus. The government's efforts have resulted in (1) a broad expansion, late in 1955, of the rights of enterprise directors; (2) increased authority of the economic ministries in planning, allocation of resources, and financial matters; (3) annual drives to simplify the organizational structures of administrative organs and enterprises and to reduce the number of administrative-management personnel; and (4) measures to increase production specialization and cooperation among firms -- measures which are designed to reduce the excessive vertical integration in enterprises and ministries resulting primarily from malfunctioning of the supply and

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distribution system. Soviet spokesmen recently have reported some successes in the new program, but they also have admitted that provisions for decentralization are not being implemented as rapidly as desired.

Concurrently with its efforts to reduce centralization, the Soviet government has been strengthening the powers of the principal external agencies of control -- the State Bank, the Ministry of State Control, and the Communist Party. This conceivably may offset in some respects the increases in freedom of action granted to lower level management and may interfere with the achievement of the intended gain in efficiency and flexibility at the enterprise level.

The Soviet system of centralized economic planning and management is not as inflexible as it may appear. The central planning agencies have the authority and the ability to alter plans during the plan period if they deem this necessary. Also, officials of higher echelons may impose additional tasks on enterprises or order deviations from original plans. They have not hesitated to make use of these possibilities with or without formal amendments of plans.

The imposition of additional, usually priority, tasks does not release plant directors from the statutory obligation to fulfill the plan. In order to comply with both duties, they have been compelled to adopt a variety of expedient but illegal practices, especially in procurement and financial matters. The fact that superiors often have condoned, and sometimes even suggested, such practices indicates that there is little opposition to some degree of unofficial flexibility at the enterprise level.

In conclusion, the strong points of the Soviet system of centralized control over enterprises appear to be of greater significance than its weaknesses. During the present plan period a continued diminution of the elements of weakness may be expected, but no reduction of the elements of strength.

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I. Introduction.

In a free private enterprise economy, coordination of production and consumption is achieved through the mechanism of the market. Ultimately resources are allocated among alternative uses by the actions of innumerable consumers expressed through the price system. The operation of the market mechanism and price system thus determines what goods will be produced, what complex of resources will be used in their production, and how the product will be distributed. In the USSR, in contrast, the necessary coordination of production and consumption is achieved by deliberate design through the national economic plan. This plan determines for a given period how resources are to be allocated, what goods shall be produced and how, and the way in which income is to be distributed.

Broadly speaking, the primary goal of a free market economy is the achievement of the maximum output of goods and services demanded by consumers with the minimum expenditure of resources. The market mechanism probably could be used by Soviet rulers to obtain over-all economic coordination if their primary goal were the same. They have elected, however, to subordinate considerations of individual consumer demand to the attainment of various political and strategic ends. Since the operations of an unrestricted market would not necessarily bring about production and consumption patterns conducive to these goals, the USSR has felt constrained to substitute for the market mechanism an over-all economic plan which is deliberately formulated to attain predetermined objectives. In essence the plans are directives to various parts of the economy telling them what to produce and allocating the necessary resources -- functions which under free market economies are performed by individual producers acting in self-interest in response to price changes in a wide variety of markets.

Unlike a free market economy, which has its own inherent, impersonal system of controls, a centrally planned economy requires the establishment of control machinery to ensure that the purposes of the planners will be carried out -- that is, that all economic activity will be directed toward fulfillment of the plan. In the Soviet system these indispensable controls are exercised through the Communist Party.

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and a huge administrative bureaucracy. The ultimate purpose of the control apparatus is to force the adherence of all individual producing units to the economic goals established for them by the state plan. With the passage of time and the consolidation of Party power this task has become primarily the responsibility of that part of the administrative bureaucracy concerned with economic management and control. Various other methods of control also are built into the Soviet system; thus, liberal social and economic rewards are provided for fulfillment and overfulfillment of state goals, and severe penalties are meted out for failure to conform. At the same time, the planners seek by unceasing indoctrination and propaganda to get each level in the managerial hierarchy to work loyally and enthusiastically to attain state goals from ideological as well as purely personal motives.

Economic control through central planning, coupled with incentive-coercive enforcement measures, creates tensions and conflicts which pervade the whole structure of Soviet economic management. Each level in the operating hierarchy -- the ministry, the chief directorate, the trust or combine, and the enterprise or firm -- has a plan which it must fulfill during a specified period, and each level operates under constant pressure from those above it to attain or surpass the assigned goals. Since each administrator is judged in terms of his success or failure in meeting these goals, he strives for the assignment of feasible tasks and for an adequate allocation of resources. This struggle for a tenable position is essentially political, and each contestant seeks to enlist the support of those in positions of power and influence. In effect, each sector in the managerial hierarchy strives to achieve an equilibrium position for itself; it seeks to strike a tenable balance between constant pressure from above for maximum output and resistance from below to commitments believed to be infeasible. The insecurities engendered at each managerial level by these cross-pressures and by the constant surveillance of control authorities have led to the adoption of an ingenious array of extra-legal practices devised by administrators to make their lot more tolerable.

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In contrast with liberal economic systems, the individual Soviet enterprise is not directed, controlled, and administered exclusively by an internal managerial body having the right of final decision concerning the appropriate use of resources to achieve optimum production. Management in the USSR rather comprises a whole hierarchy from the Party Presidium, which establishes the over-all goals and the means by which they are to be implemented, down to the director of the individual factory which turns out the physical units of product. Once the tasks for each sector of the economy are set by an approved plan, however, the implementation of the plans -- that is, the day-to-day management of that sector -- devolves upon the responsible economic ministry and its components, and particularly upon the top of individual enterprises. To engender order and efficiency in the management of each economic unit, Soviet doctrine decrees that managerial authority and responsibility shall reside in the head of that unit, and in him alone. Applicable to all levels in the managerial structure, this concept (yedinonachaliye) postulates, in essence, that the head of each unit in the hierarchy shall be given sufficient authority to manage his unit in accordance with the plans and then shall be held strictly accountable for the results. It does not imply either that the manager is free to act outside the general framework of approved economic plans or that he is free from surveillance by Party and governmental control authorities.

Ranking with land, labor, and capital as one of the four basic factors of production, management is as essential a productive factor to a centrally planned economy like the USSR as it is to a capitalistic economy. The importance of managerial efficiency may be even greater in a planned economy, because here the criteria of managerial efficiency include the ability to complete on schedule production tasks fixed by a legally binding plan, as well as to complete them with a minimum expenditure of productive resources. In recent years, Soviet leaders have laid increasing stress on the importance of the managerial factor and on the necessity for improvement. Although the USSR has been aided in meeting past industrial production goals by the presence of a large pool of surplus manpower which could be channeled into industry, during the 1956-60 plan period the country will face decreased annual

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increments to the industrial labor force and will have to rely primarily on technological advancement and on improvement in managerial efficiency to fulfill production goals.

II. Organizational Structure of Soviet Industrial Management.

A. Doctrinal Framework.

Broadly considered, Soviet doctrine concerning economic administration envisages both centralization of decision-making in all important policy matters and concomitant decentralization of operational functions. In harmony with Communist principles of "democratic centralism," this means, more specifically, (1) that the administrative structure should be hierarchical, with strict subordination of lower to higher organs and with each higher level having the right to exercise direct supervision over all lower levels; (2) that each unit in the hierarchy is to be assigned obligatory tasks (its plan), the sum of the plans of all units on one level comprising the plan of the immediately superior level; and (3) that the principle of one-man authority and responsibility is to govern the work of each level. But these tenets are not to be regarded as absolutes, for Soviet managerial doctrine also contemplates "appropriate" modifications. Thus, with respect to higher levels in the hierarchy, the principle of one-man management is tempered with an emphasis on the importance of collegial decision-making, presumably in order to bring a wider range of experience to bear on the solution of problems. And, although the guidance and supervision exercised by an organ over its subordinates is to be concrete and realistic, based on first-hand knowledge of operating problems, such supervision must not extend to petty detail or encroach unduly on the prerogatives assigned to these subordinate organs.

The system of management through a hierarchical structure, with centralization of authority and responsibility at each level, is used in both Soviet and capitalist economies. The hierarchical structure through which the Soviet state manages its enterprises, however, extends above the individual firm to include units of the central government. Moreover, each level of this public

administrative structure is assigned tasks which are fixed and linked to those of other levels through central planning and are enforced through a complex network of overlapping checks and controls.

B. Policymaking Machinery.

Supreme policymaking power in the USSR rests with the Presidium of the Central Committee of the Communist Party. The Presidium has 11 members, 7 of whom are also members of the highest executive body in the USSR, the All-Union Council of Ministers. All strategic, political, and economic policy determinations which are basic to the formation of the national economic plans are made by the Party Presidium, though major policy decisions are given formal ratification, usually *ex post facto*, by the Party Central Committee and by the Supreme Soviet of the USSR. The locus of decision-making authority is indicated by the fact that major changes in economic policy are announced through decrees of the Central Committee of the Party or through joint decrees of the Central Committee and the Council of Ministers. Through directives which become the basis for plan formation the Party Presidium determines such fundamental questions as the following: what production goals shall be set for important strategic commodities, which sectors of industry are to be given priority in development, how the national income is to be divided between consumption and investment, what are the more important measures which shall be taken to implement established goals, and what alterations must be made in already established plans to meet changed conditions or policies. Such basic policy determinations obviously are not made in a vacuum, for the Presidium has available to it the fact-gathering machinery of the entire administrative bureaucracy and may seek advice and counsel from whomever it wishes.

C. Executive and Administrative Structure.*

1. Council of Ministers.

The highest executive body in the USSR, the All-Union Council of Ministers, is comprised mainly of the heads of ministries, and has final responsibility for carrying out policies set by the Party Presidium. The 6-member Presidium of the Council is the locus of decision-making power; it is composed of a chairman and 5 first deputy chairmen. There are also 8 deputy chairmen.** The Council approves the annual and quarterly economic plans, issues decisions and decrees relating to formation and implementation of plan directives, exercises general supervision over the economic ministries, and coordinates their work with a view to the attainment of over-all economic and political objectives. In addition to supervising the ministries, the Council also oversees the work of various special agencies, most of which play an important part in economic management.***

* See Figure 1, following p. 10.

** Most of the deputy chairmen have no specific ministerial assignment and devote their time to supraministerial problems of policy or coordination, generally in fields related to their individual background and experience. Since the death of Stalin the supraministerial group has become larger and more formalized, reflecting the increased emphasis on collegial role in the Party and the government as a whole.

*** Insofar as economic management in the USSR is concerned, the most important of these organizations are as follows: the State Committee of the Council of Ministers for Long-Term Planning of the National Economy, (Gosplan), the State Economic Commission of the Council of Ministers for Current Planning of the National Economy (Gosekonomkomissiya), the State Bank (Gosbank), the Main Administration for Material Reserves (Gosreserv), the State Committee for Construction Affairs, the Chief Directorate for Labor Reserves, the State Committee of the Council of Ministers for New Techniques, and the State Committee for Questions of Labor and Wages.

2. Economic Ministries

The day-to-day management of specific segments of Soviet industry is assigned to various economic ministries. Each ministry is responsible for the activities of all enterprises subordinate to it and may exercise its supervisory responsibilities directly through staff departments or indirectly through chief directorates (glavki*).

Each ministry is headed by a minister, who is aided by deputy ministers, each in charge of specific functions, and by a collegium, an advisory body composed of the deputy ministers and the heads of important ministerial departments and chief directorates.** The central headquarters of the ministry operate through a number of departments established along functional lines. Though there are differences in organizational structure among the ministries, they usually have the following staff departments: planning, production, technology, finance, accounting, supply,

* The term glavk (plural glavki) is variously translated as chief directorate, main administration, and chief administration. Furthermore, some of the ministerial departments are sometimes called glavki. To avoid confusion, the following terminology will be used throughout this report: chief directorate will refer to those production-territorial glavki which are a part of the chain of command between the ministry and the enterprise, and department will refer to the staff departments of the ministry which are organized along functional lines.

** In line with the emphasis on collegial rule in recent years, government and Party leaders have urged the ministers to make more use of the ministerial collegia in order to bring a broader range of experience to bear on the solution of problems. 1/ (For serially numbered references, see Appendix C.) At the same time the ministers have been urged to show more initiative in decision-making and have been given additional authority to formulate and alter ministerial plans and to allocate supplies and distribute output within the ministry. Similar delegation of authority has also been extended to the councils of ministers of the individual republics. 2/

capital construction, personnel, labor and wages, and sales. 3/ These ministerial departments are not a part of the formal chain of command between the ministry and the enterprise; hence officials of these staff departments as a general rule are not supposed to deal directly with an individual enterprise without the approval of the appropriate official of the chief directorate immediately in charge of the plant. 4/

In addition to functional departments, the organizational structure of each ministry also includes a number of chief directorates, each of which has direct charge of a number of individual enterprises. A chief directorate may supervise all enterprises subordinate to the ministry located in a designated geographic area (for example, Chief Directorate of the Cement Industry of Eastern Areas) or all those producing a given product (for example, Chief Directorate of the Combine Industry). * Functioning as a kind of subministry and a link in the formal chain of command between the ministry and the enterprise, the chief directorate has an internal structure similar to that of its ministry. Thus a typical chief directorate has such departments as economic planning, supply, production management, technical problems, sales, and finance. 5/

3. The Enterprise.

The lowest level in the managerial structure is occupied by the directors of the individual industrial enterprises. In some industries, notably mining, construction, trade, and food products, a number of individual plants are frequently grouped into trusts (tresti) or associations (ob"yedeneniya) for the purpose of uniting producing, servicing, and distribution functions under common management. 6/ A related form of organization, the combine

* Most enterprises are put under the direct supervision of a chief directorate. In some instances, however, large or important firms are subordinated directly to the ministry and are supervised by the ministerial production department. Sometimes, also, an enterprise which is failing to fulfill its plan may be removed from control of the chief directorate and placed under the ministry itself until the shortcomings are overcome.

(kombinat), is also used in some industries. The combine usually is a vertical trust, integrating under one management plants at successive stages of production, from raw materials to finished product 7/; the Magnitogorsk Steel Kombinat is an example. For all practical purposes, however, these trusts and combines function in much the same way as do individual enterprises subordinated directly to a chief directorate, the most typical arrangement. All three institutions -- individual enterprise, trust, and combine -- fall into the category of predpriyatiye, which means enterprise, business, or undertaking. The organizational structure of the enterprise is patterned in general after that of the ministry and the chief directorate.*

III. The Individual Enterprise: Managerial Principles and Structure.

A. Nature of the Enterprise.

In the Soviet economy, as in capitalist economies, the enterprise** is the ultimate producing unit and as such has long been regarded by Soviet leaders as the "basic link" in industrial management. 8/ The firm is legally obligated to conduct its operations in accordance with a government-approved plan which sets output goals and fixes input limits. Within the framework of its plan and of the control structure essential to a centrally planned economy, however, the Soviet firm carries on its producing activities as an independent entity, in many respects not much different from its capitalist counterpart. Every firm is allocated a supply of fixed capital (buildings, machinery, and the like), for which it is held legally accountable. Likewise, it is supplied with working capital (fixed by its plan), which is credited to its account in Gosbank and which can be augmented if necessary by loans from the Bank. It pays for its own labor and materials from these funds and from receipts from the sale of its products, all financial transactions being cleared

* The internal organization of the enterprise is discussed in more detail in III, below.

** Unless otherwise stated, the terms enterprise and firm are used in this report to refer to an individual plant or factory subordinated directly to a chief directorate or ministry.

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through its checking account. Vested with legal personality, the firm is solely responsible for its own financial obligations, generally expressed in formal or informal contracts, and may be sued in court for failure to fulfill commitments. Finally, the firm hires and fires its own employees and establishes internal arrangements so as to meet production obligations set by its plan.

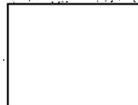
Unlike its capitalist counterpart, however, the Soviet firm is state-owned and forms the final link in an administrative chain in which all links share responsibility for its performance. Hence, in a strict sense there are no areas in which the firm has complete autonomy, for higher administrative organs have the right to intervene in any and all enterprise activities to ensure plan fulfillment for the firm and for themselves.

The principal limitations on the independence of the Soviet firm are inherent in its subordination to central planning authority. The enterprise plan sets tasks with respect to quantity, quality, and assortment of production. The plan also fixes the amounts of materials that may be used in producing the prescribed output, the amount of fuel to be consumed, the number of workers to be employed, and the total wages to be paid. The firm's products are sold at prices fixed by the state to predetermined customers in accordance with contracts generally drawn up by the chief directorate or ministry. These organs usually also purchase supplies and materials and allocate them to the firm as prescribed in its plan. The firm may secure credit only for the purposes and in the amounts specified in its financial plan. Finally, the firm may not dispose of any of its fixed capital through sale or retirement without specific authorization from superiors, nor may it divert working capital to purposes not called for by its plan.

Although the limitations on the autonomy of the enterprise stem from the fact that it is publicly owned and from the Soviet need for central direction and control, the simultaneous provision for some degree of enterprise freedom and initiative stems from the concomitant need to achieve tangible results and to promote

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flexibility and progress.* The firm is not supposed to function as a mere automaton, routinely carrying out the orders of superiors; rather, it is supposed to show initiative and to strive to surpass its formal commitments. Thus the firm is free to overfulfill its production plan and to produce goods of higher quality than the required specifications, if it can do so without using productive resources in excess of those allowed by its plan. In fact, liberal bonuses for overfulfillment provide firm management with the incentive to exercise such initiative. Likewise the firm is free to produce at lower costs than permitted in its plan, thus increasing over-all economic efficiency. Within the limitations imposed by its plan and by regulations of supervisory bodies, enterprise management may organize its physical plant and productive resources as it sees fit, and the more successful it is in plan fulfillment, the more freedom it is likely to have to manage its internal affairs with minimum interference. Plant management may make recommendations to superiors concerning production goals and allocation of materials for the plant and is usually permitted to work out detailed implementation at the plant level of general directives from superior bodies. 9/ Finally, the enterprise is encouraged to exercise initiative in improving methods of production, including development of new technological devices.

B. Principles.

Soviet managerial doctrine provides three basic principles considered to be particularly applicable to individual enterprises. The first is that the enterprise director, or manager, as a representative and authorized agent of the government, can in no sense be completely independent. He is merely a link in a chain of command

* To achieve some sort of workable balance among these basic needs (for control, results, flexibility, and progress) is probably the most critical problem of Soviet managers at all levels. This problem is particularly evident in the relationships between plant directors and officials of the supervising ministry and the chief directorate. Some of the results of their attempts to solve this complex problem in day-to-day operations are examined in subsequent sections of this report.



providing strict subordination of lower to higher organs; hence the so-called "powers" and "rights" of enterprise managers are delegated powers subject to rescission, and heads of the chief directorate and ministry, since they too share responsibility for the firm's performance, have the right and the duty to intervene in its internal operations as they deem necessary.

The second principle is embodied in the doctrine of yedinonachaliye, or one-man authority and responsibility, a concept similar to that used in the management of large capitalist enterprises.* As applied to the enterprise, yedinonachaliye means that the plant director has full authority and responsibility within the plant. His formal powers and duties include the following: appointment and removal of employees, issuance of internal orders and instructions binding upon all employees, delegation of authority to the heads of shops and to other units within the plant, management and control over the plant's material and financial resources, and maintenance of discipline in all phases of operations. In return for these delegated powers the director is held responsible for the security of plant (state) property entrusted to his care and for operating his plant in such a way as to fulfill tasks established for the plant in its formal plan and through special assignments. 11/

In reality, the doctrine of yedinonachaliye is merely a formal device for centralizing authority and responsibility. Since the Soviet firm and its management are an integral part of a centrally planned economy, the plant director's managerial powers must be exercised within the total context of the Soviet system. Hence he is bound by directives and regulations issued by higher bodies; his activities are continually subject to checks not only by his immediate superiors in the chain of command but also by

* As explained earlier (p. 6, above), this doctrine applies to all levels in the managerial hierarchy, although Soviet leaders have long stressed its particular applicability to the enterprise. The system of yedinonachaliye was put into effect in 1934, replacing the so-called "functional" system under which authority and responsibility were shared by the heads of various plant departments. The latter system had resulted in great managerial confusion and duplication. 10/

agencies especially charged with such responsibilities (the Communist Party, Gosbank, the Ministry of State Control, and others); he must pay attention to the opinions of the Party and trade union groups in the plant and to the suggestions of so-called "actives" and of the "masses"; he must support general policies and campaigns currently espoused by the Party and central government (such as the Stakhanovite movement and the encouragement of inventors and rationalizers) regardless of the impact on plant operations; and finally, since superior organs in the chain of command are coresponsible with the director for the plant's performance, he must expect varying amounts of personal intervention by superiors in the internal management of the plant when they consider it necessary in order to ensure completion of the firm's tasks.

The third fundamental principle guiding the operations of Soviet firms is embodied in the concept of economic accountability (khozraschet*), which means that the firm must use business accounting techniques and must manage its resources so as to realize maximum business profits within the framework of its plan. Khozraschet thus is a device by which Soviet leaders seek to achieve their goals with a minimum expenditure of productive resources. Although the firm's monetary production costs and profit are specified in its annual plan, one of plant management's primary tasks is to strive for the largest possible reduction of actual costs below planned costs, thereby maximizing unplanned profits. The size of the differential between planned and actual costs, provided product quality specifications are met, serves as one of the basic measures of the success of the firm. ^{12/} Although earned profits belong to the state, a fixed part is put at the disposal of the enterprise to be spent for so-called "production-welfare necessities." ^{13/} Most of the retained earnings are used for plant expansion and additions to working capital, but a predetermined portion goes into

* Though most enterprises operate on the basis of khozraschet considerations, there are also some which are subsidized from the state budget, as are institutions (uchrezhdeniya) such as postal and telegraph services, schools, and scientific laboratories.

the "director's fund" to be spent for improvements in worker housing and community facilities and for bonuses to meritorious employees.

C. Structure.*

The internal organization of the enterprise varies somewhat, depending on the branch of industry, the type of product, the method of production, the size of the enterprise, and other factors. 14/ In most industrial enterprises, however, the chain of command extends downward from the director through the deputy director or chief engineer to the shop or department chiefs and foremen. The enterprise director, who is appointed by the supervisory minister with Party approval, has full authority and responsibility within the plant. His principal duties have been noted above.

In industrial enterprises the deputy to the director, usually the chief engineer, is likewise appointed by the supervisory ministry subject to Party approval and is in charge of the plant when the director is absent. Primarily responsible for the technical phases of production, the chief engineer exercises general supervision over all of the production shops and production service departments. 15/ He is regarded as a highly important plant official, frequently communicating directly with officials of the supervising chief directorate and ministry. 16/ In a large enterprise the chief engineer may have a deputy (chief dispatcher) who plans and controls the daily scheduling of production.

Next in line of command are the chiefs of production shops, which are considered independent units for accounting purposes and hence must operate in accordance with the principles of khozraschet. 17/ The chief works out the plan for his shop, sets norms and piece rates within prescribed limits, and has authority to hire and fire workers, impose administrative penalties, and award bonuses. The final link in the chain of command is the foreman, who heads a section within the shop and, nominally at least, is "the full powered supervisor in production section assigned to him carrying the responsibility for

* See Figure 2, following p. 18.

fulfilling the plan in all of its indices." 18/ All orders to individual workers are supposed to be channeled through the foreman. The foreman's duties include the following: supervision over the production process and the use of equipment in his section, assignment of workers to specific tasks, hiring and discharge of workers (subject to approval of the shop chief), rating of workers' efficiency and qualifications, and administering of rewards and penalties within prescribed limits. In practice, however, foremen have not been permitted to exercise such broad powers in many plants, and the Soviet press has often pointed out the need for increasing the actual powers of foremen. 19/

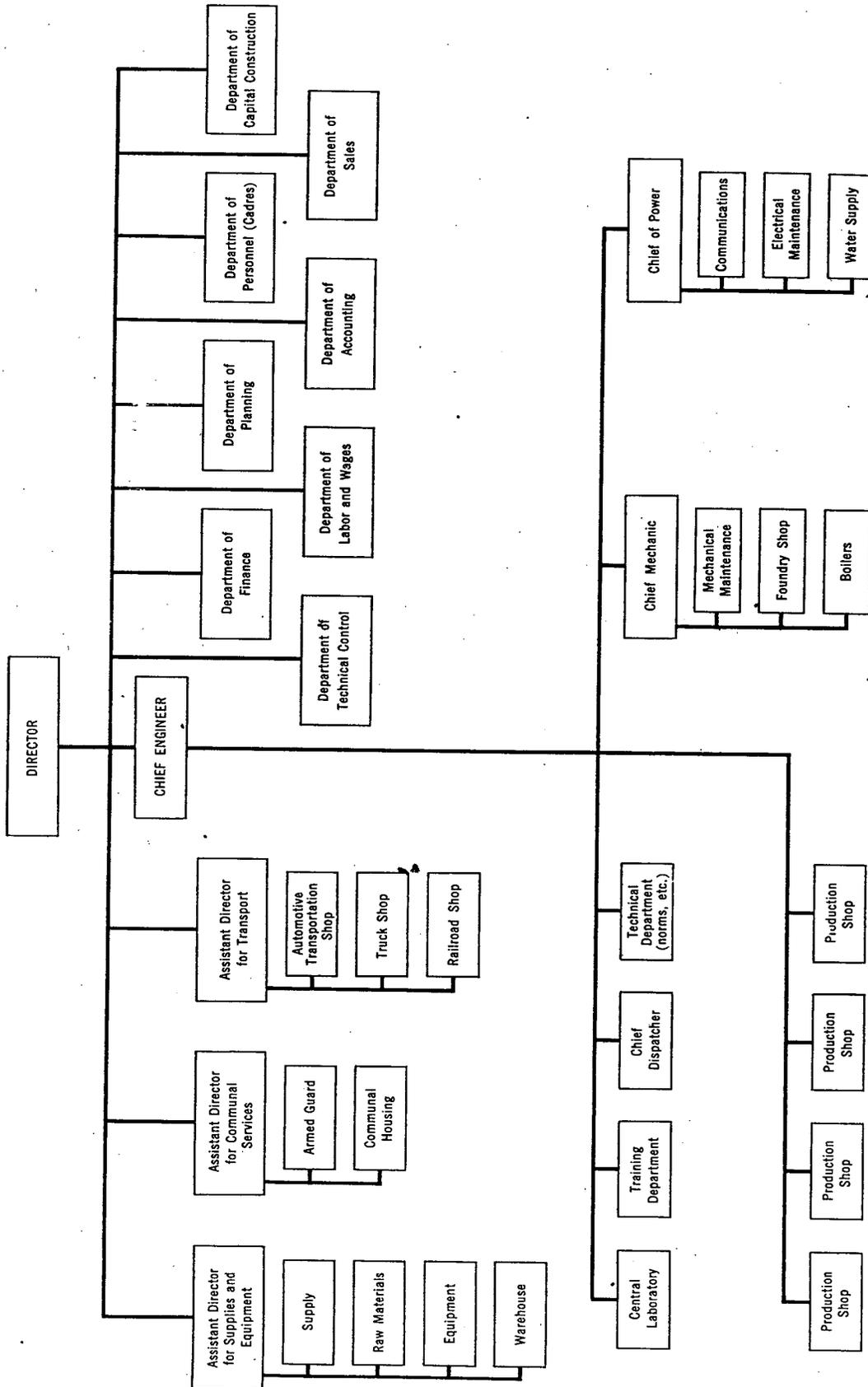
In larger enterprises the heads of staff departments concerned with general administration and services are sometimes called assistant directors, although they are not part of the chain of command. The following are the more important auxiliary departments: planning, which coordinates all enterprise planning activities and prepares draft 5-year, annual, quarterly, and monthly plans; technical control, which checks the quality of output for conformance to specifications; labor and wages, which works out problems of norms and piece rates and methods of raising labor productivity; personnel, which is concerned with hiring, training, and discharge of employees; and accounting, which maintains central bookkeeping for the whole enterprise. Additional departments include finance, supply, sales, and capital construction.

IV. Formulation of the Enterprise Plan.

Soviet doctrine holds that the formation of economic plans necessarily involves both "planning from above" and "planning from below," the former to provide central direction and coordination for the economy and the latter to ensure that the plans will be realistic. The final plans do, in fact, result from a combination of the two kinds of planning. Planning from above is manifested through plan directives from the Party Central Committee and the Council of Ministers establishing over-all tasks for each sector of the economy and through more detailed directives from ministries and chief directorates to individual enterprises fixing specific output goals and input limits to guide their detailed planning. Planning from below is that done by enterprise management in embodying these directives in

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TYPICAL ORGANIZATIONAL STRUCTURE OF A HEAVY INDUSTRY ENTERPRISE
IN THE USSR*



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*Typical for machine-building and metalworking plants and for industry in general as to over-all structure. Some variation among plants as to details.

Figure 2

a detailed plan for plant operation and, if deemed necessary, proposing modifications. Final plans are of course determined from above.

The 5-year plans, representing perspective planning, are largely made from above.* These plans give formal expression to the long-range policy of the regime, fix the principal areas of concentration for the period, and establish goals to serve as a source of inspiration for the general public. The actual operation of the economy, however, is conducted on the basis of the annual national economic plan, which is a composite of the plans of all producing units and which, when approved by the Supreme Soviet, becomes the law of the land. For the individual industrial enterprise the counterpart of this plan is its annual technical-industrial-financial plan (Tekhpromfinplan), which serves as an initial blueprint for the year's operations. The procedure by which this plan is formulated serves not only to illustrate the role played by enterprise directors in plan formation and the relative amount of planning from below in the total planning process, but also reveals many of the over-all problems inherent in present Soviet planning.

A. Functions and Components.

The functions of the annual enterprise plan are threefold. First, it provides supporting details for the broader plans drafted at higher levels, enabling the economic ministries and ultimately the highest planning agencies to evaluate and refine their respective drafts. Second, the enterprise plan, after its approval by the Council of Ministers as part of the ministerial plan, is a legal instrument of control used by the ministry and the chief directorate in regulating the operations of the enterprise. Third, it is the blueprint by which internal enterprise management directs and controls all aspects of the operations of its plant.

* The enterprises have recently been delegated authority to prepare drafts of their own 5-year plans. 21/

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The enterprise plan has seven major components, as follows: (1) a production plan, (2) a plan for utilization of production capacity, (3) a technical development plan, (4) a plan for labor, (5) a plan for materials, (6) a plan for production cost, and (7) a financial plan. 22/ Each component includes a large amount of technical detail which constitutes a binding commitment on the enterprise.

A companion piece to the enterprise plan is the detailed operational (operativnyy) plan, which is ratified by the ministry every month. 23/ In contrast to the enterprise plan, which fixes the plant technical, production, and financial tasks for each month, quarter, and year, the operational plan establishes detailed assignments for monthly, weekly, or 24-hour periods for the enterprise and for individual departments and shifts. The operational plan regulates the beginning and end of each job, the operating hours of each machine, the flow of production, and the allowable repair time. It also establishes with respect to each production task detailed requirements for quantity, quality, and a number of other factors. 24/

The requirements of the operational plan for a given month apparently need not necessarily be the same as those of the annual plan, for available evidence indicates that ministries have sometimes demanded higher monthly production than required by the plant's Tekhpromfinplan. 25/ Such practices presumably are means of providing a cushion against future contingencies that otherwise might adversely affect the plant's fulfillment of the plan.

B. Governing Directives.

Annual planning at the ministerial level is governed by specific assignments (or "indexes") developed by higher planning agencies. These indexes establish minimum requirements for production by value and by volume for each major commodity. They also specify the amount of materials, equipment, manpower, and financial resources which a ministry will be permitted to use for current output and for capital investment. These specifications are based on the assumption that each ministry will be able to achieve certain projected rates of improvement in labor productivity,

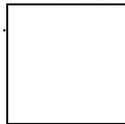
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technical efficiency, and net cost. In the initial planning stage this underlying assumption is binding upon the ministries, although the opportunity to raise questions may arise in the review process.

Each ministry divides the projected production tasks and resources among subordinate units. According to doctrine, the ministry distributes assignments in the form of plan directives to the chief directorates, which in turn reassign them to subordinate enterprises. In practice, however, the ministry frequently issues assignments to the larger enterprises as well as to the chief directorates. 26/ The ministerial plan directives are binding on chief directorates and enterprises during this stage of the procedure. Although the directives do not elaborate on technical or operational details, they specify for each firm the annual production quotas (with semiannual, quarterly, and monthly breakdowns) and determine the allowable amount of materials, manpower, new equipment, financial expenditures, and capital investment. 27/ Plan directives from the ministry also prescribe the amount of technical detail to be included in the individual enterprise plan. 28/

In the determination of plan quotas, established norms for production and utilization of resources are customarily taken into consideration. According to basic Soviet doctrine, these norms must be based on technical and productive capacity* rather than on statistical data of past performance. 30/ This specifically precludes the situation in which a new plan is necessarily based on the norms underlying an old plan. In many industries, moreover, plan directives reportedly require higher norms each year by automatically raising the plant's production goals by a fixed percentage. 31/ Although chief directorates may discuss such new norms with individual enterprises, this consultation does not enable plant managements to exert much influence on their determination of norms, since the

* In Soviet usage, technical capacity is defined as the amount of work which can be performed on given equipment in a prescribed work area by a given labor shift. Productive capacity is defined as the number of parts or units which can be produced by a given shop or section fully exploiting its technical capacity. 29/



discussions take place after production goals have already been fixed at higher levels. Furthermore, any request for lower norms would necessarily involve a suggestion to scale down production goals established by higher agencies, a suggestion which there is considerable reluctance to make. The ministries -- which decide whether the plant's proposals for norm revision are acceptable 32/ -- have tended to insist on the application of norms as initially fixed, in order to force higher production goals in accordance with over-all national policy.

C. Drafting.

1. Participants.

Over-all planning responsibility at the enterprise level rests with the enterprise director and may not be delegated. The actual drafting of the plans, however, is done by the administrative and technical departments of the enterprise. The plant's planning department usually compiles the detailed data submitted by the technical departments into summary economic and financial estimates and acts as a general coordinator in all planning matters. Soviet literature emphasizes that shop leaders and workers likewise participate in the planning process in large measure and that the Party and trade unions exercise a "guiding and mobilizing" influence on it. 33/ Since drafting of the plans is primarily a technical job and has to be performed with tight deadlines, it is doubtful whether there is more than token participation by the rank and file. The plant Party organizations, being coresponsible for fulfillment or nonfulfillment of enterprise plans, apparently are inclined to support management protests against difficult norms or production assignments and usually do not interfere in the planning process, provided the enterprise manager has made the appropriate gestures to ensure their support. 34/

Planning commissions of local government executive committees may also be held responsible for faulty planning in enterprises falling under their territorial jurisdiction. 35/ Accordingly, they have taken an active interest in planning by



these establishments, but in general have tended to confine intervention to steps considered necessary in the local public interest. 36/

2. Procedure.

Officially, preparation of the draft plan begins when the enterprise receives from the chief directorate figures establishing production goals and input limits. Such control figures are not usually received until March or April (or, in some cases, as late as May 37/) of the year preceding the plan year, too late to enable the plant to submit its complete draft plan on schedule. Nevertheless the plant must proceed with preliminary drafting of its plan and is able to do so because most managers can secure informal indications of the probable magnitude of their future production quota. With or without control figures, the plant must begin preliminary planning early in the year because certain measures which are essential to the successful execution of the plan require considerable lead-time, principally the capital goods requirements of the enterprise. []

[] work on the norms for the next year begins as early as February and continues for several months. 38/ By March the plant usually begins to face deadlines for submitting its planned requirements for equipment for the following year. Requirements for new construction likewise receive considerable attention during the preliminary planning stage. 39/

The chief concern of the individual plant in the early drafting stage is to develop in detail the various commitments in the enterprise plan and to supply the chief directorate and the ministry with the detailed information requested. Proper sequence is particularly important in drafting the several parts of the enterprise plan. Plans for plant capacity (new equipment and structures) precede all other sections because they establish physical limits on production. Plans for production, utilization of capacity, and technological development follow, each worked out in considerable detail. This much of the plan must be developed before plans for production inputs (labor, power, materials, and financial expenditures) can be prepared, because the production and technical sections of the plan establish the requirements for detailed

enumeration of production inputs. Estimates of requirements for electrical power, for example, depend on the production assignments and technical processes adopted for the various shops of the plant.

Responsibility for developing the technical details of different parts of the production plan usually falls to an experienced engineer or group of engineers. 40/ In consultation with production shops and other plant departments these engineers consider all questions concerning capacity, production methods, and norms. If design specifications are impractical from a production standpoint, changes are requested. Questions which cannot be settled at the plant level are usually referred to the ministry. After careful review by the chief engineer and chief technician, the work of the engineers is compiled to form the draft plans for production, utilization of capacity, and technical development. Proper preparation of these sections is particularly vital because lack of capacity and technical difficulties are usually the only grounds upon which the plant management can successfully obtain adjustments in production quotas. 41/ In fact, plant capacity and planned technical development are considered so important that higher authorities sometimes send representatives to the enterprise to make on-the-spot investigations while the draft plan is being prepared. 42/

Both the chief directorate and the ministry participate in supervision of the drafting process. Although the former has immediate supervision over the enterprise in this respect, the ministry maintains a close check on the progress being made, particularly in the more important plants, and does not hesitate to intervene if delays occur. 43/

The economic and financial sections of the plan -- that is, those dealing with labor, power and materials costs and requirements, and other financial matters -- are, as indicated above, derivative in nature and cannot be drawn up in detail until the production and technological sections have been approved at higher levels. Although an attempt is made to complete these derivative sections well before the end of the year preceding the plan year, 44/

they are frequently not finally approved for several months after the beginning of the plan year itself. 45/

D. Review.

1. Timing.

The enterprise draft of the annual plan is submitted to the chief directorate for review as soon as the production and technical sections have been worked out in detail. (The economic and financial sections, as stated above, are tentative at this stage.) Generally speaking, the planning schedule of the Soviet economy appears to call for submission of enterprise plans to the chief directorates by the end of June. Individual enterprises, however, seldom seem to meet their deadlines, 46/ probably largely because of the late receipt of specific plan directives from superiors. When a complete draft does not arrive in time, officials at the higher level immediately begin to demand submission of at least the completed parts, so that submission is apt to be on a piecemeal basis. 47/

For the plants examined in this study, review of draft plans at the chief directorate and ministerial level was carried on from late June until about the middle of August. This is apparently a period of intense activity, during which the chief directorate asks for much additional information from the enterprises, but makes few requests for decisions from the ministry. 48/ Enterprise officials are frequently called to Moscow to participate in the formal review of their draft plans. During this period the chief directorates are also preparing their own sections of the ministerial plan for presentation to Gosplan and to the Council of Ministers. Although evidence regarding the precise timing of this presentation is fragmentary, indications are that it takes place in late August or early September. 49/

Although in the past, as noted previously, review and approval of the annual plans at the highest level often have not been

completed until well into the plan year itself, * an effort is made to complete at least the first-quarter plan in all details before the beginning of the new plan year. The central planning agency, after reviewing the ministerial draft plan, issues to the ministry general instructions for revising the whole annual plan and more specific directives covering the first quarter. The latter enable the ministry to send to the enterprise directives specific enough to make possible final formulation of the first-quarter enterprise plan. These directives usually reach the enterprise between late September and late November, although on occasion delays in resolving basic questions in the annual plan may cause planning for the first quarter to be delayed into the plan year. 51/

The ministries revise their plans on the basis of the general directives given them and resubmit the plans. After final review of the revised draft plans the central planning agency submits the completed national economic plan to the Council of Ministers for approval. Upon ratification by the Council, the plan as a whole (specifically incorporating the detailed annual plans of all ministries and enterprises) is promulgated as a law by the Supreme Soviet.

2. Procedure.

In spite of an apparent orderliness in the timing of the review process, order is not in fact a notable characteristic of the procedure. Nor is there in practice a clear separation of the responsibilities of the several echelons involved. Chief directorates assume little responsibility for decisions even in the initial stage. During all stages of planning, moreover, members of the ministerial collegia and other ministry officials frequently bypass the chief directorates and deal directly with enterprise managers. Even officials of Gosplan may concern themselves with some of the detailed minutiae of the plant's plan. 52/

* It is reported that in the majority of ministries the development of technical industrial-financial plans for 1954 was completed only in the second quarter of 1954. 50/



While awaiting approval of the basic parts of the enterprise plan, plant officials must complete the economic and financial sections and proceed with the draft of the operational plan. They must prepare also the specific details of materials requisitions and contracts for the plan year. These activities are carried forward on the assumption that the basic parts of the plan will be approved as submitted. In fact, however, these parts are often substantially changed by higher authorities during the review procedure, thus necessitating extensive revisions of the operational, economic, and financial plans. 53/

Since the review procedure takes so much time and so many changes must usually be made in the original draft, the enterprise plan often is not completed and approved until well into the plan year. 54/ Under these circumstances the enterprise has to proceed on the basis of informal indications from ministry officials of the probable production schedule and resource allocations. 55/ During the period of operation without an approved plan the plant has no formal legal claim to labor, wages, supplies, or finances. Hence the plant suffers delays in securing supplies and funds for payment of wages and other financial obligations, since special authorization from higher authorities is usually needed in such instances. Even after approval of the plan the enterprise remains in this difficult position for a while, because the approved plan must be registered with Gosbank and the Ministry of Finance before financial resources called for by the plan will be released. *

An approved final annual plan for the firm does not necessarily remain unchanged throughout the year. A firm's total production obligations may be increased or the product mix altered as a result of changes in plans for the whole economy, particularly in the priority status of its various sectors. Also, the enterprise production plan may sometimes be revised by central planning authorities if it becomes obvious that essential materials or

* In plants examined for the purposes of this report, registration with these agencies required about a month after final approval of the enterprise plans. 56/



component parts cannot be made available. In unusual circumstances, such as a major fire or other natural catastrophe, the plant's commitments may even be reduced.

E. General Characteristics of the Present Planning Procedure.

From this analysis of the process of enterprise plan formulation it is clear that Soviet planning procedures are heavily weighted in favor of planning from above. Although enterprise managements supply central planners with the estimates and detail concerning plant productive capacity indispensable to realistic planning, most of the basic decisions affecting each firm's plan are made by the ministry and other higher authorities, and apparently the firm has relatively little influence on these decisions. The original draft plan submitted by the firm must conform to control figures fixed by higher authorities, who may make major revisions at any stage of the drafting and review procedure. Although enterprise officials are consulted frequently concerning the firm's plan, consultation often amounts to no more than requests for information. The plan as finally approved may bear little resemblance to that originally submitted and may be unrealistic in terms of the capacity of the enterprise to fulfill it.* Consequently, because both the success of the firm and the income of its managerial officials depend on plan fulfillment, the whole planning process becomes something of a tug-of-war, with enterprise managers striving to establish plan goals which they think they can fulfill, and central planning authorities seeking to get the maximum possible production out of the plant. Officials of the ministries and chief directorates tend to support the latter in this struggle.

Both draft and final plans of the enterprise include a large amount of minute detail, indicating a general policy of close control

* The unrealistic nature of the plans for some enterprises may be one of the reasons why so many firms fail to fulfill their plans. According to Bulganin, "The proportion of enterprises which did not fulfill their annual plans amounted in 1951 to 31 percent; in 1952 to 39 percent; in 1953 to 40 percent; in 1954 to 36 percent." 57/

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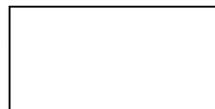
by superior organs over each facet of the firm's operations.* The procedure by which these detailed plans are developed from initial directives and draft proposals to finally approved plans becomes so complex and time-consuming that enterprise plans often have not been approved until after the beginning of the plan year. Such delays, coupled with the probability that the final plan will differ from the draft plan, lead to inefficiency in plant operation because the director cannot lay out production schedules in advance on the basis of stable expectations concerning tasks and resources. Furthermore, preparation of such detailed and complex plans tends to inflate the planning staffs of enterprises and diverts managerial and engineering personnel from production work for long periods of time. In the plants studied for this report, plant officials seemed to be engaged in planning activities throughout the entire year, for no sooner had the belatedly approved plan for one year been received than the plants would receive control figures for the next year's plan.

F. Efforts to Improve Planning Procedure.

Soviet leaders have recognized for a long time the serious shortcomings in the established procedures for formulating enterprise plans and from time to time have taken steps to correct some of the defects, apparently without great success.** During 1953-55, according to official statements, a number of new measures were adopted to improve the quality of plans and to shorten the plan-formulation period. Most notable of these was the division (in 1955) of Gosplan into two committees, one concerned with short-term planning and the other with long-term planning. In addition, the

* Apparently the ministries have required enterprises to submit an enormous amount of detail in their annual plans. It is reported, for example, that the Tekhpromfinplans for cement plants had (in 1954) 89 forms, and those for peat enterprises had 79. 58/

** It is significant to note that a recent study of Soviet industrial management based largely on information for the 1930's describes the same shortcomings in planning as were found by the present study to be still prevalent. 59/



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number of indexes, or objectives, included in the national economic plan and also in the plans of the ministries and chief directorates was greatly reduced. According to Finance Minister Zverev, the 1955 Plan contained 46 percent fewer indexes than the 1954 Plan. 60/ The effect of such reductions is to limit the amount of detail that is planned centrally and thus to enhance the rights of the ministries, which now can give final approval to many details formerly requiring the approval of Gosplan or the Council of Ministers. At the same time the number of forms and the amount of technical detail which the ministries must submit with their draft plans have been considerably reduced. Finally, the ministries have been given the right, before transmitting the indexes in the state plan to individual enterprises, to make partial changes in respect to quarterly breakdowns and cost outlays for individual products. 61/

Similar decentralization in planning also has been extended recently to the enterprise level. Formerly, 5-year plans were initiated and almost exclusively drawn up by the ministries; now the enterprises are to prepare first drafts of their own 5-year plans. With respect to the annual plan, the enterprise now must submit to the ministry proposals and estimates relating to only a limited number of basic indexes -- for example, production output expressed in monetary costs and in natural units, number of workers and employees, total wage fund, and percentage increase in labor productivity. 62/ These estimates and proposals are submitted over the joint signature of the enterprise director, the secretary of the plant Party organization, and the chairman of the plant trade union committee. In case of disagreement concerning plan proposals, these organizations may submit dissenting opinions and alternative recommendations. 63/ Following approval of the basic indexes in the enterprise plan (by the ministry and by central planning authorities as part of the over-all national plan), the plant itself works out details of its complete technical-industrial-financial plan, which is given final approval by the enterprise director and which is then sent to the ministry merely for control purposes. The detailed enterprise plan must be completed not later than 1-1/2 months after approval of the national plan. 64/ Finally, the

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ministries have been charged with the responsibility for reducing the number of forms and the amount of detail required in enterprise Tekhpromfinplans. 65/

Although at least some of these changes in planning procedure were supposed to have been put into effect in 1953 and 1954, formulation of the 1955 Plan in the firms investigated in this report seemed to require about as much time as in previous years. 66/ Further evidence concerning the difficulties and delays in implementing the new, somewhat decentralized planning procedures is afforded by Finance Minister Zverev's statement late in 1954 that, in spite of increased authority in the planning field, the ministries were continuing to refer many petty questions to higher authorities. He sharply censured them for attempting to anticipate every detail of enterprise operations, pointing out that the resultant demands for large amounts of detailed data unduly prolonged and complicated the planning process. 67/ It appears, however, that the new procedures have had some effect in accelerating and simplifying the drafting of the plans for 1956, for according to Moscow radio, the national economic plan was approved by the government on 16 November 1955, and "each enterprise and construction site was informed of its tasks before the beginning of the year." 68/

V. Implementation of the Enterprise Plan.

Plan fulfillment is the primary standard used in evaluating managerial personnel at each level of the hierarchy, and failure to fulfill the plan may entail legal, political, or economic sanctions on all responsible parties. The emphasis on plan fulfillment and over-fulfillment pervades the Soviet system to such an extent that managers at all levels tend to weigh each decision on this balance. For the enterprise director, an added incentive is provided by the fact that his personal income is substantially dependent on the firm's accomplishment with respect to the plan. When production difficulties threaten plan fulfillment and cannot be overcome through official channels, the director has the difficult choice of deciding whether to use illegal or officially disapproved means to attain his objective.

His choice is influenced by the knowledge that plan fulfillment covers many sins, but failure, even without fault of his own, is seldom excused.

Once the enterprise plan has been approved, the director must proceed to carry it out in all detail -- that is, he must see to it that the plant produces goods in the specified quantity, assortment, and quality in the designated time with the prescribed productive resources. But for the most part he cannot expect to program the year's operations solely on the basis of the plan and to carry it out as he sees fit. Since Soviet planning necessarily must be flexible, he faces the possibility that his plan may be changed during the year, or, more probably, that he will be required to deviate from the plan to meet priority directives from superiors. He must also expect these superiors, particularly officials of the ministry and chief directorate, to intervene to influence his day-to-day management of the plant when they consider such action necessary, for their own success depends on success at the enterprise level.

A. Role of Supra-Plant Agencies in Coordination and Control of Plant Production.

The Council of Ministers, as the top executive board for Soviet industry, not only approves the annual enterprise economic plan and subsequent formal changes in it, but also establishes current priorities to govern specific production tasks. In addition, it regulates operational practices, checks on progress in carrying out specific production orders, and sometimes provides support for solving operational problems. To implement new economic programs and revisions in policy the Council first issues broad general decrees and follows them with detailed decrees fixing specific new assignments and revised resource allocations required by the new program. 69/ From time to time the Council also issues special decrees, each applying solely to an individual enterprise. Such decrees are usually issued to meet some especially critical situation and may order priority for deliveries to designated industries or impose deadlines for shipments of certain items to those industries. 70/

In addition to issuing such decrees, the Council of Ministers may use less formal methods to order changes in official plans and allocations in order to cope with spot problems. 71/ The Council also initiates national drives to improve unsatisfactory operational practices, such as slow loading and unloading of railroad cars at plants, and orders ministerial officials to follow up Council decrees with specific instructions to subordinate chief directorates and enterprises. 72/ Finally, the Council issues regulations to govern enterprise production procedures and practices, dealing with even such detailed matters as the issuance of liquor to certain categories of outdoor workers, the minimum coal reserve to be maintained at the plant, and the reduction of scrap metal balances at shops and loading areas. 73/ By means of these various techniques the Council of Ministers is able to achieve some measure of flexibility in the implementation of over-all plans and to make such plans dynamic. Should production problems of great urgency arise or should plan revisions become imperative, the Council can quickly mobilize the resources necessary to meet the situation.

Each industrial ministry maintains direct control over subordinate enterprises and makes many basic operational decisions for them. Not only does it require elaborate and systematic reporting by each enterprise, but also many of its officials keep close check on the status of the production program and provide needed support to the enterprises. The minister himself sometimes intervenes in the operational affairs of an individual plant to bring the weight of his position to bear on a specific problem. his directives to plants are in many instances the result of his contacts with other ministries and their enterprises and with the Council of Ministers. His directive may, for example, be a rush production order, an order reflecting criticism heard in the Council of Ministers, or general or detailed instructions relating to a specific production assignment. 74/ The deputy ministers, as well as the minister, may also become involved in any and all phases of plant production. 75/ Finally, the minister also receives complaints from plant management concerning such matters as rejection of a request or failure of a chief directorate or a ministerial department to provide adequate support to the plant. Such complaints are sometimes successful and sometimes not.

The ministerial collegium considers all major policy problems and maintains a continuing check on plan implementation. At the start of the plan year the collegium apparently reviews in some detail the situation in each individual enterprise, especially those which are expected to encounter difficulties; it follows up these initial reviews thoroughly during the plan year and may require plant officials to appear at collegium sessions in Moscow to answer specific questions. 76/ Moreover, it may modify enterprise operational plans, consider the fate of major officials of plants consistently failing to meet obligations, and deal with specific production problems. 77/ Although important questions are settled at formal collegium meetings, most of the collegium's surveillance and control functions are apparently performed by those deputy ministers and heads of chief directorates having direct line responsibility. 78/

The production department of the ministry is the staff arm of the minister, having over-all responsibility for ensuring completion of the ministerial production plan. Although not in the direct chain of command between the minister and the plant, officials of the production department often behave as if they were agents empowered with direct supervisory authority. This department handles problems immediately related to the implementation of current production plans of subordinate enterprises. Its ability to coordinate the assignment of production orders among plants is limited, however, since it cannot reject demands from higher levels for acceleration of delivery schedules or changes in priorities. Nevertheless, it can sometimes help a plant by giving advance warning of impending changes in orders or by supporting plant officials in their dealings with the ministry. 79/

In its efforts to assure fulfillment of both specific priority orders and of the production program as a whole, the production department checks on timely delivery of raw materials and supplies to the enterprises and analyzes systematically their regular 10-day reports. 80/ If an enterprise is behind schedule, or other operational problems arise, representatives of the department will investigate to ascertain the causes and, through discussions with plant officials, determine whether the problems can be resolved without outside help. 81/ If worse comes to worst, officials of the production

department may even suggest subterfuges designed to create the appearance of compliance with the plan. 82/ Near the end of each month, quarter, and year, the production department if necessary stages a final plan fulfillment drive using exhortations and threats in addition to last-minute support. 83/

if, despite these precautions, a plant underfulfills its monthly plan, the production department proceeds according to an almost ritualistic pattern. 84/ First, a suitable amount of official wrath is displayed, and written explanations are demanded. Thereafter, representatives of the production department discuss the situation with officials of the enterprise. If underfulfillment can legitimately be attributed to technical factors or delinquency of suppliers, the discussions are relatively peaceful. If not, officials of both the department and the plant try to assign the blame to one another by referring to previous directives or appeals for help.

As noted previously, the chief directorate, though a separate link in the chain of managerial command, is frequently bypassed in ministry-enterprise relations. This practice has apparently resulted in a considerable amount of duplication of effort in the day-to-day implementation of plans. The principal difference between the activities of the chief directorate and those of the minister and ministerial production department seems to be one of intensity rather than subject matter. The measures usually taken by the chief directorates probably are more specific and continuous. The routine operations of the chief directorate include thorough examination of plant preparations for executing the production program, day-to-day checks on the progress of all phases of work under the plan, and occasional on-the-spot investigations. 85/ Issuance of categorical orders to fulfill or overfulfill the plan are a prominent feature of chief directorate behavior. 86/ These orders often set forth detailed instructions, and the chief directorate may even send a representative to the plant to check upon compliance. 87/ In some cases the directorate also can decide what part of the plant's planned delivery schedule may be modified in order to fill unforeseen priority orders. 88/ Finally, the directorate attempts to ensure completion

of all production orders on schedule, acting in this connection as a high-level expeditor in supply matters. 89/

B. Plant Production Scheduling.

Ministries, chief directorates, and enterprises alike base decisions concerning production schedules upon the annual plan and its quarterly and annual production quotas. They must also observe any supplementary directives of governmental and Party organs. The annual production quotas set in the enterprise plan can be changed only by the Council of Ministers, but considerable flexibility exists with respect to quarterly and monthly production and delivery schedules. The formal production schedule of the enterprise originates in the ministerial operational plan, which contains itemized monthly production and delivery schedules for all subordinate plants and is transmitted to the plant in the form of approved monthly operational plans. 90/ On the basis of these plans the planning department of the enterprise draws up 10-day operational plans for each production shop and for the plant as a whole. 91/ A production progress report must be submitted to the chief directorate and to the ministry for each 10-day period. * 92/

If an enterprise cannot meet production schedules, it may petition its chief directorate and its ministry for a reduction. 93/ The ministry may grant such a petition within the framework of the national plan, by deferring production from one month or quarter to the next. 94/ If approval of such a deferral would threaten fulfillment of the annual enterprise plan, however, the ministry may refer the petition to the Council of Ministers for decision. 95/ evidence concerning the plants studied in this report indicates that failure of an enterprise to fulfill even a 10-day plan will entail immediate inquiries by the chief directorate or ministry, which may then require the enterprise to submit reports every 5 days or even every day. 96/ The intent of such close control is to forestall last-minute difficulties or underfulfillment.

* Some plants are required to submit routine reports more frequently than every 10 days. Daily reports are required of cement plants, for example, and 5-day reports must be submitted by oil refineries.

Judging by the experience of some plants [] [] planned production scheduling and scheduling control in the enterprise is frequently interfered with in a manner irreconcilable with orderly production. On the average, these plants received about a dozen orders each month from deputy ministers or from officials of the ministerial production department and the chief directorate requiring the manufacture and shipment of items irrespective of planned delivery schedules. 97/ Press criticism of such practices suggests that the experience of these plants may be fairly typical. 98/ The plant director may protest to the ministry -- generally without success, however, because such special orders usually result from pressure by top Party and government officials. 99/ He must then deviate from the planned production schedule and prepare for the consequences as best he can. Under these circumstances, established production schedules are less meaningful in practice than they are in appearance. *

The plant's planned production schedule also often has to be rearranged to meet demands of the ministry or chief directorate that the plant overfulfill its plan. 101/ Although these demands are usually couched as "requests," plant officials can ill afford to ignore them. Such requests are frequently used by the ministry as a means of shifting assignments from less efficient to more efficient producers who are expected to be able to cope with the added production load.

Finally, radical rescheduling of plant production may be required by shifts in over-all national economic policy. [] [] as soon as a new policy is announced, ministerial and chief directorate officials attempt to implement it at once by issuing directives to the enterprises to adjust production and delivery schedules. Apparently, detailed planning for these necessary

* Such unscheduled orders and revisions in plans may explain in part the prevalence of shturmovshchina (storming) in Soviet industry, whereby planned output is accomplished mainly during the last half of the month rather than being distributed evenly throughout the period. Irregular and belated delivery of supplies also contributes to this practice. 100/



adjustments does not usually precede public announcement. For example, when an increase in agricultural and consumer goods production was decided upon in 1953, machine-building plants were pressed to begin immediate delivery of equipment and other products needed to carry through the new policy. 102/ Since plans apparently had not been adjusted in advance of the changed requirements, production was disrupted during the time that new schedules were being developed. Soviet leaders apparently considered such temporary disruptions not too high a price to pay for the psychological benefits to be derived from the speedy announcement of a new economic policy, thus permitting inauguration of public drives for its immediate implementation.

C. Procurement of Supplies and Equipment.

Strict central control is exercised over allocation of supplies and equipment required by the individual enterprise in implementing its plan. A long list of critical items ("funded commodities"*) has in the past been directly allocated by Gosplan in accordance with the national economic plan; presumably this function is now performed by the recently established Gosekonomkommissiya. To secure allocation of funded commodities, the individual enterprise includes in its draft plan specific material requirements which are reviewed and collated in the ministry and then are submitted to the central planning authorities as part of the annual plan. Finally approved commodity allocations are made by means of special vouchers, first to the ministries and then to enterprises in accordance with norms or "coefficients" fixed in the plan. Severe penalties are provided for using funded commodities for purposes other than those specifically approved. 104/ "Quota" commodities (a large category of items somewhat less scarce than funded commodities) may be sold by producing ministries directly to consumer ministries without specific central government approval of each

* From time to time the USSR has attempted to reduce the number of funded commodities. It is reported, for example, that some time in 1953 "A number of items of equipment and supply ... are being taken off the Council of Ministers' controlled list and transferred to the jurisdiction of the Ministers themselves." 103/



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sale. Ministries, in turn, allocate such goods to subordinate chief directorates and firms in accordance with specifications in their plans. Other commodities may be procured by ministries and subordinate enterprises directly from producing cooperatives and local industrial plants without formal allocation. 105/

Besides this formal system of allocating materials and equipment, the Soviet government also maintains centrally controlled reserves, which may be used to meet unforeseen supply problems. "Reserves of the Council of Ministers," essentially a part of the plant inventory, may be used (with special authorization from the Council) to satisfy needs arising in the process of carrying out the plan -- for example, to meet unplanned assignments or to overfulfill the plan. 106/ In addition, state reserves are maintained by the Chief Directorate of State Material Reserves for mobilization and similar emergencies and may be made available to enterprises for critical current production requirements, with the approval of the Council of Ministers.

The procurement of allocated goods -- that is, their physical acquisition by the enterprise -- is closely controlled by the ministry through a staff department of supply (Glavsnab*). After receipt of orders from chief directorates or enterprises, Glavsnab negotiates "general economic or business contracts" (khozyaystvennyy dogovor) with supply ministries. 107/ These contracts stipulate the quantity and assortment of materials to be supplied and their specifications, delivery dates, and penalties for nonfulfillment. In some cases chief directorates of the consuming industry also conclude general contracts with suppliers through their own supply departments.

In the case of standardized articles, enterprise management participates in the negotiation of the contract only if its requirements differ significantly from the kind of goods available from supply

* Glavsnab is sometimes also referred to as chief directorate of supply or main administration of supply. For the sake of clarity the term "department of supply" will be used in this report.

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departments of superior organs and covered by their general contracts. 108/ In the case of nonstandardized articles the consumer enterprise may negotiate (with the permission of its ministerial supply department) a local contract directly with the producing enterprise. Such local contracts, however, merely supplement the general contracts by stipulating detailed technical and sales terms, including the conditions under which orders may be canceled or damages claimed for contract violation. The ministerial supply department fixes the amount of goods that may be bought and designates the supplier for the enterprise.* 111/

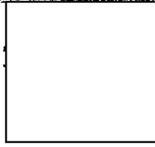
Goods acquired through general contracts negotiated by the supply departments of the ministry or chief directorate usually are delivered to them and distributed to consumer enterprises through a network of regional offices, depots, and warehouses. 112/ Other items are delivered directly to the ultimate consumers.** quantitative or qualitative adjustments in goods supplied under contracts usually require specific approval of the department of supply, whether the goods are delivered to Glavsnab or to the enterprise. 113/

Top officials of the ministry play an active role with respect to procurement. The minister himself sometimes appeals to higher governmental authorities on behalf of consumer firms

* For many years, consumer enterprises frequently negotiated contracts directly with producers. In 1949, however, the Council of Ministers directed khozaschet enterprises (those operating under cost accounting) to minimize direct contracting, which allegedly had resulted in inadequate control, wasteful precontract negotiations, and other evils. 109/ Since then, direct contracts have been confined primarily to special cases -- for example, instances in which equipment is manufactured on the individual specifications of the consumer -- and such contracts are now subject to careful review by ministerial officials. 110/

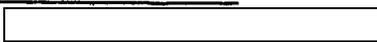
** Enterprises are required to submit regular inventory reports to the supply department of the ministry. These reports enable the ministry to redistribute scarce materials among subordinate enterprises when necessary.

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under his supervision, in order to expedite supplies from producer ministries. 114/ Also he may order subordinate producer firms to make priority deliveries to designated consumers and when necessary may act as a high-level expediter in supply matters. 115/ He also decides disputes over allocations and priorities submitted to him from lower levels. Deputy ministers and collegium members perform similar tasks. In dealing with spot problems of enterprises, they act regularly as expediters (especially in interministerial transactions), adjust priorities, and sometimes allocate specific items to an enterprise directly or through its supervisory chief directorate. 116/ They also give special attention to the control and the maximum utilization of enterprise inventories, supervise interplant programs* under which enterprises with a surplus of a given commodity must upon request relinquish it to those in short supply, and intervene if an enterprise shows reluctance to comply. 117/

Although procurement officially is chiefly the responsibility of higher echelons, in actual practice individual enterprises must take many steps of their own to ensure that required materials will be available when needed. They must often find a suitable supplier when a local contract is to be made and must persuade the supply department to make necessary contract arrangements. Enterprise officials usually must follow up requests for allocation and delivery of goods in order to make sure that needed raw materials and equipment will be available. 118/ When such action does not lead to timely delivery, enterprise directors sometimes appeal to top Party and government leaders for help. 119/ Enterprises also have often found it necessary to follow up interventions made by superiors in their behalf by sending a representative to the supplier to ensure the timely production and delivery of ordered goods, and even ministerial officials sometimes have urged enterprises to do so. 120/

*  these programs are interministerial as well as intraministerial in character. This fact probably explains why they are under the direct supervision of deputy ministers.



In spite of efforts of this kind, supply problems frequently have disrupted production, even in relatively favored sectors of the economy. 121/ A recent Soviet survey of the machine-building industry revealed that 30 percent of the idleness of workers in that industry had been due to ill-timed provision of materials. The director of the important Stalin Motor Plant in Moscow has stated that he sometimes has to spend as much as nine-tenths of his working day on supply problems. 122/

Under such circumstances it is not surprising that plant officials frequently resort to supply practices which are improper under Soviet rules. One of the most common is to overstate material requirements in preparing annual and quarterly plans. A second practice is the employment of "pushers" at supply organs and important supplier plants; their job is to see to it that the firm gets ordered materials on schedule. Still another widely used technique is the use of blat (improper influence), whereby managerial officials of one plant attempt to persuade those of another to supply needed items by promising to grant special favors in return. 123/

Another practice arising from the uncertainties and shortcomings of regular supply channels is the tendency of industrial enterprises to produce many of their own materials and parts, even though they could be made more cheaply by outside suppliers. A factory frequently operates its own small foundry or castings shop, for example, in spite of the fact that it can obtain such components from other firms at lower cost (though probably with less assurance). During the past year, Soviet leaders have shown great concern over the growing tendency toward such vertical integration in industry. In a speech to the plenary session of the Central Committee of the Communist Party in July 1955, Premier Bulganin discussed this problem at some length and urged the ministries to take steps to increase the number of specialized plants. 124/ Following up the points made by Bulganin, the Central Committee adopted resolutions obligating the ministries and central planning agencies to take steps to increase specialization in Soviet industry and eliminate unjustified and inefficient instances of vertical production. 125/

Other resolutions also obligated these organs and the enterprises to find means for regularizing provision of supplies -- measures which, if successful, would remove one of the main motives for firms to produce their own raw materials and parts.

In any attempt to determine the causes of the supply difficulties discussed above, * it must be recognized that the USSR is attempting to secure a maximum rate of economic growth and maximum production from the given production establishment. Attempts to maximize growth inevitably lead to limitation upon certain lines of capital expansion and encouragement of others. A detailed system for allocation and distribution of critical materials is indispensable to such a program of forced growth. Given the absence of consumer choice and conventional market controls, moreover, a planned economy must develop a structure to substitute for the market mechanism. The system of allocation employed by the USSR is capable of effecting the distribution of production materials, although it is cumbersome compared to a simple market system. **

Although the system undoubtedly has injected some semblance of order into plan implementation, it does not appear to function nearly so smoothly as Soviet leaders intended. Part of the malfunctioning is inevitable in an economy operating at full capacity with scarce resources, but part also seems to be attributable to inadequate planning for materials distribution and to overlapping and duplication of effort among supply agencies of ministries, chief directorates, and enterprises. In the procurement field, probably more than any other, the individual enterprise has had to use its own ingenuity to assure itself production

* It is significant to note that the shortcomings in the supply and distribution system found to be currently prevalent in the USSR are essentially the same as those found in a recent study to be prevalent during the 1930's. 126/

** It should be implicitly recognized that the expenditure entailed in maintaining and reporting upon elaborate central and regional markets is tremendously high and is a cost the USSR avoids by the existing organization. The recurring difficulties with a continuous flow of supplies are more a result of Soviet pressure to force higher production from the economy than they are an indictment of the mechanism or the procedures.

materials, with the result that a wide variety of illegal and officially censured practices have become a regular feature of the system. The sufferance of such practices by top Soviet managers is a tacit admission that it is considered expedient to permit the development of needed flexibility in this way.

D. Quality Control and Inspection.

The principal technique for quality control in the USSR is the establishment by the government of legally binding standards -- that is, rules and technical specifications for the measurement of quality -- for all important products. The prevailing quality standard for a given product is the All-Union State Standard (GOST), which defines technical properties and sets minimum quality requirements to which the product must conform. A published GOST will usually include the following: (1) description of the product; (2) physical and mechanical specifications; (3) sampling rules or testing methods; and (4) rules for packaging, transportation, and storage. 127/ Where GOST standards do not apply, technical specifications, consisting of a detailed description of the product and constituent materials, are fixed by contract between producer and consumer enterprises.

Top Party and government echelons have attached great importance to quality control. The State Committee for Standardization, Measures, and Measuring Instruments (attached to the Council of Ministers) enforces compliance by the ministries with the rules governing technical standards, while ministries and chief directorates supervise the inspection systems and practices in the plants. 128/ Each industrial enterprise maintains a department of technical control (OTK) which operates under a kind of dual subordination, in that the chief of the OTK, though administratively subordinate to the enterprise director, receives substantive instructions from the chief of inspection in the ministry and may correspond on matters of quality and rejects directly with the ministry and other outside agencies. 129/ His reports go to both the enterprise director and the chief of inspection. The enterprise director may rescind decisions of the OTK chief, but the latter may appeal to the ministerial chief of inspection if he considers the director's action unwarranted. 130/

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In practice, ministries apparently tend to restrict their quality control activities to establishing general inspection policies and to acting as arbiters in technical questions. The actual control of plant inspection activities seems to be primarily in the hands of the chief directorates, which specifically supervise testing procedures and inspection of major production items. If it becomes necessary to deviate significantly from established specifications, however, both chief directorate and enterprise usually will refer the matter to the ministry for decision. 131/

The OTK performs three general types of inspection activities. The first is the preliminary inspection of semifinished parts and assemblies for the purpose of preventing further processing of poor-quality items. The second involves spot checks to ascertain the observance of technological rules and to prevent violations which might increase the rejection rate. The third is a complete examination of finished products, including checks on the thoroughness of preliminary and intermediate inspections and tests to determine compliance with dimensional tolerances, material specifications, and other technical standards. Before the OTK check the production foreman makes his own examination and affixes his personal stamp. Especially complex units also require stamping by the shop chief. After final inspection the product is stamped by the OTK control foreman and either sent to the shop warehouse or shipped to the customer.

Defective products are classified as total or as correctable rejects. Total rejects are placed in special locked bins or warehouses under the control of designated OTK officials. 132/ A rejection certificate is made out stating the nature and cause of the defect and designating responsible individuals who are then usually billed for the direct cost. Thus, if a machinist performing the final operation on a part was at fault, he is billed for all preceding work, including the cost of the materials. Similarly, if the technical staff designed a faulty special reamer used by a lathe operator with the approval of the foreman, the cost of the resultant rejects is levied against the designer, lathe operator, and foreman. In practice, the costs often exceed the individual ability to pay, and the plant makes up the difference. 133/ Correctable rejects are

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returned to the shop with specific instructions for correction and usually are reworked, even though the cost of reworking may exceed the cost of scrapping. 134/

Since the OTK is responsible for the prevention as well as the detection of substandard production, it has a direct interest in keeping the number of rejects down, an interest which it shares with the rest of the enterprise. 135/ Accordingly, the OTK chief and the enterprise director may informally agree upon the number of rejects that can be safely reported, and the OTK may occasionally ignore defective products which are not too far below standard. Such manipulations can be carried through successfully only if the plant has funds and supplies sufficient to replace the concealed rejects. 136/

Customers and purchasing agencies examine finished products and testing procedures in plants from which they buy. If the order is for large or particularly important equipment, acceptance of the goods may be handled by an ad hoc committee composed of representatives of the customer, the supervisory chief directorate and ministry, a central governmental design bureau, * and the producer. 137/ Military customers also may exercise continuing supervision over the production of ordered items. If a disagreement about the quality of a delivery cannot be settled at the plant level, it is taken up by the chief directorates or ministries concerned and may be referred for final decision to the State Arbitration Commission (Gosarbitrazh), attached to the Council of Ministers.

The enterprise central accounting office receives a copy of each OTK rejection slip and charges net reject losses to the cost of the production order. Rejects may not be included in plan fulfillment figures, nor is allowance for the cost of reworking correctable rejects made in the enterprise plan. 138/ Delivery of low-quality

* Specialized central design bureaus are attached to industrial ministries to assist chief directorates and enterprises in solving particularly difficult technical problems. Their role is primarily that of a consultant, and their recommendations generally are not put into force without prior acceptance by the chief directorate and the enterprise concerned.

or incomplete products not only is a crime for which the enterprise director, chief engineer, and OTK chief may be imprisoned, but is also a breach of contract, obligating the enterprise concerned to rework or replace the rejects and to pay a fine to the customer or to the government in the case of illegally concluded contracts. 139/

E. Role of the Manager.

Soviet doctrine concerning economic administration envisages that the individual enterprise shall be "centrally managed" but "operationally independent." Centralized management, expressed principally through the planning process, is essential to ensure coordination of enterprise activities with the rest of the economy, and operational independence is necessary to achieve maximum efficiency in the use of scarce economic resources by encouraging initiative at the producing level. These principles are considered to be not conflicting, but complementary, and establishment of the proper interrelationship between them is deemed a necessary condition for successful operation of socialist industry. 140/

Achievement of such a proper balance has proved exceedingly difficult, and in day-to-day implementation of plans the operational independence of firms, until recently, has tended to give way to centralized management. Evidence of this shift is provided in two ways. First, the formal rights allowed the enterprise director in carrying out the work of his plant have been severely limited. For example, until late in 1955 he did not have the right to transfer administrative and technical employees from one shop or department to another, nor could he usually alter their salaries; he could not on his own initiative use working capital funds to purchase needed items of equipment costing more than 300 rubles; and many restrictions were placed on his use of the director's fund. In recent years plant managers, as well as top Soviet leaders, have frequently complained that such restrictions on the powers delegated to enterprise directors hamper initiative and prevent the speedy solution of urgent problems arising almost daily in the plant. 141/ They have stressed the need for increasing the rights of enterprise managers and the importance of the principle of one-man management on the enterprise level.

In fact, recently (in July 1955) the Plenum of the Central Committee of the Communist Party adopted a resolution calling for extension of the rights of enterprise directors. 142/ Shortly thereafter the powers of enterprise managers were considerably broadened, and it was announced that a new statute was being prepared to define in more complete detail the status of the individual enterprise and the rights of its director. Although only fragmentary information is available concerning the nature of the newly granted powers, they are known to include the following 143/: (1) the enterprise may accept orders for production of goods from materials supplied by the consumer or from the firm's own supplies, provided such acceptance will not interfere with plan fulfillment; (2) working capital funds may be used to purchase certain kinds of equipment costing not more than 500 rubles; (3) the technological process of production may be altered, provided product quality is not impaired or production costs increased; (4) delivery schedules within a quarter may be modified, in agreement with the customer; (5) the structure of the staffs of shops and departments may be established and altered within the limits of the firm's plan for labor; (6) wage funds saved during one quarter of the year may be used to pay wages in subsequent quarters; and (7) under certain conditions, surplus materials and equipment not used by the enterprise may be sold.

Second, the nature of the day-to-day relationships between the enterprise and its supervising agencies provides further evidence that in practice the principle of centralized management has tended to triumph over that of operational independence. In supervising plan implementation and the execution of supplemental directives by the enterprise, officials of the ministry and chief directorate have frequently exercised what the Soviet press terms "petty tutelage" over the firm. supervisory officials have bombarded the enterprise managements with directives, quasi-directives, and detailed instructions for carrying out the orders, which sometimes have been conflicting. The extent and closeness of such supervisory activity seems to be related to the success of the enterprise in fulfilling its assigned tasks; superior organs tend to leave successful firms alone, but to supervise unsuccessful ones in minute detail.

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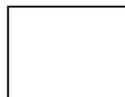


Though enterprise management has tended to regard many of the activities of ministry and chief directorate officials as unwarranted interference in the internal affairs of the firm, many such actions undoubtedly were justified from the broader point of view of these superiors. To ensure fulfillment of the plan for the ministry as a whole, ministry officials sometimes have had to shift assignments or materials allocations from one plant to another. Such shifts may be disastrous from the point of view of the plant directors concerned, but necessary from the point of view of the ministry. The tendency of superior organs to keep close watch over subordinate firms and to intervene in their activities when deemed necessary stems from the fact that these organs, too, are judged on their success in fulfilling assigned tasks; a firm's failures are their failures, which they seek to prevent by all possible means.

Even without the burden of excessive interference by supervisory organs, the position of the enterprise manager in the USSR is not enviable. Smooth and orderly operation of the plant according to plan is seldom possible. Among the factors likely to cause interruptions of planned production schedules are the following: difficulties in obtaining trained manpower; belated delivery and poor quality of supplies and equipment; and numerous requests for information and reports from central and local organs, requiring much time in preparation. In addition to these more or less chronic difficulties, the plant is often required to deviate from its plan in order to fulfill higher priority orders levied by superiors. Sometimes its plan may be formally changed or additional resources allocated, but more often than not the firm must complete both the plan and the priority orders as best it can.

The fact that industrial enterprises usually manage nevertheless to fulfill assignments attests to the ingenuity of enterprise management and to the large measure of flexibility that in practice has become an informal part of the Soviet system. To fulfill both planned and unplanned tasks, enterprise managers often have to resort to a variety of improper and illegal practices, which are overlooked by superior organs so long as the plant is

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successful. Higher authorities apparently try to select as plant directors persons whom they expect to display initiative and assume responsibility for getting things done in one way or another. 144/

The new powers granted to enterprise directors following the July Plenum are intended to increase the operational independence of firms. Likewise, the broader authority in the field of planning and allocation of resources which was recently accorded the economic ministries* is designed to reduce centralization of management and decision-making. Through these measures for limited decentralization of economic management, Soviet leaders evidently hope to improve over-all economic efficiency by encouraging initiative at the producing level and by reducing delays and waste motion caused by the constant referral of a host of minor problems to successively higher levels for decision. The realization of these hopes depends on the extent to which lower and intermediate-level management actually exercises its increased authority. Enterprise managers accustomed to being closely controlled and to coordinating each step with higher authorities may be reluctant to act on the broader authority officially accorded them. Similarly, officials of ministries and chief directorates may hesitate to give up close control over enterprise affairs, since they still retain over-all responsibility for plan fulfillment, and the consequences of failure are serious. Indeed, some recent statements by Soviet leaders suggest that the new measures for decentralization are not being implemented as rapidly as desired. ** 145/

VI. Management of the Enterprise Labor Force.

A plan for labor is one of the basic components of the enterprise Tekhpromfinplan. It includes measures for increasing labor productivity, estimates of the total labor force and the number in each important occupational group, the total wage fund and the average for each worker category, the plan for training workers, the sources for recruitment of additional personnel, and the plan for social and

* See pp. 29-30, above.

** See p. 31, above.

cultural benefits for workers. Implementation of these plans covers a wide range of activities and responsibilities of plant management, the most important ones being the following: establishment of the plant's table of organization and recruitment of a labor force; training, assignment, and dismissal of employees; remuneration of employees; maintenance of internal plant discipline; and establishment and maintenance of channels for worker-management communication. In some of these areas the plant director has been allowed wide latitude for action, but in others his authority is limited to a greater or lesser extent by provisions of Soviet labor law; by proscriptions imposed by supervisory organs; and by controls, both latent and actual, exercised by Party, trade union, and finance agents.

A. Establishment of a Labor Force.

The size and distribution of the plant's labor force is governed by the limits set forth in its annual plan for labor and by its approved table of organization. The staffing pattern must conform to that established for comparable enterprises by the ministry and the State Tables of Organization Commission.* The plant's table of organization (applicable only to administrative-management personnel) must be registered annually with finance offices of the city or rayon governments and is subject to close surveillance by these organs. To circumvent the stringent controls over the employment of such nonproduction workers, plant managers have adopted a variety of ingenious and illegal measures for inflating administrative-management staffs. 146/ If discovered, these practices are forbidden, and the guilty officials may be fined or imprisoned. To cope with this recurrent problem of inflated white-collar staffs, not only in the enterprises but throughout the state apparatus, the government in recent years also has ordered flat percentage reductions (usually 5 percent annually) in the number

* The State Tables of Organization Commission, formerly attached to the Council of Ministers, was subordinated to the Ministry of Finance in 1953.

of such positions.* These orders are implemented at the enterprise level by the plant director, who must abolish the prescribed number of positions in the designated time, dismiss the employees affected and find other jobs for them, submit detailed progress reports to the ministry, and transfer payroll funds saved in this way to the state budget. 148/ Failure to carry out such orders is punishable by reprimand, fine, or dismissal. 149/

Following approval of the plant's labor plan and table of organization the plant director must employ workers in strict accord with these directives.** The plant's labor force is drawn primarily from the local population; like their Western counterparts, Soviet firms in need of workers advertise in newspapers or over the radio. Though recruitment is the responsibility of the enterprise director, he may obtain important assistance from the supervising chief directorate, ministry, and other agencies concerned with centralized direction of the labor force. Engineering and technical workers graduating from universities and other schools are allocated among enterprises by the economic ministries and the directors of the schools. In order to secure such specialists the enterprise must submit annual lists of requirements to the ministry. In addition to placing recent graduates, the ministry, through its department of supervisory personnel, assists the enterprise in obtaining managerial employees and others with special skills. 151/

* In a report to the Supreme Soviet on the proposed State Budget for 1956, Finance Minister Zverev stated, "The number employed in the administrative apparatus of enterprises, establishments, and organizations has been cut in the course of two years [1954-55] by nearly 750,000. A considerable number of these have been transferred from the administrative apparatus to production. Savings connected with the above reductions amounted to over 7.2 billion rubles per annum." 147/

** In August 1955, enterprise managers were given the right to "establish and alter the structure and staffs of shops and divisions of a plant administration within the limits of the enterprise's plan for labor" and to "economize on the wage fund received in the preceding quarters for the payment of wages in the subsequent quarters of the same year." 150/

A plant unable to obtain unskilled or semiskilled employees locally may request the ministry to recruit such workers through the organized recruitment program. This program is operated on a nationwide basis by the Chief Directorate for Organized Recruitment of Manpower (Glavorgnabor*) through local units attached to city, kray, and oblast executive committees. Workers are recruited under individual 1- to 3-year employment contracts in accordance with the specifications of the enterprise. In connection with this program, ministries and their chief directorates distribute recruits among the enterprises, handle complaints, and generally act as intermediaries between the enterprise and local offices of Glavorgnabor. 152/

Although the plant director is allowed wide latitude in the hiring of rank-and-file office and plant workers, his appointments to many managerial and technical positions in the plant require approval of the ministry and the Party. According to , such approval is required for the following: the chief accountant, the chief engineer, the chief metallurgist, the chief technologist, and the chiefs of important plant departments. 153/ In addition, the ministry appoints recent graduates from the universities and technical schools, assignments of particular individuals often being made in accord with the wishes of Party officials. **

B. Assignment, Transfer, and Dismissal of Plant Employees.

The enterprise director distributes manual employees among the various departments and positions in the plant in a manner which, in his opinion, will ensure efficient operation and plan fulfillment. Shop chiefs and foremen, under the general supervision of the director, do the same within their domains. The director's liberty to take personnel action, however, is

* Attached to the Council of Ministers.

** It is reported, for example, that the Party Central Committee placed three-fifths of the university graduates in 1939 and that it intervened in 1940 to force the Minister of the Chemical Industry to send engineering graduates to a certain plant. 154/

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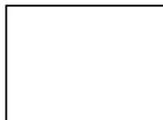
limited by the provisions of Soviet labor law and other regulations in much the same way as the freedom of his Western counterpart is limited by law and by provisions of collective bargaining agreements. Soviet labor law provides that, except under explicitly defined conditions, a Soviet worker may not be transferred from one job to another or from one plant to another without his consent. 155/ Young specialists assigned to the plant from the universities and technical schools may not be transferred to administrative work or to jobs outside their speciality. 156/ The plant director may not send administrative-management employees (including engineering-technical workers) on detached duty without permission of the chief directorate.

indicate that ministries, chief directorates, and even the Council of Ministers issue a variety of orders to the enterprise which affect utilization of its labor force. In their efforts to ensure over-all plan fulfillment, ministerial officials sometimes order temporary transfers of workers, both skilled and unskilled, from one enterprise to another within the jurisdiction of the ministry. 157/ In particularly critical cases of underfulfillment of plans, both interministerial and intraministerial transfers of workers may be ordered by decree of the Council of Ministers. In 1953-54, for example, the Ministry of the Timber and Paper Industry, in accordance with such a Council decree designed to improve output in the logging industry, ordered extensive transfers of workers from paper mills, match factories, and woodworking trusts to logging enterprises, and the latter were ordered to transfer a maximum number of workers from secondary and auxiliary operations to basic logging operations. 158/

The plant director may not dismiss an employee against his will except on grounds specified in Soviet labor law. Until recently, * an employee could not quit his job without authorization of his employer, who had full authority to refuse any request for a release not based on legal grounds making release mandatory

* A Supreme Soviet decree of 11 May 1956 gives employees the right to leave their jobs by merely giving 2 weeks' notice to the plant director.

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(health, personal hardship, or entrance in school). Although plant directors were responsible for ensuring that approval of a request for release did not adversely affect the interests of the enterprise, they apparently exercised their authority quite freely, judging from press reports of high labor turnover in Soviet factories. 159/ Skilled workers, being less easily replaceable, were undoubtedly released with much more reluctance than were unskilled workers.

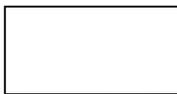
 the release or discharge of higher level administrative and technical employees had to be approved by the ministry and chief directorate. 160/ Also, officials of these organs and of the Communist Party sometimes ordered a plant director to discharge a designated employee or to "freely release" those who volunteered for work on high-priority projects. 161/

C. Training.

Securing of manpower trained to run machines and factories has been one of the critical problems of Soviet industrial development. During the early decades of industrialization the training of workers was, of sheer necessity, primarily the responsibility of the plants where they were to work, but the government has gradually taken over a major share of this responsibility. Generally speaking, it may be said that two training systems are now in operation, one formal and the other informal. The formal system comprises technical schools under the direction of the economic ministries and the Ministry of Higher Education and labor reserve schools under the Chief Directorate of Labor Reserves.* Certain types of labor reserve schools are often attached directly to industrial enterprises. Plant managers, consequently, must take care of them to some extent, even though they have no over-all responsibility for their administration. 162/

In addition to formal training of young employees in special schools, workers receive informal training in the plants, partly on-the-job and partly through course work. Provisions for

* Attached to the Council of Ministers.



training new personnel and "raising of workers' skills" are a part of the annual enterprise plan and must be implemented and fulfilled like the other parts. Enterprise managers seem to have considerable latitude in working out training programs and to take an active and constructive interest in them. 163/ Ministries also aid in training by establishing special courses to teach Stakhanovite work methods and new techniques.

D. Wage and Salary Determination.

Enterprise directors have only limited authority to fix wages. The compensation of employees is determined by a wage and salary system established by the economic ministries on the basis of principles laid down by the central government. White collar workers are usually paid flat monthly salaries fixed by the ministry and set forth in the enterprise plan and table of organization. The enterprise manager may not change these rates, though under certain conditions he may sometimes be allowed to grant "personal rates," which exceed the official rates. If he wants to depart from the governmental rules under other circumstances, he must rely on one of the various methods which managers have developed to circumvent the existing stringent controls.* 164/ In the case of production workers, however, he has more leeway to manipulate the compensation of individuals, since he determines the job classification and wage category of the worker as well as the work norms, and since, further, the ministerial standard schedules cannot in practice take care of each individual situation.

In addition to the basic wage or salary, employees may receive various bonuses and premiums which are financed either from the director's fund or from special funds. The enterprise director supposedly may pay the bonuses, within the legal framework, as he thinks best. In practice, however, his discretion is

* The chronic problem of overexpenditure of wage funds and its consequences, as well as recent efforts to cope with the problem, is discussed in more detail on p. 67, below.

limited by the necessity in some cases to consult with the plant's trade union, and by interferences of the chief directorate and ministry. 165/ Bonuses for top managerial personnel in the plant (the director, deputy director, chief engineer, chief accountant, and chiefs of planning and production) are awarded by the ministry.

Plant employees also receive overtime pay and various fringe benefits. As a rule, the enterprise director must secure advance authorization for overtime work from both the chief directorate and the central committee of his workers' trade union. He is apparently authorized to order emergency overtime work on his own initiative, however, provided he has wage funds covering the cost and the plant trade union committee approves. Although the prerequisite of trade union approval appears to be a mere formality, the union may intercede if it believes that the amount of overtime work is excessive. 166/ Major changes in the workday or week may be imposed by order of the Council of Ministers or the ministry. 167/ Fringe benefits (such as night shift bonus and vacation pay) are fixed by law or ministerial regulation, and plant management may not deviate from them.

E. Labor-Management Relations.

Soviet labor law defines the actions of workers which constitute violations of labor discipline and fixes penalties for them. The managerial staff in individual enterprises has the right and the duty to punish contravening employees. Failure to do so may result in imposition of reprimands, fines, or prison sentences. Although the internal plant managements apparently have authority commensurate with this responsibility, they seem to have been lenient whenever they considered this expedient. They have been particularly reluctant to punish every instance of absenteeism or unauthorized changing of jobs and thereby have taken the risk of being punished themselves. 168/ Plant trade union committees must support management's efforts to maintain labor discipline, since safeguarding of the latter is one of the major functions of Soviet unionism. Individual workers may file appeals against disciplinary punishment with the intraplant conflicts commissions and the people's courts.

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As a more positive means of creating and preserving an atmosphere suitable to promote maximum output, the internal enterprise managements attempt to maintain communications systems designed not only to get their point of view to the workers but also to get the latter's point of view to management. Communications channels are inherent in the established chain of command and in the role played by the factory trade union committee (zavkom). In addition, widespread use is made of the "production conference," which may be called at the initiative of management, the trade union, or the Party group in the plant. These conferences are held regularly or intermittently to consider reports by management concerning production and workers' welfare matters and to discuss production problems, operational changes proposed by management, and workers' suggestions and criticisms. Though some of these arrangements have been subject to criticism, they seem, by and large, to have functioned fairly satisfactorily and to have provided an element of strength in the operation of Soviet industry. 169/

Since it is obvious that wherever employees have to perform work under the direction of superiors, the will of one man is subordinated to that of another, and friction cannot be avoided, irrespective of the prevailing economic, social, and political system, the same conflicts or grievances arise in the day-to-day working relations of Soviet plant managements and workers as arise between Western employers and their personnel, and similar methods or grievance procedures are used to adjust them. The standard method provides for the submission of complaints to successively higher levels until they are adjusted or referred to final decision by a neutral agency. In the USSR the grievance is first presented to the plant trade union organizer, who may take it up with the plant trade union committee or discuss it directly with management. If the matter cannot be adjusted in this stage, it may be submitted in a more formal manner to the plant appraisal and conflicts commission (RKK). This bipartite body is composed of representatives of the union and of management in equal numbers and may be invoked not only by labor but also by management to obtain, for example, punishment of workers for violating rules of employment or for damaging enterprise property. Decisions of the RKK, which must be unanimous,

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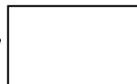
are binding. If a unanimous decision cannot be reached or if the complainant is not satisfied with the award, the issue may be referred for final decision to higher levels of the trade union or to the people's court. The commission, in addition to settling grievances, has the power to decide whether a worker may be discharged for lack of qualification or reasons of health. Without its affirmative decision, such a discharge is not legally valid. 170/

The general practice of attempting to settle issues outside of prescribed channels, already noted in connection with production and supply matters, is also present in the field of labor-management disputes. Workers have complained directly to the Kremlin, the All-Union Central Council of Trade Unions, and the ministry, not only in matters over which the RKK and the courts have no jurisdiction,* but also concerning issues which should have been settled through the grievance procedure. Officials on high administrative levels have accepted such complaints and have channeled them back for investigation. 171/ By and large, however, extensive use is apparently made of the grievance machinery. Some sources state that workers have been fairly successful in grievance proceedings, though other observers declare the system to be unsatisfactory. 172/ On balance, the operation of the machinery for settlement of disputes probably affects worker morale favorably and thereby contributes to labor productivity.

F. Function of the Manager.

A steady increase in the productivity of labor has been a continuing objective of Soviet economic policy; an increase of 50 percent is scheduled for the industrial sector of the economy during the Sixth Five Year Plan period. Although the principal

* A number of issues have been considered not suitable to be determined by the RKK and have been excluded from its jurisdiction. Examples are disputes about norms set by management, dismissal and reinstatement of certain types of managerial employees, changes in official wage and salary scales, and discharges due to reduction in force.





methods of increasing productivity are through mechanization and improved production and supply scheduling, important contributions can also be made through improving the management of labor itself. At the plant level the director is responsible for implementing the plan for increasing labor productivity, and in many aspects of this task he has been accorded commensurate authority and considerable freedom of action. His rights to deploy his labor force within the plant and to reward individual effort, however, have been greatly restricted, although a recent delegation of authority in this regard has lessened these restrictions.

Plant trade union and Party groups having the same overall objective as management -- namely, plan fulfillment -- support management efforts to train workers, to promote maximum output at minimum cost, and to maintain labor discipline. There is no evidence that trade unions interfere in areas that are management prerogatives or attempt to assume managerial responsibilities. The Party intervenes in personnel matters, thus posing an actual or potential limitation on management's right to hire and fire employees. On the other hand, both the Party and the trade union aid management by mobilizing workers in support of production objectives and other tasks.

VII. External Controls over Plan Implementation.

In Soviet ideology the concept of control signifies essentially (1) the process of checking on fulfillment of central government and Party decisions by individuals and institutions and their adherence to relevant laws and regulations and to the various forms of "Socialist discipline" and (2) the imposition of necessary restraints. As already evident, state control over plan implementation in the individual industrial enterprise is obtained primarily through the day-to-day exercise of the supervisory functions of the responsible chief directorate and ministry. Besides the controls normally inherent in an established chain of command, two other direct means are employed: one is the "control by the ruble" exercised



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by banking and financial organs; * and the other is the inspection system of the Ministry of State Control. Less formal and direct, though no less effective, are the all-pervasive surveillance and control activities of local and territorial units of the Communist Party. The cost of maintaining such a complex control apparatus is considerable, but is indispensable to a centrally planned and centrally administered economy such as that of the USSR.

A. Gosbank.

The State Bank, or Gosbank, ** is the central Soviet banking institution and as such serves as a master clearing house for Soviet industry. The Bank's principal task is to perform normal banking functions for its customers -- that is, to execute settlement payments between enterprises, to provide them with cash, and to extend short-term credits. Each industrial enterprise maintains a bank account (settlement or clearing account), in which are deposited the working-capital funds allotted by the annual enterprise plan, the receipts from the sale of goods and services, and the proceeds of loans authorized in the firm's credit plan or otherwise approved.

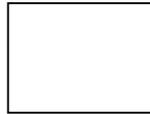
Virtually all payments between individual enterprises must be transacted through debits and credits to the appropriate bank accounts; cash being used usually only for payment of wages. The enterprise must use its financial resources for purposes specified in its plan or otherwise authorized. If the balance in a firm's settlement account becomes insufficient to meet all its obligations,

* Control by the ruble is a broad concept, embracing essentially all aspects of control that stem from the facts that money (the ruble) is used as a means of account in the Soviet system and that monetary units are employed to measure success of enterprise operations. Thus the concept includes not only controls over credit and cash expenditures exercised by the banks, but also controls exercised through budgets, cost-accounting, and profits. 173/

** Attached to the Council of Ministers.

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Gosbank will insist upon observance of the priorities established by the government in a resolution of 21 August 1954, which assigned first priority to wage payments, second to debts due other enterprises, * and third to repayment of bank loans. 175/ This order of payment priority emphasizes the fact that in the Soviet economy, considerations related to continued production and unhampered operations in the enterprises take precedence over financial considerations.

Through performance of its normal banking functions, however, Gosbank exercises a much larger measure of control over the affairs of industrial enterprises than do the banks in capitalist economies. In administering the settlement account of an enterprise the Bank must make sure that the firm is observing its production and financial plans and that payments are being made only for authorized purposes. This form of control by the ruble is accomplished through exercise of the Bank's authority to extend short-term credit and regulate cash expenditures.

1. Short-Term Credits.

Gosbank grants credits to individual enterprises in accordance with the limits and purposes stipulated in the annual enterprise plan or on the basis of supplemental authorizations of the supervising chief directorate and ministry. ** Loans may be granted

* Enforcement of contract obligations is the responsibility of the State Arbitration Commission and not of Gosbank. Should an enterprise refuse to pay for a purchase, however, the bank is supposed to check on the legality of such refusal. 174/

** Long-term loans for capital construction and other purposes are made by a special institution, Prombank, which exercises with respect to such loans controls over the enterprise similar to those exercised by Gosbank with respect to short-term loans. Thus Prombank sees to it that loan proceeds are used for the purposes designated, that price lists are observed, and that investment projects are undertaken and completed in accordance with the enterprise plan for capital construction. 176/

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to augment working capital, to finance goods in transit, and to pay for above-normal raw material stocks, inventories, and production expenses. 177/ Individual loans are usually granted for specified purposes, bear interest, and are secured by approved collateral. In connection with such secured loans the enterprise must make a full disclosure to the Bank with respect to collateral, to supplement the Bank's almost complete knowledge of the firm's transaction pattern. In addition to credits specifically authorized in the enterprise plan, the Bank may grant unplanned loans for special purposes, upon authorization of the enterprise's supervising chief directorate or ministry. 178/

In giving credit to an enterprise the Bank is empowered to inquire into the firm's financial position and its utilization of physical production resources. The Bank may investigate to ascertain whether excess inventories or stocks of raw materials are being maintained and whether the enterprise is fulfilling its obligations to other enterprises, to the Bank, and to the state on schedule. The Bank makes monthly checks of the security of its loans by detailed examination of enterprise operational reports. 179/ Finally, the Bank must make sure that loans are used for the purposes authorized.* The effectiveness of such bank control over enterprise affairs is enhanced by the Bank's right to apply credit sanctions and to debit the firm's settlement account when deemed necessary to force repayment of loans or other obligations.

In order to strengthen the hand of Gosbank, the extension of credit between enterprises is strictly proscribed. The control functions of the banking system are further enhanced by provision for the Bank to supply through credits a specified proportion of the normal working capital funds for those enterprises, chiefly in heavy industry and trade, that do not experience seasonal variations in working capital requirements. The effect

* One method used by the Bank to ensure that credits are used for the purpose authorized is the issuance of a "limited checkbook," which can be used as scrip to purchase only one type of service, usually transportation. 180/



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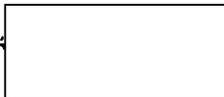
of this provision is to give the Bank a fixed share in every purchase of materials and in all of the firm's goods in process and inventories, with the concomitant right to keep close watch over the firm's activities. 181/

In its loan activities, Gosbank also strives to improve the financial efficiency of the enterprise. For this purpose it has established three "regimes of credit," namely, the "preferential" (l'gotnyy), the "regular" (obychnyy), and the "special" (osoby) regimes. 182/ Enterprises which are fulfilling their profit and cost reduction plans and maintaining their working capital may be placed under the preferential regime, thus enabling them to obtain additional loans relatively easily in time of financial strain. Firms which fail in any of these tasks but nevertheless fulfill their production plan are put under the regular regime. Inefficient enterprises (that is, those failing to fulfill their plans or to repay creditors) may be placed under the "special regime of crediting" (osoby rezhim kreditirovaniya), under which financial pressure is applied "to improve efficiency or to force [the] enterprise out of operation." 183/ A firm is placed under the special regime by order of the Bank, and while in this status it cannot obtain credit without a specific guarantee from its chief directorate or ministry. In the absence of a guarantee the Bank must stop all credit to the firm and recall credits previously issued; these measures are tantamount to declaring the firm bankrupt. Even though a guarantee from higher administrative organs is received, the Bank nevertheless intensifies its observation of the firm's operations and imposes various kinds of sanctions if malpractices are found. If, for example, the firm defaults on payments to suppliers, the Bank may impose the "system of responsible custody," by which the firm is charged by bank order with the safe custody of the goods in question until payment is made 184/; this means that the goods cannot be used in production. The Bank also may require an enterprise under the special regime to pay suppliers for ordered materials in advance of their delivery.

If an enterprise improves its operations sufficiently within 6 months after having been placed under the special regime, it is restored to a regular regime status. Otherwise the Bank will either

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continue the special regime or declare the enterprise bankrupt. 185/ In the latter case, the enterprise loses its right to dispose freely of current income, and Gosbank may stop credits, control settlement account expenditures closely, sell material assets, and direct payments strictly according to priority. 186/ In addition, responsible officers of the enterprise may be publicly stigmatized by the Soviet press for inefficiency and malfeasance in office. Finally, the Ministry of State Control (Goskontrol) may take up the case for investigation and appropriate legal action.

The controls exercised by Gosbank are not absolute, however, [redacted] a ministry or chief directorate can cause the Bank to continue credits to an enterprise, with its guarantee, even where the Bank previously had threatened to revoke them, 187/ or a ministry may have the Bank "write ... off /overdue loans/ against /its/ guarantee." 188/ [redacted] a chief directorate may exert pressure on a local branch of Gosbank in behalf of an enterprise by threatening to complain to Gosbank's board of directors or to the Ministry of State Control. 189/

2. Cash Operations.

Except for small petty cash funds used by enterprises for minor expense items, all cash transactions of industrial enterprises are subject to control by the banking system. The only important use of cash by enterprises is for payment of wages and salaries, * and Gosbank disburses cash for this purpose in accordance with the wage plan of the enterprise. To secure the necessary cash, the enterprise must present two documents to the Bank each month: one is the registration card received from the appropriate local agency of the Ministry of Finance indicating the proper registration of the plant's table of organization and other details of its annual

* Cash disbursements for wages seem to average about 80 percent of Gosbank's total cash outlay each year and sometimes rise as high as 90 percent. 190/

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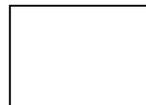
labor and wage plan*; and the other is a certificate, signed by the enterprise director and the senior accountant, setting forth the planned wage fund, the wage obligations actually incurred, and the percentage of plan fulfillment during the month. 192/ By checking the information contained in these documents against the wage fund allotment under the cash plan, the Bank can determine the correct amount that should be disbursed from the enterprise account, making due allowance for the extent of plan fulfillment.

Disbursements may exceed the planned wage fund for the month to the extent warranted by overfulfillment of the firm's production plan. According to the basic decree governing wage funds, such overexpenditures may be covered automatically by the Bank for the first month; after that, a ministerial guarantee is required.** Provision is also made to cover overexpenditures for reasons other than plan overfulfillment. For any month following a month in which the enterprise did not exceed its wage fund, the Bank may permit an overexpenditure up to 10 percent of the allotted monthly wage fund (primary overexpenditure). Additional disbursements require authorization from the appropriate ministry, 194/ which either will supply the necessary funds from its own resources or will order the plant to make up the overexpenditure by using funds allocated to a succeeding quarter. 195/

* Agents of local finance agencies exercise important control over enterprise staffs and wage funds, particularly those involving administrative-management employees. In this connection these agencies (1) examine in detail the registration statements of the enterprise and may order changes in the proposed tables of organization, (2) check on enterprise compliance with government decrees ordering reductions in administrative-management staffs, and (3) conduct periodic inspections in the enterprises to uncover violations of approved staffing patterns and expenditures. 191/

** A redistribution of funds within the ministry will generally be arranged to make up for the unplanned wage expenditures. 193/

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Thus, recurrent wage overexpenditures are possible, with or without simultaneous overfulfillment of plans and with or without specific ministerial sanction. Judging from [] [] [] wage fund overexpenditures, it would appear that chief directorates and ministries authorize them rather freely in cases where a ministerial guarantee is required. The ministries seem to be more concerned with maximizing production than with strict compliance with fixed wage fund limits and therefore tend to lend assistance to enterprises in financial difficulty.

Overexpenditure of planned wage funds has been a recurrent problem in the USSR. [] estimates that total wage overexpenditures during the first 9 months of 1953 ran into 2 millions of rubles." 196/ Above-plan wage payments of such a magnitude contribute to inflationary pressures in the Soviet economy, where consumer goods have been perennially in short supply. To cope with the problem of wage fund overexpenditures and other critical problems in the labor field a State Committee for Questions of Labor and Wages (attached to the Council of Ministers) was established in May 1955. This Committee is engaged in a basic revision of the whole wage structure, for the purpose, among others, of reducing the pressure for wage-fund overpayment which stems from the nature of the wage system. The Committee also undoubtedly will approach the problem in another way through exercise of its duty "to inspect and check the work of Ministries departments and enterprises on questions of labor and wages." 197/ []

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In spite of the possibilities for exceeding planned wage allotments, enterprise managers apparently have found the controls over staffs and wage funds to be relatively tight. Accordingly, they have engaged in a variety of illegal and improper practices in order to provide more flexibility in staffing and to enhance their ability to offer financial incentives to obtain workers and to reward performance.

Some of these practices include the manipulation of gross output figures so as to justify higher wage outlays, the diversion of funds for leave pay to cover regular wage payments, and the padding of payrolls and improper upgrading of workers. 199/ Gosbank, together with agents of the Ministry of State Control and the Ministry of Finance, is empowered to inspect the premises of enterprises for possible violation of financial and table of organization discipline and to report any discrepancies to the supervisory ministry for appropriate action. 200/

B. Ministry of State Control.

The Ministry of State Control (Goskontrol) cooperates closely with the Ministry of Finance and the Committee on Party Control of the Party's Central Committee in "combatting bureaucratism, red tape, laxity of direction, and the embezzlement of state funds and material assets." 201/ Goskontrol has the power to make on-the-spot inspections, audit books, and operate a system of periodic control over industrial enterprises and all other state establishments. The purpose of the inspection system is to promote fulfillment of government decrees and production goals through exposure and elimination of defects in the financial and production operations of enterprises. 202/

Goskontrol schedules routine quarterly, semiannual, or annual inspections of enterprises, covering mainly financial and production aspects of plant operation. Since Goskontrol is primarily concerned with questions of management and production, however, its financial audits are less detailed than those of the Ministry of Finance, except in cases of suspected embezzlement or fraud.* In connection with routine inspections, Goskontrol is

* There are some indications that Goskontrol may be able to influence future governmental budget allocations to ministries and enterprises by budget recommendations to the Council of Ministers derived from experience gained in its financial audits of these enterprises and ministries. 203/ The extent of such influence, however, is not clear.

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empowered to examine in detail all phases of enterprise operations. Its inspectors thus are constantly on the lookout for malpractices, such as production of goods not specified by the plan, padding of production norms, unnecessary increases in the amount of raw materials used in manufactured articles, and overproducing certain components of a product and underproducing others. 204/ Inspectors also determine whether the productive capacity of a plant is being fully utilized and may suggest means for utilizing idle capacity and recommend the introduction of new production techniques. 205/ Goskontrol's routine inspections are all-pervasive; they cover the following, for example: adherence to quality standards (particularly for consumer goods); general storage facilities, stockpiled raw materials, and fuel reserves; the condition and use of equipment; the shipment of manufactured goods, including reasons for any delay; the preparedness of the enterprise to receive new workers; and dining room, dormitory, and medical facilities. 206/

In addition to regular routine inspections, Goskontrol also conducts unscheduled or special inspections of enterprises and other state institutions. Such inspections usually result from a complaint concerning illegal practices or operating deficiencies or from an administrative order to investigate a given situation. 207/ Local government and Party organs apparently have the right to request unscheduled inspections at any time and for almost any reason. Inspection orders are also issued by the Council of Ministers itself, usually for the purpose of improving the administrative apparatus and procedures of state institutions. 208/ In addition to verifying the execution of Council decrees calling for reductions in administrative-management staffs and expenditures, Goskontrol sometimes is also directed to conduct independent investigations of the managerial apparatus of an enterprise or other agency and to make appropriate recommendations. 209/

If illegal practices or serious operational defects are found in the course of either routine or special inspections, a detailed report, called an inspection akt, is prepared by the responsible inspector. 210/ Such a report amounts to a bill of

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indictment and not only contains findings of fact, but also attempts to determine the causes of shortcomings and to assign guilt. 211/ All statements in the report must be supported by appropriate financial and production data and by photostat copies of relevant documents. Copies of the akt are sent to Goskontrol headquarters, to the director of the enterprise concerned, to administrative agencies supervising the enterprise, and to local government and Party organs. 212/ Managerial officials are given an opportunity to offer explanations for defects in enterprise operations reported in the akt. 213/

The inspection akt serves as an order to the enterprise director to correct the operating defects designated and contains recommendations for that purpose. Compliance with the akt is checked by a subsequent inspection and if necessary, Goskontrol "must force" the agencies supervising the enterprise to enforce observance. 214/ It also has the right to issue "compulsory orders" to ministries directing them to remedy discovered deficiencies either in their own operations or in those of subordinate agencies. 215/ If these measures are not sufficient or if serious questions of legality are involved, Goskontrol may impose fines or reductions in salary on responsible officials, may petition the Council of Ministers for their dismissal, or may demand institution of court proceedings. 216/ As a result of findings in the course of regular or special inspections or on specific orders of the government, Goskontrol may institute continuous control over production activities in individual enterprises. Such control is referred to variously as sistematcheskiy (systematic or continuous), operativnyy (operative), and povednevnyy (daily). The activities involved, however, are probably about the same in each type. 217/ The measure, which is initiated by a special order to a Goskontrol officer in the field directing him to expedite production in a designated lagging enterprise, establishes direct continuous Goskontrol supervision over production. When efficiency is improved satisfactorily and quotas are met, the continuous control is discontinued, and Goskontrol returns to the system of periodic inspections.

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tinuous control indicate that it was undertaken to overcome specific difficulties in meeting production goals. 218/ In many of these situations the order to Goskontrol to exercise continuous control probably emanated from the Council of Ministers itself and represented its attempt to obtain an expeditious solution to some critical production problem. Thus Goskontrol seems to function as a kind of trouble-shooter to deal with emergency situations, as well as an agency to provide a continuing check on the implementation of government and Party decisions.*

C. Communist Party.

The territorial and local organs of the Party apparatus provide still another means through which Soviet leaders check on the implementation of government and Party decisions and the adherence of state institutions and Soviet citizens to all phases of Party policy. With respect to the individual enterprise, the factory and territorial organizations of the Party** function essentially as examiners, trouble-shooters, and expeditors. Since Party organizations share responsibilities for plan fulfillment with the enterprise management and its superiors, they must keep continuous watch over all aspects of enterprise affairs, provide aid in case of difficulties, and keep superiors in the chain of Party command informed concerning activities at the producing

* In 1954, certain unspecified functions of Goskontrol were transferred to Gosbank in connection with a broad reorganization and some decentralization of banking operations. 219/ []

[] some recent cutbacks in Goskontrol field personnel as part of the reductions in administrative management staff conducted throughout the government. In a speech made in May 1955, however, Khrushchey stated that the Ministry of State Control "must be used more fully" with respect to the government-wide drive to increase production and economic efficiency. 220/

** Special Party representatives, responsible directly to the Party Central Committee, are sometimes stationed in strategic plants subordinate to All-Union ministries. 221/

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level. In addition to direct plan fulfillment, Party organizations are also coresponsible with management for the execution of all other government orders, decrees, and campaigns.

The role of local Party groups in relation to enterprise management, however, is somewhat ambivalent. 222/ On the one hand, they share the plant manager's interest in successful performance of the plant in all phases of its activities. To this end, they often provide important aid by "mobilizing" plant employees in support of production goals, expediting the receipt of necessary raw materials, aiding in the solution of financial problems, and assisting in obtaining additional employees for the plant. 223/ Party channels provide enterprise management with an avenue through which to direct complaints or to attempt the solution of problems not remediable through regular administrative channels. 224/ In this aspect of its activities the Party group not only must uncover operating shortcomings which may threaten the success of the plant, but also must render assistance in overcoming them by "doing all it can to help the management." 225/

On the other hand, the Party groups must act on the basis of interests which are broader than those of the immediate plant management and may even be antagonistic. Because these groups respond to pressures along Party lines rather than administrative lines, they must support over-all Party goals of maximizing total output in indicated directions at a minimum expenditure of resources. Hence they exert pressure on management to increase its plan "voluntarily," to overfulfill its plan, to encourage Stakhanovites and rationalizers with the ultimate purpose of raising work norms, and to uncover and expose instances of violations of Socialist discipline in all its ramifications. In carrying out these aspects of their activities the officials of local Party groups have no authority to overrule decisions of plant management, 226/ for in accordance with the doctrine of yedinonachaliye the director's decisions are binding within the plant. These groups, nevertheless, are in a position to exert great influence on his decisions and even to bring about their reversal. As a result of the Party's checking and "mobilizing" activities, for example, the

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director may have to include goals in the draft plan which he thinks unwise or adopt "suggestions" for changes in work processes which he may not like. Moreover, his appointments and dismissals of key lieutenants usually must conform to Party wishes. * 228/

In carrying out their dual role of partner and controller in relation to the enterprise, local Party officials must steer some kind of a middle course. They must not usurp the powers of enterprise directors or goad them unduly, since they will share the blame for any subsequent failures. On the other hand, they must not pass up opportunities for uncovering and "mobilizing" hidden productive reserves. Their task is probably facilitated by the fact that enterprise directors are usually Party members and presumably are subject to some of the same pressures as those to which local Party officials respond. ** 230/ In practice, however, this middle course apparently has proved difficult to achieve. In his report to the Plenum of the Communist Party in July 1955, Bulganin criticized local Party units for excesses in both directions. 231/ Accordingly, a subsequent resolution of the Party Central Committee called for measures to be taken to "raise standards of Party guidance of industry." 232/ In order to maintain adequate control while providing some measure of decentralization in economic planning and plan implementation, the role of local Party units apparently is to be strengthened in ways not yet made clear. 233/

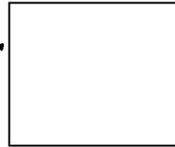
D. Effectiveness of Controls.

In managing their Socialist economy, Soviet leaders have substituted planning and highly centralized administration for a market (price) mechanism and have established a comprehensive, rigid, and complex structure of controls designed to channel day-to-day activities of enterprises in accordance with predetermined

* plant directors are gaining in Party status, for some of them have recently been appointed to key positions in local Party and government organs. 227/

** emphasis on Party affiliation in recommendations for appointment seems to have been declining somewhat. 229/

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policies. The enterprise is subject not only to controls imposed by superior organs in the chain of administrative command, but also to inspections, supervision, and constraints exercised by a number of external agencies established primarily or even exclusively for that purpose. In so complex a structure there is bound to be overlapping and duplication of activities. Plant management has often complained of the "petty tutelage" over its operations exercised by some of the controlling agencies and has alleged that they cause unwarranted work for plant managerial personnel and interfere with plan fulfillment. 234/

Soviet rulers have attempted periodically to cope with the problem of high costs of administering direct controls by reducing the number of controllers, but not the number of controls. Indeed, the role of the principal external controlling agencies -- Gosbank, the Ministry of State Control, and local units of the Party -- apparently is being increased concomitantly with the decentralization of responsibilities for planning and plan implementation that is taking place in the hierarchy directly engaged in managing Soviet industry. The burden of increased controls may offset in some respects the added authority and responsibility given to lower-level management and frustrate the hoped-for gain in efficiency and flexibility at the enterprise level.

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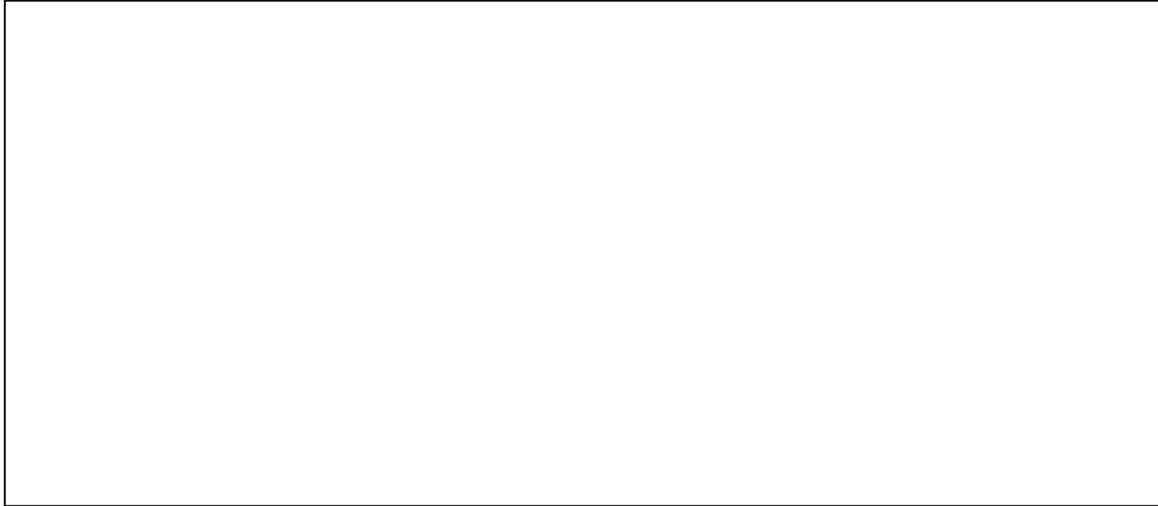


APPENDIX A

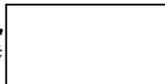
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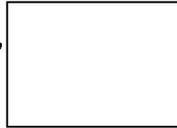
For this initial all-source study of the functioning of Soviet industrial management an intensive background examination was made of Soviet doctrine as expressed in the Soviet press and speeches of Soviet leaders and as developed in more detail in journals and special treatises. To balance this somewhat theoretical or formal presentation, a broad study was made of the information and opinions given by Soviet returnees [redacted] who had participated in or observed Soviet management in practice. Impressions obtained from foreign business men, [redacted] and others during visits to a few areas of the USSR were also noted.





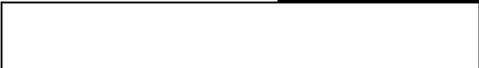
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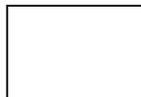
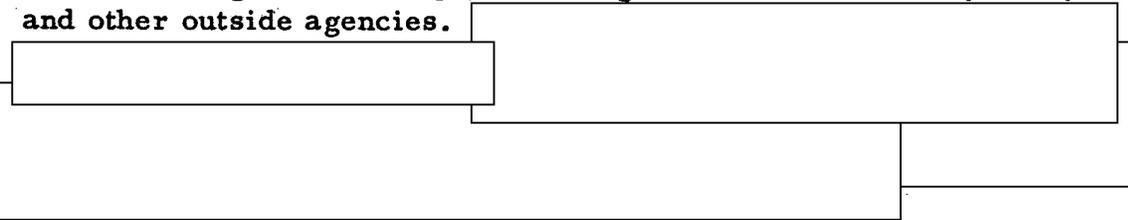


APPENDIX B



 with respect to the principles, procedures, and operation of industrial management and of managerial decision-making in general in the USSR, is the relative scarcity of information on the application in practice of the extensive body of Soviet doctrine dealing with Soviet management. Such knowledge is required as a basis for arriving at firm conclusions concerning the strengths, weaknesses, and long-term potential of Soviet managerial officials operating at all levels of the Soviet system, especially that of the producing enterprise. Although a certain amount of such information is available with reference to the prewar period, it is quite limited in scope of treatment of managerial functions and in representativeness of coverage with regard to sectors of the industrial economy. Little postwar information is available except in  published Soviet criticism.

The broad range of managerial functions and problems encompassed within the general subject area of industrial management relates to organizational structure of the enterprise, internal and supervisory chain of command, economic plan formulation, production management, manpower management, and control by Party and other outside agencies.

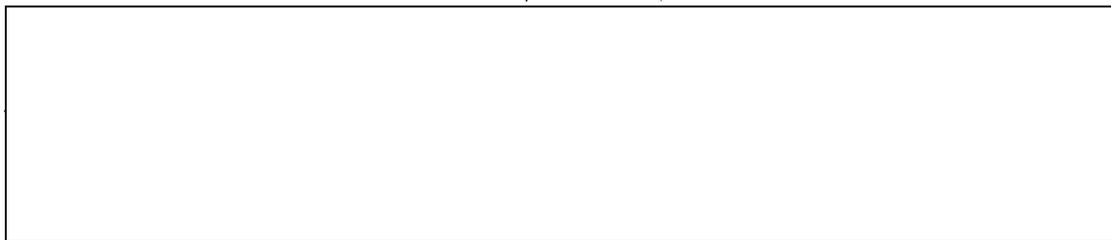
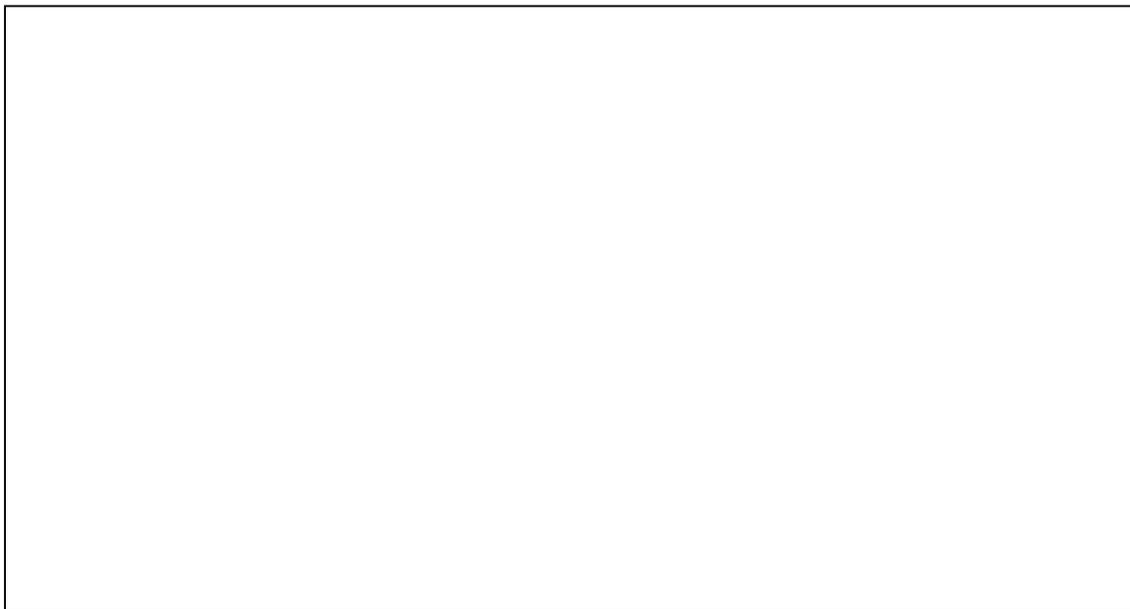


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APPENDIX C



Evaluations not otherwise designated are those appearing on the cited document; those designated "RR" are by the author of this report. No "RR" evaluation is given when the author agrees with the evaluation on the cited document.



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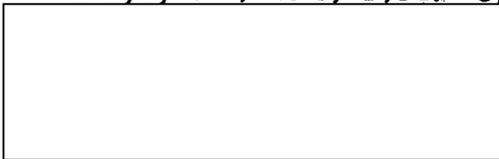
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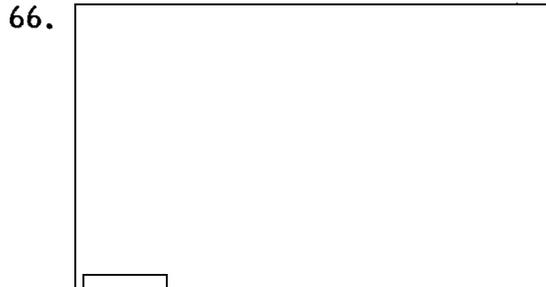
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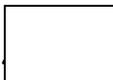
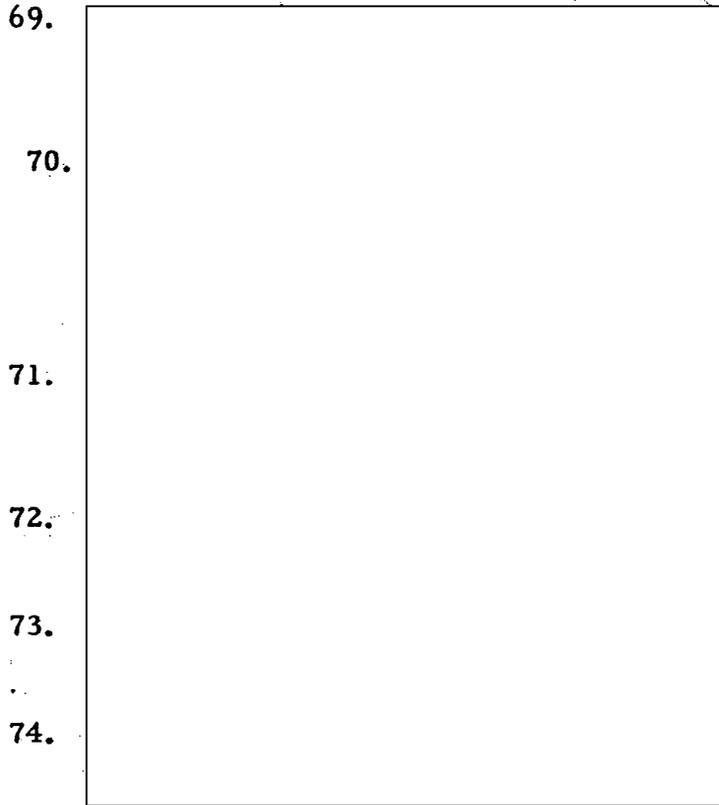


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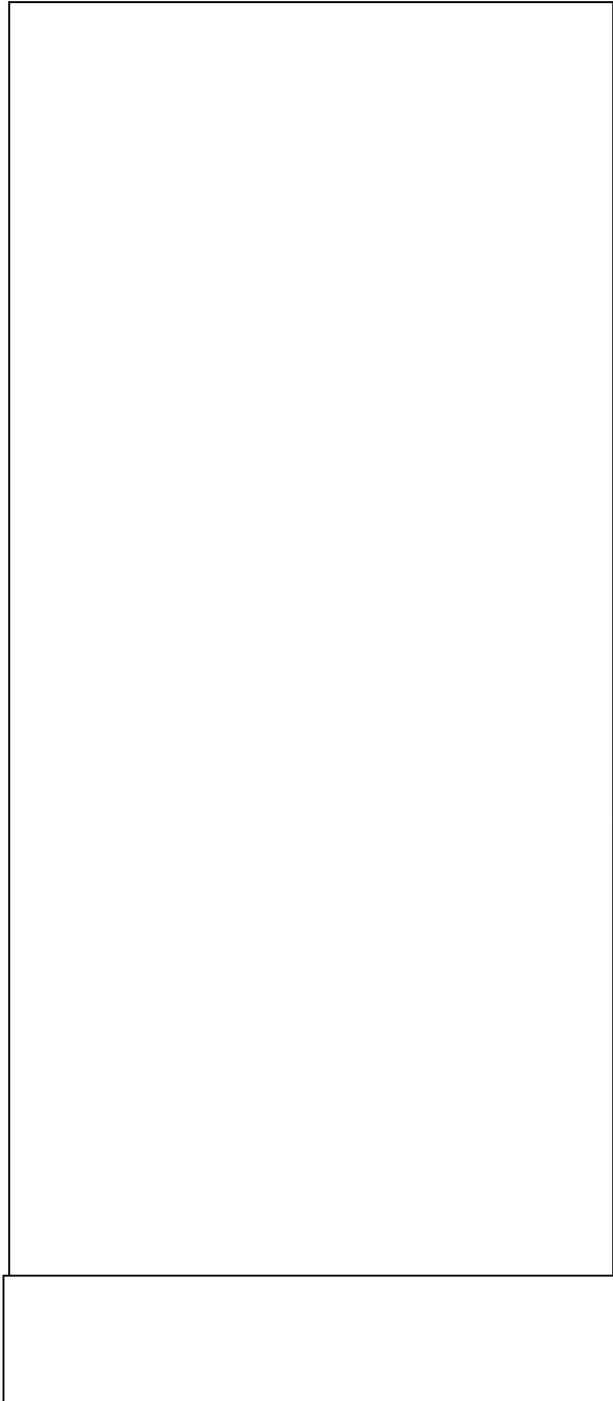
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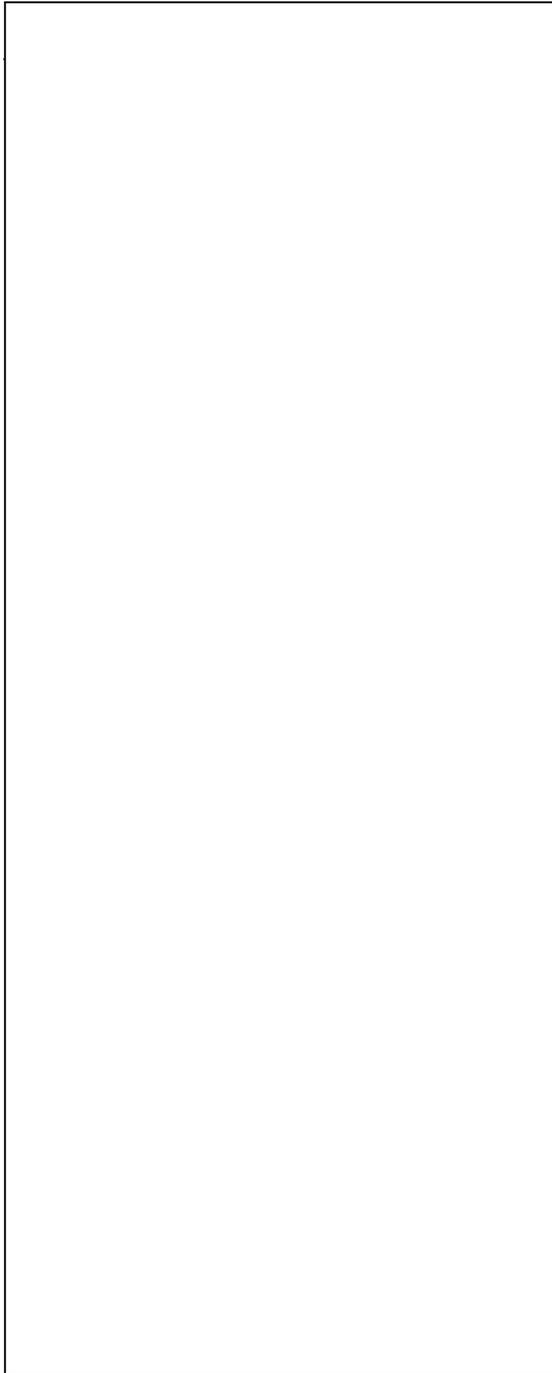
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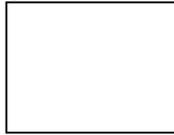


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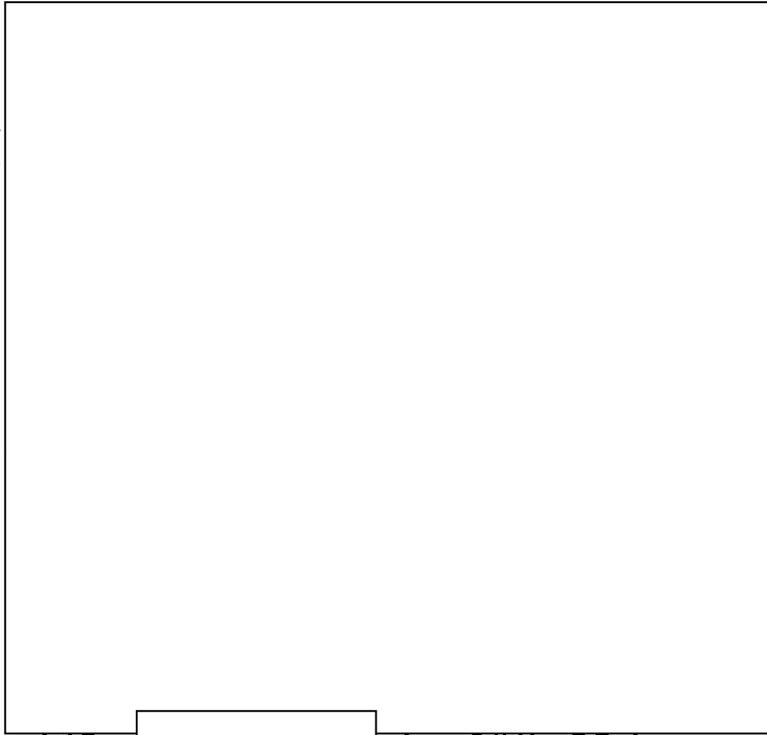
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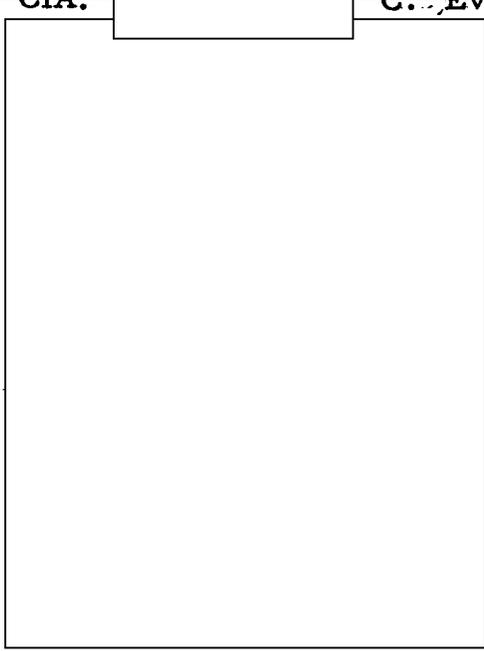
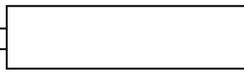


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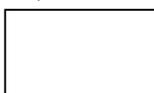
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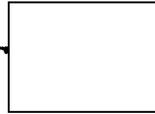


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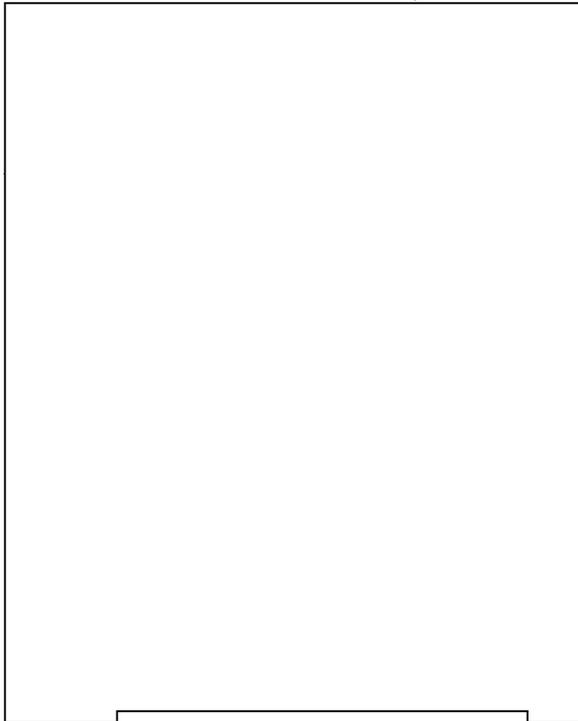




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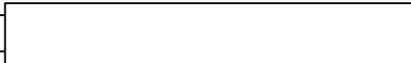
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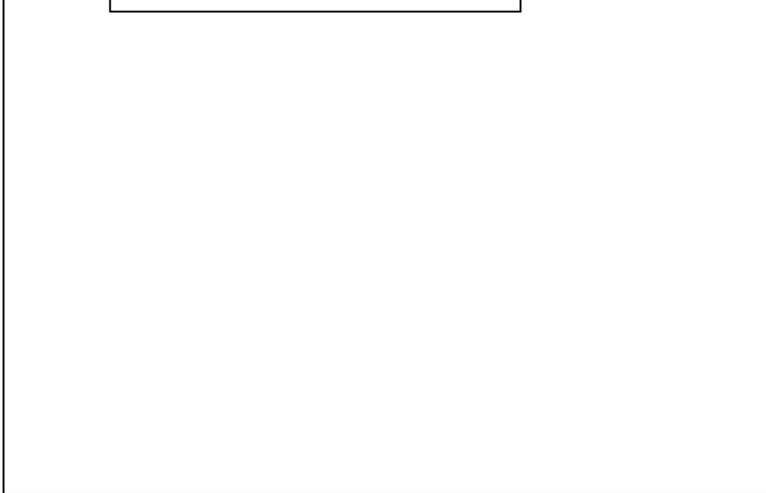
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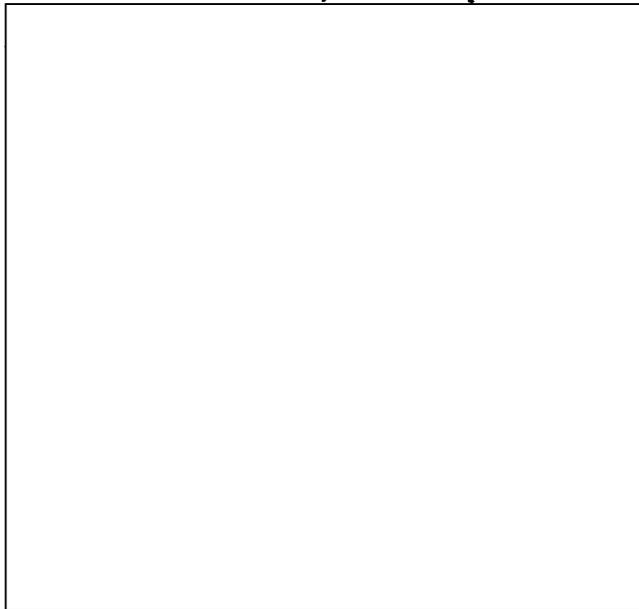
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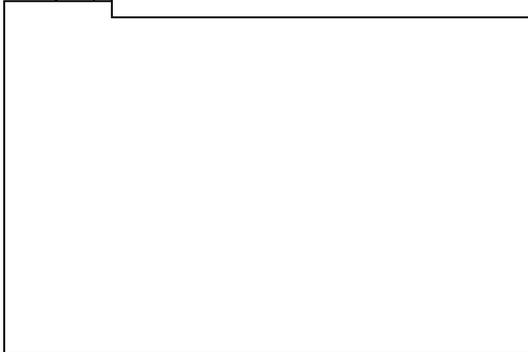
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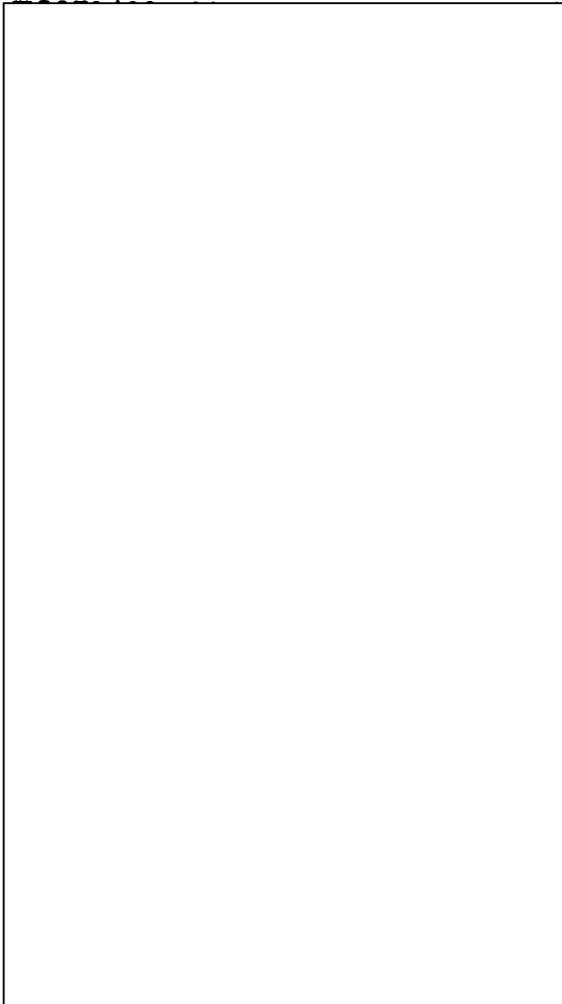


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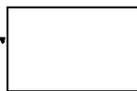
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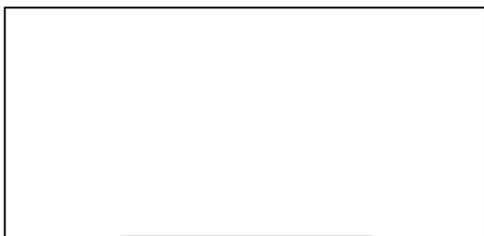
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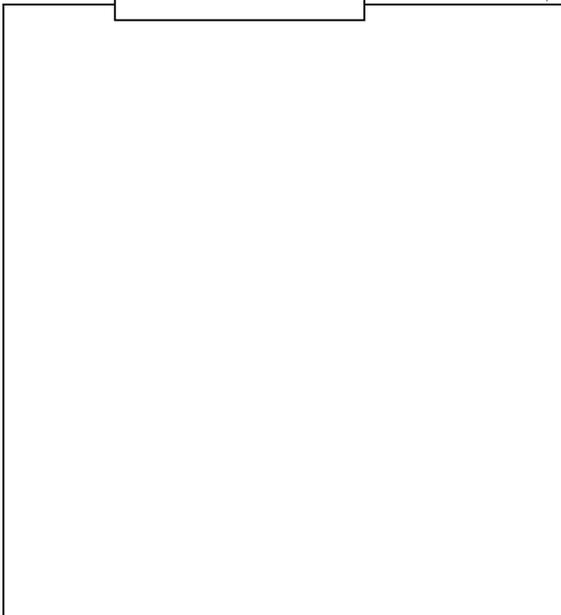


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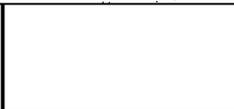
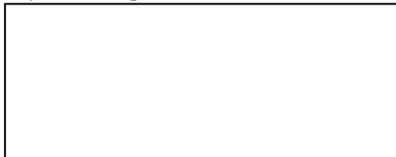
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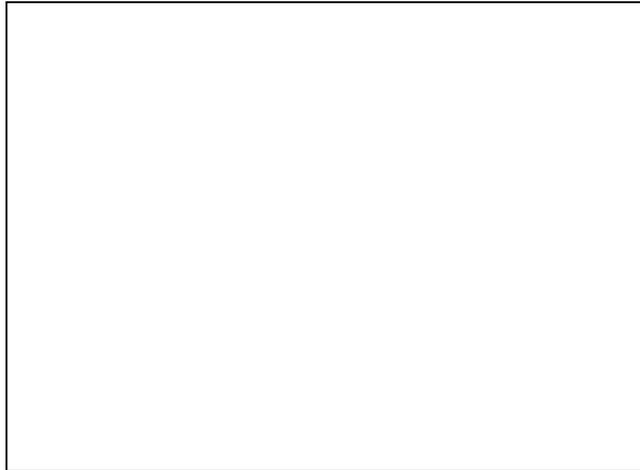
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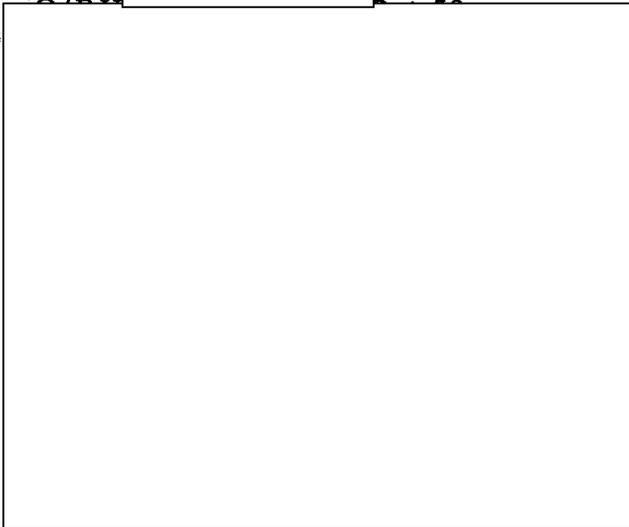
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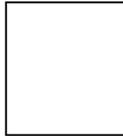
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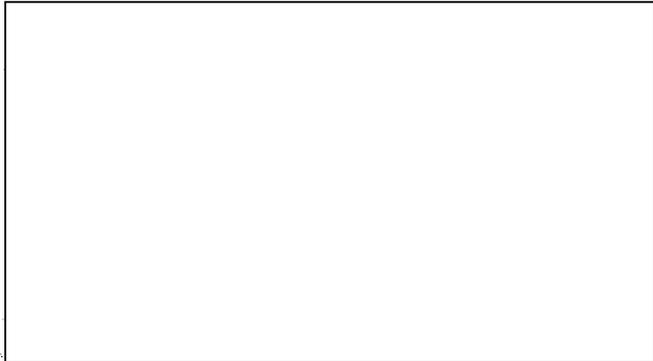
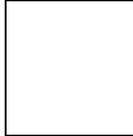
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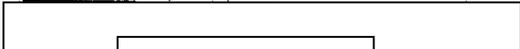
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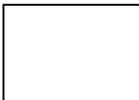
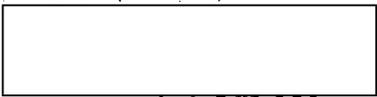


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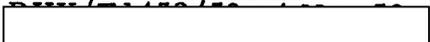
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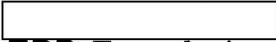
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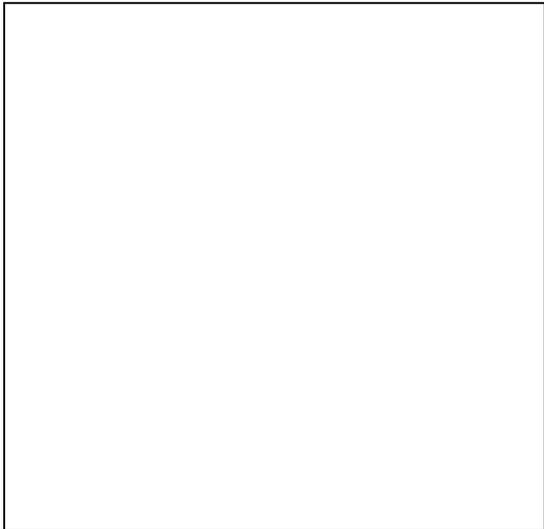
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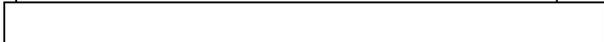


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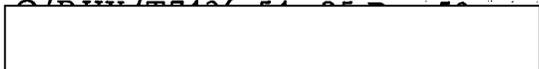
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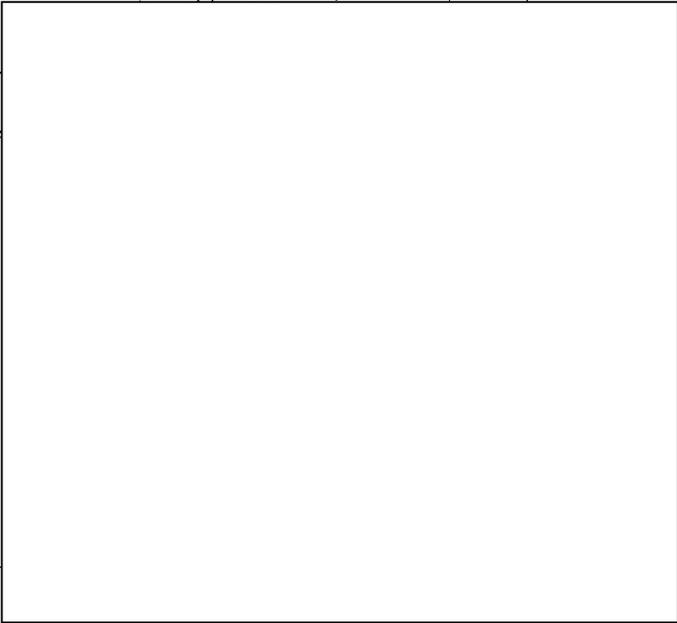


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