

1965 Soviet economic reform

The **1965 Soviet economic reform**, sometimes called the **Kosygin reform** (Russian: Косыгинская реформа) or **Liberman reform**, were a set of planned changes in the economy of the USSR. A centerpiece of these changes was the introduction of profitability and sales as the two key indicators of enterprise success. Some of an enterprise's profits would go to three funds, used to reward workers and expand operations; most would go to the central budget.

The reforms were introduced politically by Alexei Kosygin—who had just become Premier of the Soviet Union following the removal of Nikita Khrushchev—and ratified by the Central Committee in September 1965. They reflected some long-simmering wishes of the USSR's mathematically-oriented economic planners, and initiated the shift towards increased decentralization in the process of economic planning.

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A propaganda poster promoting the reform. The poster reads; "We are forging the keys of happiness!"

Background

Under Lenin, the New Economic Policy had allowed and used the concepts of profit and incentives for regulation of the Soviet economy. Stalin transformed this policy rapidly with the collectivization of farms and nationalization of industry, which was the result of the acceleration of central planning as exemplified by the "Five-Year Plans".^[1] Since about 1930, the Soviet Union had used a centralized system to manage its economy. In this system, a single bureaucracy created economic plans, which assigned workers to jobs, set wages, dictated resource allocation, established the levels of trade with other countries, and planned the course of technological progress. Retail prices for consumer goods were fixed at levels intended to clear the market. The prices of wholesale goods were fixed, also, but these served an accounting function more than a market mechanism. Collective farms also paid centrally determined prices for the supplies they needed, and unlike other sectors their workers received wages directly dependent on the profitability of the operation.^[2]

Although Soviet enterprises were theoretically governed by the principle of *khozraschet* (Russian: хозрасчёт, lit. 'business bookkeeping', or "accounting")—which required them to meet planners' expectations within the system of set prices for their inputs and outputs—they had little control over the biggest decisions affecting their operations.^[3] Managers did have a responsibility to plan future gross output, which they chronically underestimated in order to later exceed the prediction.^[4] The managers then received bonuses (*premia*) for surplus product regardless of whether it was produced in a cost-effective manner or whether their enterprise was profitable overall. The bonuses for output came in amounts sometimes equal to the managers' basic salaries. The system also incentivized pointless increases in the size, weight, and cost of production outputs, simply because 'more' had been produced.^[5]

Rise of the optimal planners

The economic reforms emerged during a period of great ideological debate over economic planning. More mathematical, "cybernetic", viewpoints were at first considered deviant from orthodox Marxist economics, which considered the value of good to derive strictly from labor.^[6] This doctrine, elaborated in such works as Stalin's 1952 book, *Economic Problems of Socialism in the USSR*, described the price system as a capitalist relic which would eventually disappear from communist society.^[7]

Nevertheless, computerized economics gained an important role for top planners, even while conventional Marxist–Leninist political economy was taught in most schools and promoted for public consumption.^{[8][9]} The rising influence of statistical planning in the Soviet economy was reflected in the creation of the Central Economic Mathematical Institute (Центральный экономико-математический институт; TSEMI), led by Vasily Sergeevich Nemchinov.^[10] Nemchinov, along with linear programming inventor Leonid Kantorovich and investment analyst Viktor Valentinovich Novozhilov, received the Lenin Prize in 1965.^[11] The battle between "optimal" planning and convention planning raged throughout the 1960s.^[12]

Another tendency in economic planning emphasized "normative value of processing", or the importance of needs and wants in evaluating the value of production.^[13]

Kosygin and Brezhnev replace Khrushchev

Major changes throughout the Soviet world became possible in 1964 with the ousting of Nikita Khrushchev and the rise of Alexei Kosygin and Leonid Brezhnev.^[14] Economic policy was a significant area of retrospective anti-Khrushchev criticism in the Soviet press.^{[15][16]} This 'reformist' economic

tendency in the Soviet Union had corollaries and some mutual reinforcement in Eastern Europe.^[17]

Kosygin criticized the inefficiency and inertia of economic policy under the previous administration.^[18] He presented a plan, including the ideas expressed by Liberman and Nemchinov, to the Communist Party Central Committee Plenum in September 1965.^[19] The Central Committee's acceptance of the plan became crucial for practical implementation of theoretical ideas.^[20]

Rationale

Lack of incentives

According to official rationale for the reform, the increasing complexity of economic relations reduced the efficacy of economic planning and therefore reduced economic growth. It was recognized that the existing system of planning did not motivate enterprises to reach high rates of production or to introduce organizational or technical innovations.^[21] There were no incentives for that.^[21]

Given more freedom to deviate publicly from party orthodoxy, newspapers offered new proposals for the Soviet economy. Aircraft engineer O. Antonov published an article in *Izvestia* on November 22, 1961, with the title "For All and For Oneself"—advocating more power for enterprise directors.^[22]



Day-to-day operations in 1967 at the economically reformed *Bolshevichka* clothing factory in Moscow—a pioneer of the new economic policy

Liberman's proposals

A widely publicized economic rationale for reform came from Evsei Liberman of the Kharkov Institute of Engineering and Economics. An article by Liberman on this topic, titled "Plans, Profits, and Bonuses" appeared in *Pravda* in September 1962.^[14] Liberman, influenced by the economic "optimizers",^{[23][24]} argued for the (re)introduction of profitability as a core economic indicator.^{[22][25]} Liberman advanced the idea that the social interest could be advanced through careful setting of microeconomic parameters: "What is profitable for society should be profitable for every enterprise."^[26]

These proposals were controversial, and criticized especially as regressions towards a capitalist economic system. Critics also argued that reliance on profitability would skew the proportions in which different goods were produced.^{[27][28]}

V. Trapeznikov advocated a position similar to Liberman's, in *Pravda*, August 1964, writing that

[...] the time has come to discard the obsolete forms of economic management based on directive norms, and to pass over to a simpler, cheaper and more efficient type of control of the activities of enterprises. This control must be patterned so that the personnel of an

enterprise find it economically profitable to organize that work along lines that are profitable to the national economy as well.^[29]

Unlike Liberman in 1962, Trapeznikov suggested that the need for reform had been embraced by party decisionmakers and would soon become a reality. In the following month, *Pravda* published six more articles from academicians, planners, and managers advocating reform. The last of these came from Liberman. This time, criticism was muted.^[29]

Several economic experiments were initiated to test Liberman's proposals. These began in 1964 with new policies for two garment factories: the *Bolshevichka* in Moscow and the *Mayak* in *Gorky*.^{[19][30]} When operations at the garment factories proved tolerably successful, the experiment was expanded to about 400 other enterprises, mostly in large cities.^{[31][32]} One experiment in *Lviv* involved a coal mine and factories producing clothing, shoes, and heavy lifting equipment.^[33] The coal mine, in particular, reportedly became more profitable after shifting to a system using bonuses and more independent decisionmaking.^[34] Some of the experimental plants ran into problems, however, due to the unreliability of suppliers continuing to operate on the old system.^[32] The *Mayak* plant faced a dilemma in trying to implement the centrally mandated experimental reforms, while simultaneously receiving contradictory orders from the local *sovnaarkhoz* (regional council).^[35]

Design

The reform was administered by the Central Committee of the Communist Party of the Soviet Union and the Council of Ministers. It consisted of five "groups of activities":

1. The enterprises became main economic units.
2. The number of policy targets was reduced from 30 to 9 (the rest remained indicators).^[36] The big nine were: total output at current wholesale prices, the most important products in physical units, the total payroll, total profits and profitability, expressed as the ratio of profit to fixed assets and working capital normalized; payments to the budget and appropriations from the budget; total capital investment targets for the introduction of new technology; and the volume of supply of raw materials and equipment.
3. Economic independence of enterprises. Enterprises were required to determine the detailed range and variety of products, using their own funds to invest in production, establish long-term contractual arrangements with suppliers and customers and to determine the number of personnel.
4. Key importance was attributed to the integral indicators of economic efficiency of production — profits and profitability. There was the opportunity to create a number of funds based on the expense of profits — funds for the development of production, material incentives, housing, etc. The enterprise was allowed to use the funds at its discretion.
5. Pricing: Wholesale sales prices would be recalibrated to reflect costs and encourage economic efficiency.^[37]

Profits, bonuses, and wages

The most important changes resulting from the Liberman/Kosygin reforms involved the role of profit in the Soviet economic system. *Rentabelnost'* ("profitability", Russian: рентабельность) and *realizatsiya* ("sales", Russian: реализация) became the twin success indicators for enterprises. *Rentabelnost'* was defined in terms of the *ratio* between profits and capital, while *realizatsiya* (also

meaning "implementation") depended on the total volume of sales.^{[38][39]} Success by these measurements led to the allocation of money to a fund, which could be disbursed according to a pre-defined sequence. The funds first went to pay for capital—including interest paid to *Gosbank*, the State Bank. Then, they went to the new incentive funds. Finally, they could be used by an enterprise to expand its capital for operations. Any profit extending above the maximum for spending would go to the central budget.^[40]

The three "incentive" funds were:^{[41][42]}

1. The material incentive fund (MIF): money for cash bonuses to workers of profitable enterprises;
2. The socio-cultural and housing fund (SCF): A fund for social and cultural programming; and
3. The production development fund (PDF): A 'development' fund for the overall organization.

Formerly, bonuses had come from the same fund as wages.^[43] Now, enterprise managers had slightly more discretion over how to allocate them.^[44] They could move some amounts of money between the bonus fund and the social welfare fund.^[45] They also had more power to influence wages by classifying different workers.^[44]

In practice, the bonuses had the greatest impact on the payment of elite personnel (technicians and "employees" as opposed to "workers"), thereby counteracting the effect of Khrushchev-era wage reforms.^{[46][47]}

An experimental system introduced at some enterprises offered extra bonuses for specific achievements—not just as a portion of total profits. For example, engineers using fuel more efficiently (during a shortage) could receive large premia calculated as a percentage of the money they saved.^[48]

Along with more direct responsibility for the wage fund, enterprises also gained the power to fire workers. In fact, the reform gave new incentive for layoffs, which in some cases could increase profitability. (When these occurred, the workers did not have a 'social safety net' in place in the form of unemployment insurance and career assistance).^[49]

Enterprise accounting

To encourage accurate planning, enterprises now would be punished for performing below *or above* their planned goals.^{[50][51]}

Enterprises would also pay rent for land and natural resources. The rationale for this practice was economic optimization. For example, land of differing quality required different inputs of manpower to achieve the same outputs, and thus should factor differently into the budget of an enterprise.^[52]

Bank loans, to be repaid later with interest, would be used to fund more investment projects—to incentive the careful use of funds and the speedy creation of profit.^[53] Five different interest rates would be set, ranging from preferential to normal to punitive.^[54]

An additional capital charge—i.e., tax—would be assessed for each enterprise based on the capital it retained: working capital, equipment, and surplus stocks.^[55]

More enterprise control over investment decisions

Enterprises were to submit annual plans, called *tekhpromfinplans* (from *Russian: техпромфинплан* (*ru:Техпрофинплан*) - *technical and financial production plan*), stipulating production plans by quarter and month. Higher-ups would then approve these plans (or not) and allocate supplies and money.^[56] The enterprise then sells its products, within the constraints of the plan. It is empowered to reject or return (within ten days) unneeded inputs to the supplier.^[57]

The key change which represented "decentralization" was the delegation of responsibility over modernization investments. However, modernization plans remained subject to central approval, as well as approval from the bank which lent the money.^[58]

The amount of development expected under these auspices fell far short of expectations, as the necessary labour and materials were simply undersupplied.^[59] One response to this problem in 1969 was to shift more incentives to the contractors.^[60]

For the "optimal planners" this limited decentralization was inadequate, and the new importance assigned to "profit" was incomplete because enterprises did not control enough of the factors which might affect it. As a deputy director of TSEMI commented in 1966:

We say: comrades, if you want to introduce profit, then it is necessary to reconstruct the whole system of prices, the system of incentives, in short, to alter a great deal in the existing forms and methods of economic management. If this is not done, then the introduction of profit will bring about no effect whatsoever.^[61]

The plan also called for the cultivation of a new breed of managers;^[62] As Kosygin in *Pravda* (September 28, 1965):

...initiative based on know-how, efficiency, a businesslike approach, a feeling for the new, and the ability to use production resources in each specific circumstance with maximum effectiveness, herein is the essence of the new demands.

Political reorganization

In previous eras, an important layer of administrative control over production had been *sovnarkhozy* (совнархо́зы, a contraction of words meaning "Council of National Economy"), the regional economic councils created on December 1, 1917, under the control of the Supreme Soviet of the National Economy (VSNKh, *Vesenkha*, a similar contraction). These councils spelled the end of a short-lived phase of worker control overproduction, which the Bolsheviks regarded as inefficient.^[63] Under the New Economic Policy beginning in 1921, enterprises were classified based on their relative interdependence (and necessity to war production) or autonomy (i.e. those "endowed with complete financial and commercial independence"). The many enterprises in the latter category were not nationalized, but instead placed under the guidance of the VSNKh, with the plan to group them into "trusts" based on production chains or geographic proximity.^[64] This model underwent various reorganizations, including the strengthening of *edinonachalie*, control of production units by a single manager. These single managers at times controlled a wide range of production activities within a single area.^[65] The economic reform of 1957 reintroduced the *sovnarkhozy*, 104 in number, to govern production by region. Where applicable, these corresponded closely with the boundaries of the *oblasty* (political jurisdictions).^[66] Complaints immediately arose that these councils did not

optimize overall production chains, due to their regional focus, and that they conflicted with the authority of *Gosplan*.^[67] In 1962, the 104 *sovnarkhozy* were consolidated into 47 larger jurisdictions (one of which controlled all of Uzbekistan, Turkmenistan, Tadjikistan, and Kirgizia). However, by 1962–1963, the *sovnarkhozy* were becoming subordinate to numerous other agencies and organizations. Gosplan was to be stripped of its planning authority in favor of a revitalized VSNKh.^[68]

Kosygin took aim at these "outdated forms of management" and included in his 1965 speech a return to ministries as core administrators. His plan resembled the ministry system under Stalin, but with a smaller number: nine all-Union ministries organized by industry (e.g., Ministry of Light Industry, Ministry of the Radio Industry, Ministry of the Chemical Industry) and eleven supervising operations within each union-republic. The latter regional agencies reported both to the local council and to the central ministry with jurisdiction over their production type. Gosplan had the responsibility for creating annual and long-term plans, and for guiding development and resource management. *Gossnab* became the primary coordinator of material-technical supply, and was charged with large-scale analysis (possibly using computers) to increase supply chain efficiency.^[69]

The 1965 reforms somewhat altered the role of the Party in economic administration.^[70] Local officials were to oversee operations from a distance to ensure compliance with the spirit of the reforms.^[71]

Refinement of central planning

The plan called for more detailed and scientific central planning, including annual targets.^{[72][73]} These plans would be calculated using computer systems.^[72]

Distribution of supplies and products would take place in different ways. Central planners would allocate certain scarce and vital goods. For others, enterprises could form "direct ties" within which they developed a contractual exchange relationship.^[74]

Implementation

The authors of the reforms knew from the outset that changes would take effect gradually, based on the careful writing of plans through the years 1966 and 1967.^[75] The first 43 enterprises, along with several "experiments" for which planning began before the September 1965 Plenum, shifted to the new model at the beginning of 1966.^{[76][77]} Transfer of another 180–200 was accomplished in early 1966.^[78] These were already profitable, well-positioned businesses, and reflected well on the reform in early evaluations.^[79] On July 1, 1966, 430 more enterprises were transferred; these included some large operations and themselves constituted 12% of total production. By the end of 1966, more than 704 enterprises had switched.^{[80][81]}

The Eighth Five-Year Plan would have instantiated some of the proposed reforms.^[82] (The Five-Year Plan dealt with a broad range of issues, with more of a focus on people's overall living conditions. It was expected to be implemented within the Party.)^[83]

Most light industry was to transfer at the beginning of 1967. The remaining enterprises to switch over in two stages, taking effect on July 1, 1967, and January 1, 1968.^[78] The complete transfer of all enterprises proceeded steadily, if not exactly on schedule. By April 1, 1967, 2,500 enterprises, responsible for 20% of output, had switched. By the end of the year, 7,000 industrial enterprises (out

of 45,000), 1,500 trucking firms (out of 4,100), and all 25 railroad systems had transferred. Together these made up the backbone of Soviet industry.^[80] They were followed by smaller enterprises: 11,000 more in 1968.^[84]

The plan met with considerable initial confusion from enterprise managers who, throughout their careers, had underestimated their potential output in order to later exceed their quota.^[4] Also difficult was the requirement to comply with the new directives before all aspects of the economy (i.e., prices, resource availability) had shifted over.^[85] And the reluctance of certain bureaucrats to comply with the new policies was the subject of sustained criticism in the press, including multiple editorials by Liberman himself. In April 1966, for example, Liberman recommended creating a "brain trust of the reconstruction" which could veto counter-reformist policies in the bureaucracy.^[86] Officials the higher administrative levels (i.e., the ministries), continued to issue orders at odds with the profitability plans of the enterprise managers.^[87] Some traditional problems—such as the accumulation, contra profitability, of surplus valuable supplies, lest they be needed later in a time of shortage—persisted.^[88] Gossnab and the ministries were blamed for failing to make the appropriate inputs available to the enterprises.^[89]

A price revision, the first since 1955, was announced in mid-1966, apparently following some non-trivial internal disputes.^[90] The revision called for moderate re-alignment of prices, to conform more with production costs, and went into effect in July 1967.^[91] Wholesale fuel and ore prices increased substantially.^[92] Prices on consumer goods did not officially increase at all; yet consumers paid higher prices for things they wanted and needed, since newer, more expensive goods were introduced to the market, and the old versions withdrawn.^[93]

Results

The economy grew more in 1966–1970 than it did in 1961–1965.^[94] Many enterprises were encouraged to sell or give away excess equipment, since all available capital was factored into the calculation of productivity. Certain measurements of efficiency improved. These included rising sales per rouble worth of capital and falling wages per rouble of sales.^{[95][96]} The enterprises rendered large portions of their profits, sometimes 80%, to the central budget. These payments of "free" remaining profits substantially exceeded capital charges.^[97]

However, central planners were not satisfied with the impact of the reform. In particular, they observed that wages had increased without a commensurate rise in productivity.^[94] Many of the specific changes were revised or reversed in 1969–1971.^[98]

The reforms somewhat reduced the role of the Party in micromanaging economic operations.^[70] The backlash against economic reformism joined with opposition to political liberalization to trigger the full-blown invasion of Czechoslovakia in 1968.^[99]



Working on a vehicle in 1969 at the new AvtoVAZ plant in Tolyatti

Soviet officials and press nevertheless continued to advance the idea of the 1965 reform. Kosygin commented on June 10, 1970:

The essence of the reform is, while perfecting centralized planning, to raise the initiative and interest of enterprises in the fullest use of production resources and to raise the efficiency of production in order to unify the interests of workers, enterprises, and society as a whole by means of the system of economic stimuli.^[100]

See also

- [1973 Soviet economic reform](#)
- [Bibliography of the Post Stalinist Soviet Union § Economics](#)

References

1. Katz, *Economic Reform* (1972), pp. 8–17.
2. Adam, *Economic Reforms* (1989), pp. 5–11.
3. Adam, *Economic Reforms* (1989), pp. 11–13.
4. Katz, *Economic Reform* (1972), p. 155. "The old-style director who was good at obtaining materials in short supply and fighting successfully with the authorities to get a low 'val' plan that he could comfortably overfill was lost in the new circumstances, and there was a serious problem of psychological reorientation."
5. Tubis, *Decision-Making in the Soviet Economic Bureaucracy* (1973), pp. 22–27. "The amount of premia was determined on the basis of the fulfillment of the norms for each plan index, and a certain rate was established for fulfillment and higher rates for overfulfillment of each norm. Since gross output was considered the most important index by the leadership, it carried with it the highest rates. The manipulation of these bonuses was very important because management personnel oriented production to get the most favorable sums, especially since the premia often amounted to a sum equal to the manager's regular salary. Moreover, whereas bonuses for workers and lower management personnel, e.g., a shop chief, were paid out of the enterprise fund made up of a part of the enterprise profit, the bonuses of the managerial personnel were, for the most part, paid out of the State budget. Thus, the premia of the manager and his staff came from fulfilling the production plan regardless of how the enterprise did financially."
6. Ellman, *Soviet Planning Today* (1971), p. 4.
7. Ellman, *Soviet Planning Today* (1971), p. 30. "In *Economic Problems of Socialism in the USSR* (1952) Stalin repeated the familiar Marxist–Leninist argument that price-market relationships in a socialist economy are a relic of capitalism, the persistence of which in a socialist economy is due to the existence side by side with the socialist sector of a cooperative sector (the collective farms), and that these price-market relationships are destined to wither away under communism."
8. Ellman, *Soviet Planning Today* (1971), p. 11. "Political economy is discussed in the press, lectures are given on it in the factories, and it is taught to students throughout the higher educational system. Economic cybernetics is a specialized academic discipline which is taught to future planners."
9. Feiwel, *Quest for Economic Efficiency* (1972), p. 199. "The mathematical school represents a major breakthrough in the approach to price formation and resource allocation, even though its exponents--to a larger or smaller degree--are cautious in advocating an immediate radical overhaul of the present system."

10. Ellman, *Soviet Planning Today* (1971), p. 2.
11. Feiwel, *Quest for Economic Efficiency* (1972), pp. 197–198. "The impact of the mathematical economists is evident from the growing recognition and honors bestowed on them. In 1964 Kantorovich was promoted to the rank of Academician, and in 1965 the Lenin Prize was awarded to Kantorovich, Nemchinov, and Novozhilov for their pioneering work in planometrics. Even though, as can be expected, there were discordant voices among the economic fraternity, the mathematical school is gaining respectability by claiming the Soviet priority in input-output and linear programming."
12. Ellman, *Soviet Planning Today* (1971), pp. 11–12.
13. Tubis, *Decision-Making in the Soviet Economic Bureaucracy* (1973), pp. 85–86.
14. Adam, *Economic Reforms* (1989), p. 23–24.
15. Katz, *Economic Reform* (1972), p. 105. "It was clear from the context of the articles that economic policy was a major, if not the major, area for condemnation of the deposed leader, and the three major subdivisions of the criticism were the issue of resource allocations, the successive reorganizations, and the mess in agriculture."
16. Feiwel, *Quest for Economic Efficiency* (1972), p. 256. "Undoubtedly one of the major reasons for Khrushchev's ouster on October 15, 1964, was the state of the economy and his erratic handling of the situation."
17. Katz, *Economic Reform* (1972), p. 123. "Throughout this period, there were numerous published reports concerning other Eastern European reforms in the Soviet press and journals, which undoubtedly served the purpose of propagandizing and stimulating the reform movement. [...] In addition to publicizing their efforts at reform, the Soviet leaders were actively engaged in discussion with the Eastern European regimes and actually had something to learn from their junior partners in the matter of reform."
18. Feiwel, *Quest for Economic Efficiency* (1972), p. 257. "In his report of December 9, 1969, to the Supreme Soviet, Kosygin assaulted the inefficiency of the planning system. He wailed on the misuse of investment resources, the protracted construction periods and underestimated costs [...]. He condemned the enterprise's unwillingness and inertia in introducing technical progress and accentuated the inferior output quality. He pointed to the endless links in the chain of command, the superimposition of strata in administration, the muddle created by duplication of work in many agencies, and the ever-growing mutual coordination, often responsible for delaying solutions to arising problems."
19. Adam, *Economic Reforms* (1989), p. 40.
20. Tubis, *Decision-Making in the Soviet Economic Bureaucracy* (1973), p. 110. "The September, 1965 plenum thus acts as a bridge between the reform debate of 1962–1965 and the actual instillation of the reform in the Soviet economy. In the case of the former, the Plenum represents the culmination of the debate with the Soviet leadership announcing which of the ideas and proposals of the reformers it found to be the most valid and compelling; in the case of the latter, the Plenum laid out the path which the infusion of reform proposals was to take."
21. Protocol of the 22nd Congress of the CPSU, Moscow 1961
22. Katz, *Economic Reform* (1972), p. 66.
23. Ellman, *Soviet Planning Today* (1971), p. 17.
24. Katz, *Economic Reform* (1972), p. 71. "In March, for example, *Kommunist*, No. 5, carried a major article by Nemchinov, the venerable mathematical economist, who, it is believed, from his powerful academic position, personally picked Liberman to spark the second phase of the discussion."
25. Feiwel, *Quest for Economic Efficiency* (1972), p. 218. "In place of a multiplicity of performance criteria, Liberman proposes to use a single one: profitability, expressed as a ratio of profit to productive fixed and working capital."

26. Tubis, *Decision-Making in the Soviet Economic Bureaucracy* (1973), pp. 1, 81–85.
27. Katz, *Economic Reform* (1972), p. 67. "Thus, despite Liberman's assurances that price formation would be in the hands of the state and although he appeared to suggest a manipulative approach to price policy, the conservative critics were quick to point out that Liberman's proposals 'lead to the conclusion that the methodological basis of price formation in a planned socialist economy should be the prices of production, which is characteristic of the capitalist system of economy.'"
28. Tubis, *Decision-Making in the Soviet Economic Bureaucracy* (1973), pp. 87–88.
29. Tubis, *Decision-Making in the Soviet Economic Bureaucracy* (1973), pp. 91–92.
30. Feiwei, *Quest for Economic Efficiency* (1972), p. 237.
31. Feiwei, *Quest for Economic Efficiency* (1972), p. 242.
32. Tubis, *Decision-Making in the Soviet Economic Bureaucracy* (1973), pp. 93–94.
33. Katz, *Economic Reform* (1972), p. 111.
34. Katz, *Economic Reform* (1972), p. 112. "Effective January 1, 1965, the mine received notice of a quarterly extraction plan, of the amount of government subsidy per ton extracted (coal mining is a loss industry and profitability is calculated in relative uslovno terms), and of the permissible acreage of ash content. All other indicators were determined by the mine enterprise itself, bearing in mind the 'maximum utilization of reserves.' The miners received bonuses based on the fulfillment and overfulfillment of the extraction plan. Executives, engineers, and technicians, received premia based on the fulfillment of the production plan and the achieved level of relative profitability. The various published sources are replete with statistics concerning the increase in extraction and productivity under the new experiments."
35. Tubis, *Decision-Making in the Soviet Economic Bureaucracy* (1973), p. 95. "More ominous was 'the widespread opposition of the regional sovnarkhoz officials who refused to recognize the special status of the experimenting plants and continued to issue orders, instructions, and plans as usual.' Despite the right of enterprises working under the special provisions of the reform, sovnarkhoz officials would arbitrarily change plan assignments or redirect the delivery of output. The Maiak plant particularly suffered this; at one point, Maiak's manager was threatened with punishment if he did not cancel his contracts with retailers and produce what the sovnarkhoz ordered, as if the reform never existed. At other times, the sovnarkhoz would put through an 'emergency' request to fill local orders."
36. Katz, *Economic Reform* (1972), p. 143.
37. Feiwei, *Quest for Economic Efficiency* (1972), p. 262.
38. Katz, *Economic Reform* (1972), p. 137. "The theory of this aspect of the reform was that the two indicators 'control' or 'guarantee' each other. Realizatsiya, or the sales indicator, prevents profitability from rising at the expense of the volume, assortment, and quality of the products demanded, whereas the profitability indicator prevents the plan from being carried out as regards volume and assortment of products at 'any price,' regardless of the costs."
39. Feiwei, *Quest for Economic Efficiency* (1972), p. 260. "Both the increase of the absolute amount of profit and that of its rate, reflecting the return per ruble of production assets (rate of return) are required."
40. Adam, *Economic Reforms* (1989), p. 42. "The reform set rules for the order and the way in which profit should be distributed. [...] Enterprises were obliged to use their profit first to pay the capital charge and interest on bank credit. After these payments were made, profit could be used for feeding three incentive funds. Next in order was the use of profit for the repayment of credit, expansion of working capital, and so on. The difference between the sum of produced profit and the allowable payments from profit was surrendered to the budget as the free remainder of profit (see 'Decisions' of the Central Committee of the CPSU and Council of Ministers of 4 October 1965, hereafter 'decisions of 1965')(*Khoziaistevennaia* . . . , 1969, p. 121)."
41. Adam, *Economic Reforms* (1989), pp. 42–43.

42. Ellman, *Soviet Planning Today* (1971), p. 131.
43. Adam, *Economic Reforms* (1989), p. 45.
44. Feiwel, *Quest for Economic Efficiency* (1972), p. 271.
45. Feiwel, *Quest for Economic Efficiency* (1972), p. 309.
46. Ellman, *Soviet Planning Today* (1971), p. 139. "The main distributive effect has been to improve the incomes of employees and engineering-technical personnel relative to workers. In enterprises which transferred to the new system in 1966, the average pay of employees was 10.3 per cent higher, of engineering-technical personnel 8.2 per cent higher, and of workers only 4.1 per cent higher than in 1965. It is officially considered that this is a desirable reaction to excessive equalising tendencies in 1959–65."
47. Katz, *Economic Reform* (1972), pp. 140–141. "At the beginning of 1966, the premia of executives and engineering and technical staffs compromised [sic] 11 per cent of total salaries of this group under the old system. In the first quarter, in the cases of those factories that transferred to the new system, these premia amounted to 30 to 35 per cent of the salaries of this category."
48. Feiwel, *Quest for Economic Efficiency* (1972), pp. 273–274.
49. Tubis, *Decision-Making in the Soviet Economic Bureaucracy* (1973), pp. 193–194. "One of the rights granted to the enterprise under the reform was the ability to lay off excess workers. Formerly, the enterprises would hire as many workers as they could get since the wage fund was determined by higher organs based upon existing manpower; under the reform the wage fund was to be determined as part of the plan and so the less workers, the larger the wages which could be paid to the existing work force as an incentive or saved to increase profitability. In some cases, comparison between growth in the rate of labor productivity and the rise in wages would seem to indicate a decline in the size of the work force."
50. Adam, *Economic Reforms* (1989), p. 43. "The new system penalized both over-fulfilment and under-fulfilment of the plan. If an enterprise over-fulfilled both or one of the fund-forming indicators, the normative for that portion which exceeded the plan was reduced by at least 30 per cent. A roughly similar disincentive was specified for under-fulfilment of plans (Egiazarian, 1976. p. 155; *Khoziaistevennaia* . . . , 1969, p. 245; Kletskii and Risini, 1970). This provision aimed not only at encouraging enterprises, as already mentioned, to accept demanding plans, but also at discouraging them from committing themselves to unrealistic plans."
51. Katz, *Economic Reform* (1972), p. 141. "If the sales or profit plan was overfulfilled, the norms of deduction from profit were reduced by 30 to 40 per cent. Underfulfillment was penalized at a rate of 3 per cent for each percentile of underfulfillment to a floor of 40 percent of the planned deductions into the enterprise fund."
52. Ellman, *Soviet Planning Today* (1971), p. 35–36. "Traditionally Soviet enterprises have not had to pay for the use of land or natural resources. Rent payments for the use of scarce natural resources were introduced as part of the reform, and the further development of this principle is currently very topical. [...] Hence, *the shadow prices of pieces of land of different fertilities reflect the saving of labour resulting from production on the best and middling pieces of land rather than on the worst piece.*"
53. Feiwel, *Quest for Economic Efficiency* (1972), p. 290. "The reform is to invigorate the role of credit. Preliminary calculations indicated that over half of the present volume of investment can be financed by bank credits to induce investment planners to be more cautious in their demands for funds and to justify them by sounder efficiency calculations, and to encourage enterprises to make more profitable ventures, to accelerate the mastering of capacities, and to speed up repayment of borrowed funds. As for working capital about 40 per cent of it is already financed by bank credits and it is envisaged that this share will increase."
54. Feiwel, *Quest for Economic Efficiency* (1972), p. 292.
55. Feiwel, *Quest for Economic Efficiency* (1972), p. 306.

56. Feiwel, *Quest for Economic Efficiency* (1972), p. 269.
57. Feiwel, *Quest for Economic Efficiency* (1972), p. 270.
58. Adam, *Economic Reforms* (1989), p. 49. "Financing of modernisation of existing enterprises was to come from the enterprise development funds and credit (again from the Construction Bank) repayable from the development funds. If the credit contributed to the expansion of consumer goods production, 50 per cent of the turnover-tax yields could be used to pay off the credit (Kosygin, 1966, pp. 9–12; 22–5; *Khoziaistevennaia* . . . , 1969, pp. 132–2). Thus the real involvement of enterprises in investment was in modernisation, and only this investment could be termed decentralised or non-centralised as it was called in official documents. The rationale for this decentralisation was to give enterprises greater responsibility for investment in the hope that, if their own funds were involved, they would care more about the effectiveness of investment. There was no great fear that such investment would escape the control of authorities. Investment in modernisation had to be included in the plans of enterprises, and these required the seal of approval. Some control was also exercised by the bank extending credit."
59. Adam, *Economic Reforms* (1989), p. 50. "It was calculated that, with the conversion of the whole industry to the new system of management, the development fund would make up 20 per cent of all industrial capital investment and represent 5.5–6 per cent of all fixed assets (Feiwel, 1972, p. 392, even mentioned a figure of 11–12 per cent). In reality, it was much lower, 2–3 per cent of fixed assets. In spite of the rules some ministries withheld a portion of the amortisation fund belonging to enterprises (probably for financing centralized investment), and a portion of the development fund had to be used for the construction of roads. What is perhaps even worse, enterprises could not fully use the remaining development fund (in 1964 they only used 60 per cent). Enterprises had difficulty obtaining needed machinery and equipment and finding construction enterprises that would be willing to perform the construction work, particularly if a small project was involved. The plan for investment for 1966–1970 was too demanding. It exceeded the capacity of construction enterprises and the potential supply of materials and machinery, and centralized investment had a preferential claim on construction capacity and supply (Krylov, Rothstein and Tsarev, 1966; Rumiantsev and Filippov, 1969, p. 36; Feiwel, 1972, pp. 394, 488–90)."
60. Adam, *Economic Reforms* (1989), p. 51.
61. Ellman, *Soviet Planning Today* (1971), p. 158. "Once the decisions of the September (1965) Plenum were announced, TSEMI was quick to realize the unsatisfactory results that would come about from emphasising profit as an index of efficiency in an otherwise unchanged economic mechanism. In the 1966 debate on optimal planning a deputy director of TSEMI explained that: [quotation follows]."
62. Tubis, *Decision-Making in the Soviet Economic Bureaucracy* (1973), pp. 106–107.
63. Tubis, *Decision-Making in the Soviet Economic Bureaucracy* (1973), pp. 7–8. "However, the system of worker's control quickly broke down into a general disintegration of industry. Many worker's councils used the doctrine to settle old scores with the former owners and management; even those which did not seldom were able to master the technical details of running the factory, especially in the area of finances. It, therefore, seemed to the Bolsheviks advisable to set up some kind of centralized machinery to control nationalized industry in the hopes of salvaging some kind of order from the chaos. On December 1, 1917, the Supreme Council of the National Economy (VSNKh) was created in order to control the nationalized sector of the economy. VSNKh and its system of local Councils of People's Commissars (*sov'narkhozy*) were charged with the job of nationalizing and regulating industry. [...] After the creation of the Supreme Council, worker's councils died a rather rapid death."

64. Tubis, *Decision-Making in the Soviet Economic Bureaucracy* (1973), pp. 8–11. "The bulk of industry which now would be in the hands of private owners or cooperative groups was to be supervised by sixteen central industrial departments under the administration of VSNKh which was charged with the function of supervising 'industrial reorganization along the new lines, and thereafter to exercise a general regulation of the policies and activities of industrial trusts falling within their several spheres."
65. Tubis, *Decision-Making in the Soviet Economic Bureaucracy* (1973), pp. 16–22.
66. Tubis, *Decision-Making in the Soviet Economic Bureaucracy* (1973), pp. 48–50.
67. Tubis, *Decision-Making in the Soviet Economic Bureaucracy* (1973), pp. 54–60.
68. Tubis, *Decision-Making in the Soviet Economic Bureaucracy* (1973), pp. 63–67.
69. Tubis, *Decision-Making in the Soviet Economic Bureaucracy* (1973), pp. 101–103.
70. Katz, *Economic Reform* (1972), p. 173. "It is clear that, in general, the pendulum again shifted to an emphasis on staying out of day-to-day management problems, however. Thus, in September, 1966, *Pravda* concluded that party organs in the Perm *oblast* were relying on 'administrative methods' or were caught up in 'paper creativity.'"
71. Tubis, *Decision-Making in the Soviet Economic Bureaucracy* (1973), pp. 108–109. "The main tasks of the Party at all levels would be two-fold. First, the Party organs will ensure that the correct application of the reform principles is made, and they must constantly focus their attention on the major problems of the economics of industry. To emphasize this point, Mazurov, in a speech to the USSR Supreme Soviet, stated that this means 'precise and on-time fulfillment of the plan assignments' and that 'nonfulfillment of the plan must be regarded as a very gross violation of state discipline.'"
72. Adam, *Economic Reforms* (1989), p. 41.
73. Feiwel, *Quest for Economic Efficiency* (1972), p. 261. "Existing potential must be scientifically analyzed to uncover the emergent tendencies and perspectives. Planners should be alert to raising the efficiency of new technology, improving the structure of production and consumption, and coordinating regional development. Enlargement of management's time horizon must rely on drafting five-year plans at enterprises, to encourage development and arrangement of permanent ties with suppliers and buyers. The five-year plan, broken down by years for crucial targets, should become the basic form of planning."
74. Feiwel, *Quest for Economic Efficiency* (1972), p. 294–296.
75. Feiwel, *Quest for Economic Efficiency* (1972), p. 265. "The transition to the new system will be gradual so as not to endanger the fulfillment of plans and the normal operation of industry. Gosplan, the MF, the State Committee for Labor and Wages, the SCP, Gosbank, and the industrial ministries will be charged with drafting regulations, methodological instructions, and directives during the period 1966–1967 for implementing the new system."
76. Katz, *Economic Reform* (1972), p. 151–152.
77. Feiwel, *Quest for Economic Efficiency* (1972), p. 299.
78. Katz, *Economic Reform* (1972), pp. 152–153.
79. Tubis, *Decision-Making in the Soviet Economic Bureaucracy* (1973), pp. 118–119.
80. Katz, *Economic Reform* (1972), p. 154.
81. Feiwel, *Quest for Economic Efficiency* (1972), p. 300.
82. Katz, *Economic Reform* (1972), p. 151. "...there is a remarkable continuity in the issues and debate over them at the end of the 1966-70 Five-Year Plan, the period of implementation of the reform."

83. Tubis, *Decision-Making in the Soviet Economic Bureaucracy* (1973), p. 180. "Those problems to which the Party must direct its creative energies were listed as implementation of the Five-year Plan (improve economic development, improve the rate of the production of consumer goods, successful industrial construction, and improved living conditions for workers); improvement of technical progress, especially in machine-building, instrument-making, and chemicals; improvement in capital construction; further exposure of production reserves; full utilization of the potential of the new system; and raising the level of Party leadership."
84. Katz, *Economic Reform* (1972), p. 155.
85. Katz, *Economic Reform* (1972), p. 158.
86. Katz, *Economic Reform* (1972), pp. 158, 161.
87. Tubis, *Decision-Making in the Soviet Economic Bureaucracy* (1973), pp. 222–223. "The most pervasive problem, however, was the continuing inclination of ministries to change the plans of their subordinate enterprises in clear violation of the principles of the reform. For example, the Ukrainian Ministry of Light Industry twice changed the output plan of the Chernovitskii Hosiery Combine without changing its sales volume. The Combine's cost plan was changed three times, and it was ordered to plan for val, production cost, and number of employees despite these plans no longer existing under the reform. In a more extreme case, the USSR Ministry of Machine-Building for Construction, Road-Building, and Civil Engineering changed the plan for the Kharkov Conditioner Plant 17 times between January and April, 1967."
88. Feiwel, *Quest for Economic Efficiency* (1972), p. 298.
89. Tubis, *Decision-Making in the Soviet Economic Bureaucracy* (1973), pp. 226–229. "Of all the economic problems, the most serious one was the continuing shortcomings in the field of material-technical supply. Reports appeared in the Soviet press indicating that shortages and foul-ups were still numerous and, in some cases, rather serious for the affected enterprises. [...] Much of the blame for supply problems at the enterprise level was the result of administrative red-tape at higher levels, beyond the control of the enterprise."
90. Katz, *Economic Reform* (1972), p. 164. "When Gosplan deputy chairman Bachurin discussed the schedule for implementation of the reform in February 1966, he was able to report that the State Committee for Prices had already worked out the principles of price formation but that there remained the task of ensuring that prices approximate as closely as possible the 'level of socially useful labor.' There then followed a strange silence on the issue of price formation. [...] This may indicate that the final official decision was not taken until the late summer of 1966 and that there were some hard-fought battles until the last minute."
91. Katz, *Economic Reform* (1972), p. 169.
92. Feiwel, *Quest for Economic Efficiency* (1972), p. 352.
93. Feiwel, *Quest for Economic Efficiency* (1972), p. 355–356. "One of the canons of the 1967 price revision was that wholesale price changes would not affect retail prices. Throughout the 1966-70 FYP, the prices of basic foodstuffs remained unchanged. The rates of housing rents, public utilities, and public transportation also remained stable. This does not mean, however, that the consumers' price level remained unaltered. As a rule, when new or improved products are introduced their prices are higher than those of existing substitutes. The substitutes often are withdrawn from production. Hence there is a continuous 'disguised price inflation' and an increasing cost of living."
94. Adam, *Economic Reforms* (1989), p. 53. "The economy did not perform well enough to impress opponents of the reform. It grew faster in 1966–1970 than it did in 1961–1965. Its development, however, showed some disquieting phenomena; primarily the relationship between wages and productivity in industry was not to the liking of the central planners. Nominal (and real wages) [sic] grew fast, but productivity lagged behind the target."

95. Ellman, *Soviet Planning Today* (1971), p. 139. "The new system is considered to have had a number of positive allocation effects. It has led to widespread selling, or giving way, of superfluous equipment. (This increases both the *PDF* and, ceteris paribus, profitability.) In addition, the reform has had a positive effect on a number of indices which are conventionally regarded as measures of efficiency. The head of Gosplan's department for the introduction of the new system has cited table 8.4, which refers to 580 enterprises transferred to the new system in 1966, to illustrate the positive effect of the reform on efficiency."
96. Tubis, *Decision-Making in the Soviet Economic Bureaucracy* (1973), p. 142.
97. Feiwel, *Quest for Economic Efficiency* (1972), pp. 327, 341, 377–383.
98. Adam, *Economic Reforms* (1989), p. 52–53. "However, the reform was short-lived. Some of its building blocks started to crumble when it was still expanding to other areas. In 1969 productivity targets were reintroduced; what is worse, the most important element—a new approach to the formation of the bonus fund—was dropped. Starting in 1972 the bonus fund was again assigned to enterprises from above, and the fund creating indicators, sales and profit, were reduced to corrective indicators (Adam, 1980). The number of success indicators started to grow again. Decentralised investment, for reasons already mentioned, played a minimal role."
99. Katz, *Economic Reform* (1972), pp. 180–181. "This development appears to have paralleled the general conservative tightening-up in other spheres of Soviet life, especially those of culture and ideology, which was at least partially related to the development of the reform movement in Czechoslovakia. With the invasion of Czechoslovakia in 1968, the conservative backlash reached its high point and the economic reformist notions of that country came under such heavy attack as to strike caution into economic reformers elsewhere in the Soviet bloc."
100. Quoted in Katz, *Economic Reform* (1972), p. 184.

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