

FOR OFFICIAL USE ONLY

JPRS L/9731

13 May 1981

USSR Report

CONSUMER GOODS AND DOMESTIC TRADE

(FOUO 2/81)



FOREIGN BROADCAST INFORMATION SERVICE

FOR OFFICIAL USE ONLY

NOTE

JPRS publications contain information primarily from foreign newspapers, periodicals and books, but also from news agency transmissions and broadcasts. Materials from foreign-language sources are translated; those from English-language sources are transcribed or reprinted, with the original phrasing and other characteristics retained.

Headlines, editorial reports, and material enclosed in brackets [] are supplied by JPRS. Processing indicators such as [Text] or [Excerpt] in the first line of each item, or following the last line of a brief, indicate how the original information was processed. Where no processing indicator is given, the information was summarized or extracted.

Unfamiliar names rendered phonetically or transliterated are enclosed in parentheses. Words or names preceded by a question mark and enclosed in parentheses were not clear in the original but have been supplied as appropriate in context. Other unattributed parenthetical notes within the body of an item originate with the source. Times within items are as given by source.

The contents of this publication in no way represent the policies, views or attitudes of the U.S. Government.

COPYRIGHT LAWS AND REGULATIONS GOVERNING OWNERSHIP OF MATERIALS REPRODUCED HEREIN REQUIRE THAT DISSEMINATION OF THIS PUBLICATION BE RESTRICTED FOR OFFICIAL USE ONLY.

FOR OFFICIAL USE ONLY

JPRS L/9731

13 May 1981

USSR REPORT
CONSUMER GOODS AND DOMESTIC TRADE
(FOUO 2/81)

CONTENTS

CONSUMER GOODS PRODUCTION AND DISTRIBUTION

Consumer Demand Seen as Element of Product Quality
(Ya. Orlov; VOPROSY EKONOMIKI, Jan 81)..... 1

CONSUMPTION TRENDS AND POLICIES

Problems of Consumer Supply, Demand Reviewed
(V. Mayer; VOPROSY EKONOMIKI, Feb 81)..... 14

- a -

[III - USSR - 38b FOUO]

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

CONSUMER GOODS PRODUCTION AND DISTRIBUTION

CONSUMER DEMAND SEEN AS ELEMENT OF PRODUCT QUALITY

Moscow VOPROSY EKONOMIKI in Russian No 1, Jan 81 pp 45-55

[Article by Ya. Orlov: "Quality of Consumer Goods"]

[Text] Increasing the prosperity of the people necessitates that substantial changes be made in the production of consumer goods, namely increasing their quantity, improving their quality and expanding their assortment. It was observed at the October (1980) Plenum of the CPSU Central Committee that this is important to economic development, to intensification of work incentives and to strengthening the circulation of money. The rapid upsurge of industries in Group B is a task of primary economic and political importance.

In the final analysis the consumer judges the quality and quantity of goods not from the absolute figures on the country's output or the per capita output of goods (though in and of themselves these indicators are important), but by what he sees and can buy in the store. The judgment of customers must be the principal criterion governing the operation of industries whose enterprises are manufacturing goods for the public.

Trade is the link that ties together the production industries manufacturing goods for mass consumption. In that sector the products of those industries either win recognition or are rejected by the customer. In short, it is in the sphere of distribution of commodities that the smooth functioning of the economic mechanism is verified, and consequently the national economic efficiency of social production as a whole is determined in this sector to a considerable extent.

At the October (1980) Plenum of the CPSU Central Committee L. I. Brezhnev said that there was a need to improve the system for planning and financing production industries manufacturing consumer goods by making them strictly dependent on trade, on the consumer.

The decree of the CPSU Central Committee and USSR Council of Ministers entitled "On Improving Planning and Strengthening the Influence of the Economic Mechanism on Increasing Production Efficiency and Work Quality" notes the need to enhance the role of physical indicators in the national economic plan and the plans of associations and enterprises so that the production of goods in physical terms is one of the principal indicators of enterprise performance. The increase in the absolute volume of production and also in per capita output of particular products should be

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

regarded as the sole and sufficient measure by which fulfillment of the plan is determined. As the prosperity of the Soviet people rises, industry and agriculture are faced with an ever more urgent demand that they produce high-quality goods which fully satisfy the growing requirements of the consumer. Requirements with respect to quality, comfort and convenience, and the newness of products are not being advanced by a restricted group of consumers, but by practically the entire population. In its most general form the task is to increase the degree of satisfaction of the workers' personal needs.

It is not uncommon for the economic aspects of use value still to be left outside the territory of the economic disciplines and to receive insufficient study, and as a result they are not always straightforward criteria for determining the objective indicators of product quality, for evaluating the economic efficiency of increasing reliability and durability, of a service life that takes into account obsolescence, and so on. Clarity is lacking even in the very definition of the category "product quality." Reference works and textbooks also give differing definitions of this category. Some treat quality in terms of conformity to technical specifications, others as suitability to purpose, and still others as meeting the present-day requirements of technology and everyday life, and so on. But such formulations do not express the essence of product quality as an economic category. They do not reflect the dependence of product quality on expenditures of social labor in the process of production, sale and consumption. This important aspect of quality must be reflected in its definition.

A constant change is taking place under the impact of the development of the productive forces and the growth and change of the needs of society, and higher requirements are being advanced concerning the assortment and quality of products.

The law of rising requirements reflects the indissoluble dialectical relation between production and consumption. The operation of this law is fully manifested in a mature and advanced socialist society. Rapid development of the productive forces speeds up the growth of needs whose satisfaction is limited not by the social conditions, but by the resources available, the scale of development of production and the level of the productivity of social labor. The purpose of social production is expressed more fully not only in quantitative terms, but also qualitative terms, and the qualitative aspect becomes decisive in the context of an advanced socialist society.

The operation of the law of rising needs makes it possible to draw a conclusion important to theory and practice to the effect that the quality of the product manufactured has to be systematically increased in accordance with the requirements of the consumer. For a number of commodity groups it is advisable to maintain quality at a particular level in this stage.

The process whereby needs increase results from scientific-technical progress, which creates the material conditions for a constant rise in the quality of products produced and for the emergence of fundamentally new products, by the systematic rise in personal money income, and by improvement of the public's situation with respect to cultural and consumer services and housing conditions.

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

The extent to which consumer goods are being renewed (the relative share of new products in the total volume of products produced) is at present one of the important indicators of industry's performance. It characterizes in large part the effectiveness of the efforts of enterprises and of an industry as a whole, the social usefulness of the products produced and the economic purposiveness of the expenditures of labor society incurs. There is a need not merely to expand the assortment and refresh it superficially, but to increase the output of goods which are really new and which are characterized by new service features of stylish products which are in great demand with the public.

From the standpoint of society, it is not just the production of a sound product that is cheaper, but also its sale and consumption. That is why the economic efficiency of production means not only low outlays to manufacture the products, but also the high quality, reliability and durability of the product. The quality of goods is closely bound up with the public's consumption and the purposive inculcation of needs, and therefore it has tremendous socioeconomic importance. It is becoming especially urgent to study the interrelationship among such economic categories as "the quality of the commodity," "social needs," "social use value," etc. Work of this kind is needed to determine the socioeconomic efficiency of product quality and to set forth criteria so that the technical level and quality of products can be optimized.

The social aspect of increasing the quality of commodities is bound up with instilling in every worker a high sense of responsibility to socialist society for the results of his work. The economic aspect of improving quality presupposes solving the problem of substantiating the optimum level of the quality of commodities, material motivation of manufacturers producing high-quality products, making them more accountable for the production of low-quality goods, and solving the problem of improving pricing so it takes into account changes in the quality of products, etc.

Improvement of the quality of commodities depends on many factors. While the planned price has an important impact on the assortment and quality of commodities, product quality is in turn one of the principal price-setting factors. (Taking product quality into account in price setting comes down to setting prices which reflect to the fullest the level of socially necessary expenditures of labor, which provide motivation for the production and consumption of high-quality goods; it is through prices, standard levels of profitability, and the system of price reductions and supplements that the stimulative function of the planned price, its impact on the assortment and quality of commodities, is performed and effected.)

Product improvement is by its very nature a complex and multifaceted task: political, economic and social, a task that is inseparably bound up with scientific-technical progress. We are moreover referring not only to improving the attributes of products already produced, but also to organizing the production of fundamentally new products so as to take into account scientific-technical advances. The decree of the CPSU Central Committee and USSR Council of Ministers on improving the economic mechanism specifically provides for drafting comprehensive target programs--a program for increasing the production of new consumer goods and also for strengthening economic incentives, expansion of their production and improvement of quality--among the priority programs for the very near future.

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

The difference between the terms "quality" and "rejects" should be taken into account in analyzing the performance of enterprises and in planning and material incentives. Not uncommonly the effort to improve product quality is restricted to combating rejects. Quality control requires a strict system for recording rejects and complaints. This makes it possible to identify shortcomings and oversights in the technology and organization of production and in the products produced. The principal way to obtain information of this kind is to study the market; this study furnishes information about the kinds of goods the customer needs. These requirements are then incorporated into a technical assignment for production of a product. The quality of a product is shaped during the design and production and is evaluated in the process of the product's sale and use. Underestimation of a product's quality in any stage, not to mention a deterioration of quality, is quite detrimental to the economy, and the lack of theoretical principles worked out scientifically concerning the step-by-step shaping, maintenance and preservation of product quality stands in the way of developing and introducing an overall system of product quality control in all stages of a product's design, creation and sale.

The principal task of comprehensive product quality control thus comes down to ascertaining, ensuring, preserving and maintaining the optimum level of quality in all stages of social reproduction. To be specific, controlling the quality of goods in the trade sector makes it necessary to carry out interrelated measures that have an impact on production so that high-quality goods are produced which meet customer demand and so the service characteristics of products are preserved in the process of storage and distribution.

Esthetic characteristics of products are one of their principal quality components. Many products produced by our industry bear comparison with the best foreign examples in their soundness and strength. But quality also depends on the beauty of shapes, finishing, compactness, weight, version, good color shades and combination, attractive packaging, and so on. Many of our products fall short of the best foreign examples with respect to these parameters.

Among innovations that have been successful from the standpoint of industrial design we might mention the "Elektronika-001-stereo" tape deck, whose parameters are equal to the best examples of foreign firms; the "Rekord-Ts-310" Class-III color television set with a 51-cm screen (diagonal); several models of collapsible bicycles; a device bearing the emblem of the Svetlana association in Leningrad for synchronizing slide projection and accompanying sound. The "ZIL" refrigerator, the "Riga-110" tape recorder-phonograph combination of the Radiotekhnika production association in Riga, etc.

At the same time not every enterprise or department has become aware of the need for industrial design of products. For example, most new television sets which have been developed are not innovations, but only an original outer covering for old products. Can a television set using a 10-year-old tube circuit be regarded as a new development? Yet there are quite a few such developments--the "Vesna-312," the "Yantar'-308," and the "Rekord-312." An outdated design of a product does not always make it possible to make provision for a high esthetic level, since the larger dimensions and unfortunate location of the control assembly hamper the industrial designer in achieving the necessary expressiveness. New product models

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

should not only possess good technical characteristics, but they should also be distinguished by a high esthetic level in order to meet the requirements of the most exacting customers and to be competitive on the foreign market.

The social usefulness of any product, its service characteristics, must unflinchingly be analyzed all the way to the organization of production; otherwise, as experience shows, serious economic and social losses are inevitable. The task is not simply to increase the output of consumer goods, but to develop and introduce the optimum assortment of goods which the Soviet buyer needs. The problem of shaping the assortment is so important that it imparts urgency to setting up an effective nationwide system for controlling the assortment and quality of consumer goods. Support should be given to the recommendation that the State Committee for Science and Technology, USSR Gosplan, the State Committee for Standards, and the USSR Ministry of Trade, jointly with ministries and departments of particular sectors and industries, draft an intersector comprehensive national economic program under the title "Assortment and Quality of Consumer Goods." An interdepartmental commission specializing in the problems of improving the assortment and quality of goods should be set up in USSR Gosplan for the same purpose.

Plans must be given a larger role in organizing the initial production and subsequent manufacture of goods and in increasing the production of products in the superior-quality category. The comprehensive program of scientific-technical progress and its socioeconomic consequences, which makes it possible to take the advances of science and technology more fully into account in defining the prospects of social development, is expected to become an organic part of planning.

Specific mention needs to be made of the inseparable connection between a product's quality and the demand for it. This question has not been touched on so far, nor have we mentioned the need for a product to meet the most exacting demand of the public. We will give examples. The Moscow garment production association "Zhen'skaya Moda" (Women's Fashion) has been deprived of the right to place the Quality Emblem on its krimplen suit dresses because of the lack of orders from organizations in the trade sector. Women's flat shoes with sponge rubber soles produced by the Tula "Zarya" Footwear Factory are selling poorly, as are suits for boys of school age made by the Factory imeni Leninskiy Komsomol of the Ivanovo Garment Production Association.

"No orders from organizations in the trade sector," "not purchased at the republic wholesale fair," "assortment not ordered by organizations in the trade sector...." This is how the official notation is made that goods which have even been certified to bear the state Quality Emblem are not needed by the consumer. Such cases indicate that high product quality cannot be guaranteed without taking into account demand for the products.

Improving product quality necessitates an improvement of all aspects of the economic mechanism. Efforts have been made in recent years in that direction: certification with respect to quality categories was introduced, wholesale price supplements and reductions were established, and the relative share of output classified in the superior-quality category is used as a planning indicator and a success indicator. But the effectiveness of all these measures is still not great. The

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

decree of the CPSU Central Committee and USSR Council of Ministers on improvement of the economic mechanism has ordered a number of measures in order to increase that effectiveness. The size of supplements to wholesale prices for goods awarded the Quality Emblem is being increased. These supplements will be still larger for products in the superior-quality category whose production is based on developments recognized as discoveries or inventions. Penalties (wholesale price reductions) have been substantially increased on goods in the second-quality category: the profit obtained from sales of such products is reduced by 50 percent. The procedure for distribution of additional profit has been improved: now as much as 70 percent of it will go to the enterprise's incentive fund, and the remainder is credited to the unified fund for development of science and technology and the state budget.

The new procedure for forming economic incentive funds is opening up additional opportunities for development of the initiative of working collectives and is expanding the rights of enterprises. In the near future they will be assigned the stable rates of economic incentive funds with a breakdown by years of the 5-year plan. The basis for their formation will be the qualitative indicators of performance. Thus orientation toward quality is becoming exceedingly important in the entire production and economic activity of enterprises, ministries and departments. Moreover, among the economic incentive funds a special place is being given to the material incentive fund, which will be formed from the profit obtained from higher labor productivity and the output of products in the superior-quality category, consideration also being given to fulfillment of the plan for deliveries in accordance with contracts. The latter is particularly important. The orientation of enterprises toward the end results of economic activity will on the one hand make it possible to improve the efficiency of operation, and on the other to register more accurately the demands of organizations in the trade sector. At present the lack of close interaction between the economic mechanism and quality control is giving rise to a number of problems. For example, not uncommonly an enterprise's additional costs incurred in producing goods bearing the Quality Emblem are not fully compensated by any means. And as a result it is mainly nonfinancial incentives that motivate enterprises to make an effort to increase the output of products bearing the Quality Emblem.

The price must correspond to the quality of the product. In this case what is necessary and advantageous to society will be advantageous to the producer as well. The principal criterion in evaluating the performance of an enterprise should be whether the product it produces meets the requirements of customers and also comes up to the world technical level.

Material incentives related to high product quality must be perceptible to the worker. Bonuses for high quality should be paid only when there have been no complaints from consumers.

According to figures of the State Committee for Standards, as of 1 September 1980 the government Quality Emblem had been awarded to 84,917 product items of the industrial sector manufactured by 9,357 enterprises, including 53,000 consumer products. But in many industries in Group B the share of these products is still extremely small. It is far from every ministry that takes the proper approach to

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

evaluation of product quality: when certificates for awarding the state Quality Emblem to products are recorded, the State Committee for Standards has had to return about 20 percent of the material submitted by ministries, since the products to be certified proved to be low grade when a check was made. Cases have occurred when the Quality Emblem was awarded not to the principal products, but to second-rate and third-rate products of low quality, when enterprises succeeded in having the Quality Emblem awarded to their products, but then were in no hurry to put them into series production or halted their production altogether. Strict and unavoidable penalties should obviously be imposed on such enterprises in cases like this.

Today the state Quality Emblem has been awarded to slightly more than 6,000 product items in the categories of durable consumer goods, housewares and household chemical products. At the same time we should note that since the beginning of the 10th Five-Year Plan there has been a noticeable increase in the share of products not assigned to a quality category, especially television sets and radios, washing machines and furniture, mopeds and synthetic detergents, and so on. It was in order to correct these shortcomings that the USSR Council of Ministers adopted the decree entitled "On Further Enhancement of the Role of Certification of Industrial Products in Improving the Technical Level and Quality of Products" (1979). It envisages the task of making full use of certification for comprehensive objective assessment of the technical level of products for the purpose of further expansion of the output of high-quality products and regular renewal of the products produced.

It stated that goods manufactured on a permanent basis by enterprises shall be subject to certification according to a list drawn up by the manufacturing ministries and cleared with the USSR State Committee for Standards and the USSR Ministry of Trade. Another new thing is that the following are not subject to certification: foodstuffs, medical products, cosmetics and toiletries; jewelry made by the designer or made mostly by hand; handcrafted products, books and works of art. The quality of foodstuffs and their grading are determined by standards and technical specifications. But this, of course, does not mean that the standards themselves and the quality of the products do not need to be improved. It only means that food and drugs should always be of high quality.

The draft of the "Main Lines of USSR Economic and Social Development in the Period 1981-1985 and up to the Year 1990," which the CPSU Central Committee prepared for the 26th party congress, set this task: "Substantially improve the quality of all types of products produced, expand and renew the assortment of products in accordance with the present requirements of economic development and scientific-technical progress, as well as the growing needs of the public. Steadily increase the relative share of products in the superior-quality category in the total volume of output."

The high demand for durable consumer goods and housewares and the degree to which that demand has been met are indicative of the rising prosperity of the Soviet family. At the present time individuals have more than 1 billion devices and appliances of their own. Yet at times these appliances cause troubles, take away from our free time, and take away quite a bit of energy and money for repairs and correction of defects.

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

Much is already being done to improve the quality of sophisticated technical products being manufactured by industry. For instance, the country's first State Testing Center for Electrical Household Appliances has now been set up for quality control in Kiev. Here appliances go through tests in "air-conditioned" chambers and on test stands that simulate their shipment, on vibrating tables, their reliability and electrical safety features are checked, and checks are made of the "behavior" of the appliance as a whole and also of its individual assemblies and parts. Moreover, the check is run not only on the experimental prototype and first production series, but also, and this is especially important, the quality of the product of series production is also determined. When the check is made, justified recommendations are also issued concerning design, engineering and processing.

As a rule the customer prefers those household appliances whose manufacturer guarantees that they will operate without defect for a specified period of time. But in practice manufacturing plants often do not issue a guarantee that the product will operate without interruption, but only that it will be repaired at no cost within a specified period.

It is stated in the papers accompanying any technically sophisticated product that the manufacturing plant guarantees proper operation of the product for 1 year and sometimes even 2 years from the date of its purchase in the store. But the clarification that follows essentially nullifies this warranty. Should the product fail (during the warranty period) it is suggested that the owner take it to a shop to be repaired. Is this a guarantee of "fault-free operation"?

Many enterprises are making a constant effort to improve the quality of products they produce. In recent years the service life of household appliances has increased noticeably. Whereas in 1962 the operation to failure of television sets average 660 hours for all models, it now exceeds 1,900 hours. Sets manufactured by the Elektron Association in L'vov are still higher; their operating life to the first failure has increased from 2,250 to 4,636 hours. Television sets coming off the assembly lines of the Moscow Order of Labor Red Banner production association Rubin are operating in some 60 countries of the world. Notable changes have also taken place in the quality of refrigerators. They have become more spacious, their finishing has been improved, and their service life has increased. A number of enterprises have created appliances which are in high demand in foreign countries.

At the same time our helpers in the household are often "ailing." Nor is it a question of random oversights, against which no series production can be ensured, but of large-scale defects. In refrigerators, for example, the refrigeration units, temperature regulators and heat relays often fail. Other products have to be repaired more than once even during the warranty period. In the first half of 1980 the State Market Inspectorate of the RSFSR Ministry of Trade checked the quality of refrigerators at 14 enterprises under 6 different government departments. In all, 356 refrigerators were checked. Of these 50 were rejected. At industrial enterprises 20.2 percent of the television sets checked were rejected. Economic penalties have been pronounced against enterprises for manufacturing substandard television sets: 5,882 television sets worth 2.6 million rubles (in wholesale prices) were taken away from reports on plan fulfillment and 23,700 rubles of profit were confiscated and credited to the budget. At the Sarapul' Radio Plant imeni

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

Ordzhonikidze every one of the 30 "Ural-avto-2" radios and the 20 "Ural-114" radio-phonograph were rejected because of manufacturing defects. Not uncommonly owners of products covered by a warranty have to put up with a runaround and red tape and unwillingness to meet obligations under the warranty. This is explained in large part by the fact that the present warranty system relieves manufacturing enterprises to a large extent of accountability for manufacturing a low-quality product. At the same time repairs covered by a warranty only seem to be free to the consumer, since their cost is planned into the price of the product.

Something has already been done to change this situation for the better. A step forward has been taken by introducing the standard contract for servicing and repair under warranty of durable consumer goods and housewares, by establishing uniform prices for settlement of accounts between producers and repair services, by standardizing documents, and so on. But any enterprise manufacturing household appliances can still spend "repair" money wastefully. The point is that the present warranty system at times makes it possible to produce low-quality products, and the warranty period actually becomes a legalized procedure for correcting manufacturing defects.

This has become possible because enterprises plan expenditures for their repair along with other indicators. Plants delivering refrigerators, sewing machines, television sets and other products covered by warranty to the distribution network regard the money paid shops for repairs as costs of sales and distribution. Yet the overwhelming majority of repairs of appliances really involves correction of mistakes made in the production process.

In our view outlays for repairs covered by warranty should be planned only as an exception on especially complicated durable consumer goods and housewares in the period when they are being put into production, and it should be based on the assigned standards for their reliability. Lists of such household appliances and radio products and standard amounts of expenditures for repairs covered by warranty should be set forth by ministries with clearance from USSR Gosplan and the USSR State Committee for Standards. All expenditures exceeding the assigned allowances for repairs covered by warranty should be charged to actual losses from rejects and should not be taken into account in the planned production cost of the marketed product.

The sphere of consumer services, including repair services, is developing rapidly and becoming a very large mechanized sector of the economy. It can be said that an up-to-date sector of the economy employing more than 2.5 million persons has been created from scratch. The decree of the CPSU Central Committee entitled "On the Work of the RSFSR Ministry of Consumer Services for the Public To Improve Quality in Filling Orders and To Improve Customer Service to the Workers" (1977).

As a result of the steps which have been taken there has been a sharp drop in returns because of poor repair of refrigerators, washing machines, electric razors, timepieces and other goods, and complaints from customers because of low quality of repairs and failure to make repairs on time have dropped considerably. In a number of cities the practice is spreading of exchanging previously repaired timepieces and electric razors for those brought in for repairs. Fast-service repair of television sets on the day when the order comes in or on another day indicated by the

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

customer has become widespread in Kiev and certain oblast centers of the Ukraine, and preventive maintenance under the warranty has been introduced. Another procedure that has made its appearance and has become popular with the public is that of servicing and repairing household appliances on a subscription basis. The subscription system for repairs is being introduced ever more widely in rural localities as well.

But we should note that there are still serious shortcomings in the organization of repairs of household appliances belonging to individuals. Orders of individuals for repairs are being filled at a low technical level, they are not always being done competently, and sometimes they take indefinitely long periods of time. What is more, the accounting and planning practice in these services is such that they are motivated to perform as few repairs as possible, not as many as possible. This practice is detrimental to the state and to consumers.

Consumer service facilities have a poor supply of equipment, instruments and tools, and they constantly experience a shortage of replacement parts. Even the list of products which plants are required to deliver in accordance with plans and contracts are not always received by the shops.

As for the papers which accompany products covered by warranty, they reflect the true attitude of the enterprise toward the product produced. These papers confirm the accountability of many plants for the quality of products and for their uninterrupted operation. Others write that they guarantee only the meeting of technical specifications or conformity to models, which means that they do not bear any accountability at all for the reliability of the products. There are also other ways of relieving themselves of accountability for their products. In a new radio-phonograph manufactured by the Berd Radio Plant, the recording head which it obtains from a subcontractor is of low quality and operates no more than 3 or 4 months. Instead of requiring the subcontractor to take steps to improve the reliability of the recording head, the plant advises customers to purchase this part in a store if it should fail. There would seem to be a need to draft uniform requirements a warranty on technically sophisticated products must meet so as to ensure that the laws of socialist management are observed and in order to protect the customer's rights.

Systems for planning production and financial activity and for stimulating workers of repair enterprises are such that it is more advantageous to them to make repairs for cash and less profitable to make repairs covered by warranty. Which in a number of cases explains why customers face an ordeal with equipment that has failed during the warranty period.

Lists of goods on which warranty periods have been established are drawn up by the ministry to which the particular group of products has been assigned and is subject to clearance of the USSR State Committee for Standards. These periods are established on all complicated technical products and also on such products as storage batteries, battery chargers, footwear, fur coats, and so on. In recent years these periods have been lengthened considerably on a number of goods because their quality has improved. For example, on refrigerators manufactured up to 1 July 1972 the warranty period was 2 years, but on those manufactured since 1 July 1972 it is 3 years from the date of sale in the store.

FOR OFFICIAL USE ONLY

One of the acute problems in improving the quality and reliability of technically sophisticated products is to conduct a uniform technical policy and to standardize assemblies and parts. At the present time there are dozens of makes of appliances of the same kind on sale. Some 12 plants of Minpishchemash [Ministry of Machine-building for Light and Food Industry and Household Appliances] and a number of other ministries are manufacturing 34 models of electric razors, 23 plants under 3 ministries are manufacturing some 50 models of radios and radio-phonographs. Enterprises of Minsk, for example, have brought out 11 models of refrigerators, and those in Baku 7, many of which differ in their design. Washing machines use motors of seven different makes, wringers in three different versions, different pumps and frames, and four different agitator shafts. Repair services have to keep millions of parts in stock, tie up their assets and metal, organize a tremendous warehouse operation, and, most important, often they must refuse to repair the appliances of individuals since the need for replacement parts and components is not being adequately satisfied. This applies to practically all durables: motor vehicles and motorcycles, radios and television sets, vacuum cleaners and washing machines, etc.

There are substantial opportunities in the trade sector for improving the quality of technically sophisticated products. Personnel in the distribution sector need to check the operation of every product more thoroughly so that defects are discovered before it leaves the store, and still better--at the enterprise and at work stations.

There is also a need for changes in the practice of returning defective equipment to the manufacturer. At the present time if defects are found after purchases of such goods as flat shoes, suits, and dresses, complaints can be filed with the store. In the case of a defective television set, refrigerator, washing machine or other complicated piece of equipment, the repair shop is the only place one can go to. This practice contradicts the Bases of USSR Civil Legislation, entitles the customer who finds defects in an article sold to him to demand that the store replace it or correct the defects without charge or reimburse the cost of repair or reduce the purchase price, or return his money. Durable consumer goods, housewares and household chemical products should not be an exception to this rule. Moreover, when purchases are returned to the store, the organization in the trade sector should be entitled to exact a penalty on the manufacturer for delivering substandard products.

This is, of course, no simple matter. It probably makes sense to begin the implementation of this system as an experiment. In our view it would be quite feasible to begin the experiment with a product like a timepiece, to work out a procedure for its acceptance and exchange, and then gradually expand the experiment.

The new procedure for settlement which has been worked out on the basis of the decree on improvement of the economic mechanism enhances the accountability of suppliers--industrial enterprises and wholesale depots--for fulfillment not only of the plan, but also of the delivery contract. In future bank credit will be available to pay for only those goods which have been delivered in the assortment called for in the contract. For that reason manufacturers are required to indicate in their demands for payment that the goods were delivered in accordance with the order (contract) of the enterprise in the trade sector. The exercise of strict monitoring will make it possible for organizations in the trade sector to prevent cases

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

when suppliers are paid for products of low quality or qualities which were not ordered.

The decree on improvement of the economic mechanism calls for reinforcement and development of the requirement that it is not only the right of enterprises in the trade sector, but in fact their duty to the state to invoke penalties for violation of delivery obligations. Consistent enforcement of this legal standard ensures that the supplier cannot evade liability and helps to strengthen contract and cost-accounting discipline.

But actual cases indicate that many organizations and enterprises in the trade sector are still not always invoking the measures of financial liability by collecting forfeits, penalties, fines and reimbursement for losses. There is no excuse for personnel in the trade sector not taking advantage of the right afforded them to remit payment after acceptance of the goods with respect to quality nor for industrial enterprises which are regularly delivering goods which do not meet standards and samples. The regulation on deliveries provides that when a supplier repeatedly ships goods which do not meet the terms of the contract in quality and grade, the customer has a right to pay their value only after acceptance with respect to quality with prior notice of this given to the supplier and the bank. This settlement procedure can be introduced by the customer for a period up to 6 months. Wherever this right has been exercised, changes for the better have been forthcoming. In Belorussia the Mogilev Garment Factory imeni Volodarskiy, the Gomel' "Komintern" Garment Production Association, etc., were put on the system of payment after acceptance with respect to quality. In the first half of 1980 alone 1.5 million rubles were credited to the state budget from accounts of suppliers. The trade sector refused to pay bills amounting to 2.1 million rubles on goods which did not meet quality standards and the agreed assortment. It is an effective measure to give up the practice of advancing payment for the manufacture of low-quality goods.

The draft of the "Main Lines ..." notes the need to improve economic relations among industrial, agricultural and trade enterprises and organizations, to enhance the role of the business contract in drafting plans governing production and sales of consumer goods. The system for planning and financing production industries manufacturing consumer goods should be made dependent upon the trade sector, upon the consumer.

The system of temporary prices has great importance. The USSR State Committee for Prices has set temporary wholesale and retail prices that include supplements for improved quality of goods on fabrics, carpets and carpet products which are distinguished by the newness of their design and coloring and finishing, which meet the requirements of fashion and which have been classified as new goods of improved quality by the Interdepartmental Commission of VIAlegprom. These goods are being manufactured by a number of enterprises, combines and associations. The size of the supplement has been differentiated as a function of the quality of the product.

At the same time deductions from wholesale prices have recently been assigned to a number of goods on the recommendation of the trade sector. The period of validity of temporary prices has been revoked ahead of schedule on certain new products

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

which do not enjoy sufficient demand of customers. At present measures of this kind are being taken in Belorussian SSR and RSFSR.

On the representation of the RSFSR Ministry of Trade the USSR State Committee for Prices revoked ahead of schedule the wholesale and retail prices of certain article and models of particularly elegant shoes manufactured by the Kalinin Footwear Association, the Omsk Footwear Association, the Moscow Vostok Footwear Association and the Stavropol' Kavkaz Footwear Association. The reason for this measure is that the footwear being produced does not meet the higher requirements which have been placed on especially elegant footwear with respect to the quality of manufacture, with respect to the styles of the lasts and heels, as well as because of departures from the approved samples. Revoking temporary prices results in withdrawal of outdated models from production. The USSR State Committee for Prices has revoked ahead of schedule the temporary prices, including supplements for improved quality, on flat summer men's street shoes produced by the Volgograd Footwear Factory because of substantial departures from the approved samples. The total amount of the temporary supplements added to permanent prices obtained by the Volgograd Footwear Factory from the manufacturer of this footwear is to be confiscated and credited as a revenue of the state budget.

These cases where the trade sector has exerted vigorous pressure on the industrial sector are still extremely rare. It is the outright responsibility of the trade sector to exert far more vigorous influence on production and demand of industry those goods which the consumer really needs.

The draft of the "Main Lines of USSR Economic and Social Development in the Period 1981-1985 and up to the Year 1990," which the CPSU Central Committee prepared for the 26th party congress notes: "Augmenting production and improving the quality of goods for the population is to be regarded as a priority task of all industries, all enterprises and organizations and a matter of particular concern of all party, soviet and economic authorities."

COPYRIGHT: Izdatel'stvo "Pravda," "Voprosy ekonomiki," 1981

7045
CSO: 1827/26

FOR OFFICIAL USE ONLY

CONSUMPTION TRENDS AND POLICIES

PROBLEMS OF CONSUMER SUPPLY, DEMAND REVIEWED

Moscow VOPROSY EKONOMIKI in Russian No 2, Feb 81 pp 54-63

[Article by V. Mayer: "National Well-Being and Consumer Demand"]

[Text] The Draft of the CPSU Central Committee "Basic Directions in the Economic and Social Development of the USSR for 1981-1985 and for the Period Up to 1990," in being published for national discussion, generalizes the practice of communist construction in the USSR and embodies the strategy and tactics of the CPSU on the most important questions of national economic and social development in terms of the specific conditions of the 1980's.

In the Draft of the CPSU Central Committee an important place is held by the questions of social development and a rise in national prosperity. The real per capita income in 1981-1985 should increase by 16-18 percent, the wages of manual and white collar workers by 13-16 percent, the income of kolkhoz members from the nationalized sector of the kolkhozes by 20-22 percent, while the public consumption funds will increase by 20 percent. Consumption of material goods and services will rise. Over the 5 years, housing is to be built with an area of 530-540 million m². Measures have been set to improve public health and the recreational conditions of the Soviet people and to raise their educational and cultural level. A great deal is to be done in the development of socialist culture and art in order to raise their role in more fully satisfying the diverse spiritual needs of the public.

"To consider as a most important task," the Draft of the "Basic Directions" emphasizes, "the fuller satisfying of the consumer demand of the population for diverse goods and services." This thesis has been assigned one of the primary places among the specific targets of improving the material well-being of the people. It follows immediately after the indicator for the growth of the real income of the population which is the basic indicator characterizing the dynamics of the standard of living of the people.

The great attention given to consumer demand in the "Basic Directions" is explained by the fact that at present the solvent demand of the public for goods and paid services is not satisfied either in terms of the total volume or the assortment. This can be seen from the data on commodity inventories and the dynamics and structure of the monetary savings of the public. Great attention was given to this problem in the speech of L. I. Brezhnev at the November Plenum of the CPSU Central Committee in 1979. At that time he pointed out the shortage of meat and dairy

FOR OFFICIAL USE ONLY

products, the narrowing of the assortment of bakery and confectionery goods and interruptions in the trade of many simple nonfood items. He also spoke about this in the speech at the October (1980) Plenum of the CPSU Central Committee. This problem was also raised at the Fourth Session of the USSR Supreme Soviet, Tenth Sitting.

Unsatisfied demand impedes a rise in the material well-being of the people, it causes a surplus growth of savings, it leads to the unplanned redistribution of the public's income and has a bad influence on the socialist way of life. The difficulties arising over the incomplete satisfaction of demand with the disposal of monetary income earned by the population in social production lessen the incentives for labor and thereby prevent the growth of social production and a rise in its efficiency.

The difficulties which we encounter in the area of covering the solvent demand of the population are the result of not only mistakes by the planners and economic managers but also the outcome of insufficient theoretical elaboration of a number of aspects in this complicated problem.

Soviet economists, in proceeding from the fundamental ideas of the founders of Marxism-Leninism, have shown that under the conditions of real socialism, when commodity-monetary relationships still survive, and the process of the distribution of consumer goods is determined by the formation and disposal of monetary income, the basic mass of consumer demands operates in the form of solvent demand. The covering of demand is a necessary condition for satisfying needs, for the growth of material well-being and for a rise in the cultural level of the people. The prompt and complete coverage of growing demand of the population is a specific form of realizing the higher goal of socialist production and the requirements of the basic economic law of socialism. At the same time, up to now there has been no clear answer to the question concerning the conditions for the balancing of the public's solvent demand and its commodity coverage. Nor is there sufficient clarity on the question of the role of demand in carrying out the distribution principles inherent to socialism.

Soviet economic science, in basing itself on the works of the founders of Marxism-Leninism, has elaborated a theory of distribution under the conditions of socialist production. Its essential traits are the provisions concerning the methods of distribution operating in the stage of socialism, distribution according to the quantity and quality of labor, the inverse effect of the forms of distribution on production which gives rise to labor incentives and on the predominant growth of the public consumption funds as an important trend during the period of developed socialism.

The works of Soviet scientists provide a full interpretation of the content of the law of distribution according to the quantity and quality of labor and the forms of its manifestation have been thoroughly studied. A concept has been elaborated for the practical realization of the principle of distribution according to labor through a system of organizing the wages of employees in the state sector of the economy and through a system of wages in kolkhoz production.

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

There still are numerous difficulties in the actual organization of wages for employees and kolkhoz members. At the same time, generally speaking we are clear (although here there are debated questions and not a complete unity of views) on the basic directions and ways for solving the problems in the area of further improving the system of distribution according to labor. These directions and ways are aimed at increasing the prosperity of the workers of socialist production and at strengthening the interest in the results of labor.

When it is a question of improving the system of distribution according to labor, then the entire question is ordinarily reduced to the demands to improve the planning the organization of wages and earnings for the kolkhoz members. Here the economists have overlooked an important aspect in the actual implementation of the socialist principle of distribution according to the quantity and quality of labor. It is a question of what is the object of distribution according to labor, that is, is it the monetary income or the immediate consumer goods which satisfy the personal needs of the workers in socialist production and the members of their family?

A study of works on the problems of distribution provides reason to assert that their authors proceed from the adequacy of the processes of distribution for monetary income and material goods. From the viewpoint of the authors of these works, it goes without saying that if the system of wage rates and salaries has been correctly organized, if the rates for pensions, assistance and scholarships are inter-related and correlated to the amounts of wages, if income planning on all managerial levels is carried out successfully, and if the mechanism connecting the growth of labor wages to the rise in production efficiency operates with sufficient accuracy, then the distribution system operates normally, properly ensuring both the satisfying of the demand of the corresponding population groups and also encouraging production.

However, here one is overlooking the important fact that the process of the distribution of material goods by the formation and distribution of monetary income is just beginning. This is obvious if one examines the entire process of reproduction as a whole, without limiting oneself to its individual phases. In actuality, the completion of the phase of the production (creation) of social product and national income is accompanied by the formation and primary distribution of income. This is simultaneously the beginning of the phase of the distribution and redistribution of social product and national income. In this phase of the reproduction process which overlaps with the phase of exchange, there is a redistribution of the income of the population and this terminates by the disbursement of monetary income and the formation of the end income of the public. The result of this process is the receipt of the corresponding material goods and paid services by the public, and these will be used to satisfy the demands of the people for the final stage of the reproduction process, consumption.

Thus, the distribution process can be considered over only when the corresponding consumer goods reach the consumers. In principle, this question was treated in this manner by K. Marx in his "Critique of the Gotha Program," where the notion of distribution according to labor under socialism was first formulated: "He (the worker.--V.M.) receives from society a receipt that he has delivered a certain quantity of labor (minus his labor for the public funds) and by this receipt he receives from public supplies a quantity of consumer goods on which the same amount of labor has been expended."¹

¹K. Marx and F. Engels, "Works," Vol 19, p 18.

FOR OFFICIAL USE ONLY

In a socialist economy, not labor receipts but rather money is used. However this circumstance cannot influence decisively the essence of the method of distribution which consists in providing the worker, in accord with his labor contribution, the appropriate mass of real consumer goods capable of satisfying his needs. The producer, in exchange for money, should receive from society the mass of consumer goods which would correspond to his labor contribution. Only then can one speak about the actual and consistent realization of the socialist principle of distribution according to labor. For this reason, under socialist conditions, with the existence of commodity-monetary relationships and when the process of distributing consumer goods is mediated by the formation, distribution and redistribution of monetary income, the consistent carrying out of the socialist principle of distribution according to labor requires the implementation of a number of additional conditions. The main one is the full satisfying of the solvent demand of the public for consumer goods sold as commodities.

Demand, as is known, represents a historically determined form of the manifestation of needs. The difference between demand and needs cannot help but occur with distribution according to labor and carried out not only with the aid of money but also with the aid of labor receipts. For this reason, the distribution procedure predicted by Marx, in its internal nature, proceeds from the existence of a discrepancy between the volume and structure of social needs and the demand of the population, and hence, in the first place, provides for the formation of a public supply of consumer goods in an amount which would correspond to the amount of working time stated in the labor receipts issued during the given year. Secondly, it is assumed that the structure of this supply of stocks should be "guessed" in such a manner that the social supply of stocks not "pile up," while the members of society at the same time would not go away from the public warehouses with empty hands. Thus, the phenomenon of demand arises independently of commodity-monetary relationships but with the presence of the latter this is complicated and transformed into a phenomenon of solvent demand.

From what has been stated it follows that the consistent realization of socialist distribution principles (distribution according to the quantity and quality of labor and the distribution of the fund of money for disabled persons) is possible only with the full satisfying of the solvent demand of the population for consumer goods and paid services. A disregarding of this condition and the nonobservance of it inevitably will lead to undermining the socialist principles of distribution.

If one speaks about the economic and organizational conditions for the balancing of the solvent demand of the public and its commodity cover, then it must be pointed out that in a spontaneously functioning market economy, the balancing of the supply and demand of the volume and structure of goods is achieved, as was pointed out by Marx in "Capital," by competition. Here the price mechanism plays an essential role.

Under the conditions of a socialist economy, consumer products are produced and sold predominantly as goods. However, here, in contrast to a small market or capitalist economy, the relationships of supply and demand are mediated by state planning. The sphere of the production and sale of material, physical goods, in forming their end supply on the consumer goods market, represents a very complex organism which includes enterprises and organizations from agriculture, industry, procurement, wholesale and retail trade. Here paper money does not have intrinsic

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

value, but rather its purchasing power is determined by the mass of goods put into circulation at stable state prices which are set in a planned manner.

In such a situation, the relationship of solvent demand and supply and their balancing will be determined, in the first place, by the volume and structure of consumer goods production; secondly, by the level and mass of monetary income of the population; thirdly, by the level and structure of the state retail prices and rates for service, and, finally, by the effectiveness of the system of selling and bringing the consumer goods to the consumer. Under the conditions of public ownership and the planned management of the economy, all these factors related to the balancing of supply and demand are controllable. It is merely a question of correctly orienting the process of controlling them and carrying this out most effectively.

Production is the first among these factors. This is caused, in the first place, by the fact that production is the determining phase of the reproduction process, and, secondly, by the fact that a socialist society needs not merely a balancing of supply and demand but rather a balancing which, in being based on the continuous growth of the economy, reflects and ensures a constant rise in the material well-being of the people.

The basic reason that a gap forms between demand and its supply is that for a long period of time the production of consumer goods has substantially lagged behind the overall economic development rates and behind the quantitative and qualitative growth of consumer needs. Rapid economic growth (in particular, the increase in the production in the means of production) has objectively led to high increase rates in the income of the population and this has not always been backed up by a corresponding rise in consumer goods. The production of traditional consumer goods which up to now have made up the basic bulk of commodity turnover, that is, foodstuffs, clothing and footwear, has not grown sufficiently quickly and, most importantly, instead of broadening the range and assortment of products and improving quality, as has been demanded by the growth of the population's income, in a number of instances there has been a decline in quality and a reduction in the assortment of produced products. Not enough new commodities are produced, particularly subsidiary ones.

The production of consumer goods should fully satisfy the growing demand for them and correspond to the changes in demand. At the same time, production should not blindly follow demand. In developing production, it is essential to proceed from the view that the dynamics and structure of consumer goods production should be oriented at achieving the indicators for rational consumption (a rational consumer budget) over the long run. A normative approach to the formation of the structure of consumption and commodity turnover in the long-range plans requires, in our view, the use of economic measures (for example, regular changes in prices for individual commodities and services) for rationalizing the demand structure.

The main thing in solving the demand problems is to increase production, improve quality, expand and promptly renew the assortment of consumer goods on the required scale.

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

The resources of a number of consumer goods, primarily food products, can be substantially increased in the next few years by improving the storage of the produced agricultural products and eliminating the bottlenecks in the food and light industries. This is focused on in the Draft of the "Basic Directions" which envisages an emphasis on proper storage of agricultural products and bringing it in the best commodity form to the consumer.

During the years of the 11th Five-Year Plan, the production of agricultural products should increase by an annual average of 12-14 percent, with the average annual production of meat rising up to 17-17.5 million tons (in dressed weight), milk up to 97-99 million tons and eggs to at least 72 billion units. The industrial production of consumer goods will develop at a more rapid pace and over the 5 years increase by 27-29 percent, including by 23-26 percent in the food industry and by 18-20 percent in light industry. The output of cultural, service and household goods will rise by at least 1.4-fold. The "Basic Directions" set quotas for an increase in the output of these commodities for the heavy industry sectors, for example, by 1.7-1.9-fold for the radio industry, by 1.8-1.9-fold in the electronics industry, by 1.4-1.6-fold in the chemical industry and so forth.

Over the long run there must be a fundamental reconstruction and converting to a new technical base for the light, food, furniture, printing and other industrial sectors which produce consumer goods. For increasing the technical level of production and hence product quality, it is advisable to concentrate the output of a predominant share of the cultural, service and household goods at specialized enterprises. Here it is essential to bring about an improvement in the quality of the raw products, semifinished products and materials for the industry producing consumer goods, including such items as vegetables, fruits, cotton, flax, leather, wool, dyes and accessories. It is essential to fully satisfy the demand of these sectors for packing and crating materials (tin plate, paper, cardboard and plastics) and specific types of raw materials (agar-agar, hops and so forth). The physical plant of trade and the other sectors serving the public should be developed at a rapid rate.

For achieving a balance of supply and demand in the near future and a successive rationalization of demand in the more distant future, it is essential now to begin forming new major channels for the expenditures of the population. As the income of the population rises, the structure of its expenditures must be enriched and new elements introduced into it, as follows from the law of increasing demand.

New expenditure channels are already provided by the extensive studies on the rational consumer budget of the population. These include a further increase in the sale of cars and automotive accessories to the public. It is possible and advisable to significantly increase the output and sale of new types of cultural, service and household goods to the public along with furniture, household chemical products and printed products. The population has a full opportunity to invest most money into the construction of cooperative and individual housing, cooperative garages and parking areas for means of transport. There are enormous prospects for developing orchard and garden societies for the employees, for tourist excursions and travel. In the future these items can hold an important place in the expenditures of the population. On the basis of concluding long-term agreements with the developing countries, it is possible to greatly expand the imports of consumer

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

goods which are not produced in our country or which cannot be produced in sufficient quantities (tea, coffee, cocoa beans, citrus fruits and bananas) but the consumption of which has become customary among the basic mass of the public.

An important factor for covering demand is an improvement in the organization, planning and management of consumer goods production and sales. At present, on a level of the nation and the Union republics, there is in fact no unified management of the production of consumer goods and services for the public. Due to the absence of proper coordination, the assortment of the produced articles develops, in essence, spontaneously. Nor do the existing forms of ties between trade and industry help to solve the demand problem. Even in those instances when production is planned from the orders of trade organizations (for example, in light industry) this procedure is virtually not observed. Industry, in essence, does not bear any responsibility for the sale of its products. The industrial enterprises and associations frequently force on trade an assortment which is advantageous for them, but even under these conditions the delivery contracts are systematically violated. The trade workers prefer to carry out the commodity turnover plans by selling expensive and labor nonintensive goods while avoiding in every possible way the handling of cheap and sales labor intensive goods such as greens, salt and nonalcoholic beverages. The demand of the population has not yet been sufficiently studied, and demand forecasts are little used in the work of trade and industry. They are actually not taken into account in planning.

For the balancing of supply and demand, it is essential to ensure comprehensiveness in working out the production plans for consumer goods, the plans for the development of the sectors of the consumer service sphere and the plans for the sale of consumer goods in the USSR Gosplan and the Union republic gosplans. The head ministries which are responsible for the organization of output, the technical policy and the satisfying of the demand of the population for individual goods should better know the market and influence the process of their production. It is also essential to fundamentally improve the planning of the structure and assortment of consumer goods production and commodity turnover in state and cooperative trade. The time has come to set quotas for the structure of commodity turnover and for the sales volumes of the major commodities in physical units in the national economic plan and in the plans of the trade organizations and enterprises. We must also introduce estimates (forecasts) of the public's demand as calculated indicators in planning practices. This will make it possible to consistently realize the demand of the "Basic Directions" on improving work in studying consumer demand and more fully considering the specific features of demand among various groups of the population and regions of the country.

The food program which is being worked out upon a decision of the CPSU Central Committee should help to satisfy the demand for food products. This program will be an organic component part of the 11th Five-Year Plan and will provide an opportunity to ensure unified planning, proportional and balanced development of all sectors in the agroindustrial complex.

The "Basic Directions" provide an improvement in the economic ties between the industrial, agricultural and trade organizations as well as a greater role for an economic contract in working out the plans for the production and sales of consumer goods. In this regard, we feel, the procedure of drawing up production plans on a

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

basis of orders from trade organizations should be extended to all the sectors and enterprises producing consumer goods. Here the fulfillment of the product sales plans by the production enterprises must be made dependent upon the results of the sales of the goods to the public. The need has arisen of widening the standardization of consumer goods with full coordination of the standards for the raw products and materials with the standards for the finished products. It is also advisable that the sale to trade organizations of consumer goods produced with deviations from the requirements of the standards and technical conditions and their sale to the population be carried out only at reduced wholesale and retail prices.

In forming an assortment of goods corresponding to the demand of the public at the retail trade enterprises, it is indispensable to increase the role of wholesale trade and create a strong wholesale level, including an Union-level opt [wholesale administration]. The "Basic Directions" have planned measures aimed at concentrating the commodity inventories predominantly in the wholesale trade system and increasing the responsibility of the wholesale depots for the uninterrupted supply of the necessary assortment of goods to the stores while the stores are to be held responsible for a constant supply of the set assortment of goods for sale.

The gradual saturating of demand requires a new approach to the marking down of goods. The need has arisen of marking down unsalable goods in retail trade systematically and on a significantly broader scale than at present. It is essential to set rigid time standards for the period which a commodity can stay in the retail trade network, and after this the good is to be marked down with the difference split between the trade organizations and industry.

There must be a substantial change in the practice of distributing material resources which are used both for the needs of social production and for sale to the public. The problem is that in the drawing up of the national economic plans, the requests from trade for building materials, production-end goods and fuel are systematically not satisfied. Moreover, as a rule, the clearly understated plans for the delivery of the given products are not fulfilled. This happens under conditions when an extremely insignificant share of the total resources of these products is consumed for the needs of the public, at times just 1-2 percent. In working out the material balances and the plans for the distribution of such products as fuel, building materials and metal products, where the share of the public in their consumption is a small amount, it is essential first of all to allocate resources for sale to the public in amounts which fully satisfy its demand. It is also essential to establish a procedure whereby the industrial enterprises, in fulfilling the delivery plans and the economic contracts, dispatch the products going into market stocks first.

The growth of production and improving the planning of the production and sale of consumer goods are factors which are on the supply side. However, in solving the problem of a balance between supply and demand, it is essential to fully consider the factors which lie directly on the demand side. The income of the population is the first of these.

The ratio of supply and demand depends substantially upon the volume and dynamics of the monetary income of the public. A rise in the mass of income increases the volume of demand. A rise in the average income level involves a change in the

FOR OFFICIAL USE ONLY

structure of demand and consumption. One of the reasons for the imbalance of demand lies in the underestimation of this circumstance. In carrying out ever-broader social programs in the form of a direct increase in monetary income, often proper attention is not given to the need for a real backing up of the greater income with greater commodity resources and a corresponding change in the commodity structure. As a result the monetary income of the workers systematically has outstripped the income in the volume of commodity turnover and paid services. Although a somewhat more rapid rise of income is a normal phenomenon, the actual measure of this proportion has not developed as it should and the share of surplus savings has continuously increased. This circumstance has not been taken into account in planning.

For ensuring a balance of supply and demand in the immediate and more distant future, it is essential to strictly correlate the growth of the monetary income of the population with the possibilities of increasing the resources of material goods and services. Obviously it would be advisable to supplement the Draft of the "Basic Directions" with a provision for the more rapid growth of the bulk of commodities in comparison with monetary income.

In this regard one other addition seems essential. Centralized measures must be carried out to increase the monetary payments to the public from the public consumption funds under the same condition as the wages and salaries are increased, that is, "as the conditions are created and the resources acquired."

Certain measures must be adopted to improve income planning practices. Thus, in compiling the plan balances for the monetary income and expenditures of the public, one can no longer avoid the presence of surplus savings caused by unsatisfied demand. It is also essential to raise the role of the territorial balances of monetary income and expenditures of the population. Up to now commodity resources have been distributed without proper consideration of the territorial income structure, while the criterion for the distribution of these resources should be the balancing of these resources with the total amount of income among the population with a conformity of the supply structure to the demand structure within each region, starting with the administrative rayon and ending with the republic. For systematizing monetary circulation and for strengthening the balancing of monetary income and its commodity coverage, it would be advisable, in our view, in the immediate future to carry out a number of measures to strengthen the redistribution processes.

A change in the structure of consumption and demand as income rises is an objective process which manifests the law of increasing demand. The overall trends in this area consist in a more rapid rise in demand for nonfood products and services in comparison with food products; in a more rapid increase in the demand for the nutritionally most valuable products such as meat, eggs, milk and fruits in comparison with other food products; in the rapid growth of demand for consumer durables, particularly new commodities. This is seen, in particular, in the data on the change in the commodity turnover structure in state and cooperative trade. From 1950 through 1978, a 4.1-fold rise in the real per capita income was accompanied by a decline in the proportional amount of food sales from 43.7 to 34.2 percent. The proportional amount of nonfood items rose from 41.6 to 47.8 percent, and here the share of such traditional items as textiles, clothing and underwear, declined by approximately 1.4-fold (with an increase in the sales volume of 4.8-fold). The

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

share of cultural goods rose by 1.9-fold, knitwear by 2.3-fold and electric appliances by 8.7-fold, with an increase in their sales volume of almost 58-fold.

Production should develop considering demand. But society does not always possess sufficient resources for this. Demand can develop in a direction undesirable for a society, in coming into contradiction with the demands for the rationalization of consumption. In both instances, the complete balancing of the structure of supply and demand can be achieved only by a change in the price ratios for individual commodities and commodity groups.

It is an empirical pattern that if a price rises, then, with other conditions being equal, the demand for the corresponding good usually declines and, conversely, demand rises with a drop in prices. On this question Marx wrote: "If supply and demand determine the market price, then, on the one hand, the market price, and in subsequent analysis, the market value determines supply and demand. In terms of demand this is obvious as it changes in the opposite direction to prices. Demand rises when prices fall and vice versa. But the same is also applicable to supply."²

Under capitalist conditions this property of prices makes them a spontaneous regulator of supply and demand, but under socialism, a potential instrument in the planned control of demand. Income determines the structure of demand, but demand cannot be controlled by income. But by changing prices it is possible on a planned basis to effect the structure of demand, to regulate it and control it. Hence, in particular, it follows that prices for individual goods and groups of goods cannot remain stable for a long period of time because they should consider the production and sales conditions and the balance of supply and demand.

From what has been said, it follows that for ensuring a conformity of the supply and demand structures, it is essential to make active use of the retail price mechanism by systematically altering the price ratios for individual goods (services) and groups of goods (services) to take into account the changing production conditions and for maintaining a constant balance of the supply and demand structure. The manipulating of prices should be carried out on a basis of a stable or declining average level of state retail prices. Naturally, in this instance a portion of the consumption resources which would bring about a direct rise in monetary income must be switched to ensuring a decline in the average price level.

We feel that in order to successfully solve the problems of balancing supply and demand, there must be a single systematizing of the state retail prices and rates for services, since the current retail price system was formed 25 years ago. Over this time the conditions for the production and sales of consumer goods have fundamentally altered. The ratios established in the current price lists for the commodity groups and within the groups do not reflect either the production conditions or the present conditions for selling consumer goods. The price level must be brought closer to the socially necessary expenditures, and in addition the demand structure must be brought into accord with the supply structure as determined by the possibilities of production and imports. Furthermore, in our view, it is also

²K. Marx and F. Engels, "Works," Vol 25, Part 1, p 209.

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

essential to alter the price formation procedure for consumer goods and make the price system more flexible and capable of responding to changes in demand. In this regard there must be a substantial improvement in the methods for calculating the retail price indexes and the rates for paid services.

The designated measures carried out as a unit will make it possible to successively solve the problem of fully satisfying the solvent demand of the population and will contribute to a strengthening of labor incentives and thereby to the successful realization of the tasks related to further developing the economy and increasing national prosperity.

COPYRIGHT: Izdatel'stvo "Pravda", "Voprosy ekonomiki", 1981

10272

CSO: 1827/33

END

FOR OFFICIAL USE ONLY