“Socialist Planning” and Enterprise in the USSR, 1929-1989

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1. The basic features of the Soviet economy: Planning, enterprises and monopolistic regulation of markets

The basic element of economic planning in “actually existing socialism” was a specific kind of economic control exercised over enterprises by the state (in the form of the state planning agencies). This control derives from two sources:

(a) the plan itself (which had the status of law), that is to say the articulation by the state of economic goals which the enterprises were obliged to accomplish, and

(b) the appropriation by the state of the greater part of the economic surplus produced by the enterprises. To a large extent this surplus was redistributed to the enterprises by the state in accordance with the plan, for the implementation of their investment programme. These two types of control together shaped the structures and the operational guidelines of enterprises in such a way as to promote a typically *monopolistic structuring* of the economy.

Intrasectoral competition between related enterprises was thus suppressed at the outset (or at the very least drastically curbed) while competition between different sectors assumed less dynamic forms, intermediated by state agencies.

The five-year economic plans were drawn up by the State Planning Commission of the Council of Ministers of the USSR (GOSPLAN). The economic (branch) ministries were oriented towards drawing up and controlling the implementation of planning objectives at the level of each specific branch of the economy (Abalkin et al, 1983: 384 ff.).

The basic method of establishing the plan (or the various sectoral plans) derives from the compilation of “balance sheets” of productive activity. This balance sheet procedure couldn’t of course be extended to all goods produced by Soviet enterprises. In the 1980s, the total number of balances drawn up by the country’s programming organisations was in the vicinity of 60,000, while the total number of different types

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of products in circulation in the USSR during the same period is estimated at ten to fifteen million (Rutland 1985:116).

The limits of planning, afford a certain measure of economic independence to the productive units. The productive units were administered by a director appointed to his position by state authority. The director was responsible to the state for the fulfilment of the goals of the plan by his enterprise, through methods and initiatives which he himself chose, however (assignment of personnel, organisation of work procedures, introduction of innovations and new technology, contracting of loans from the state banks, negotiation of agreements with other enterprises for provision, sale or purchase of products, marketing of consumption goods, etc.), despite the fact that for certain of his choices he required approval from superior planning organs (e.g. for provision of capital goods and raw materials from other enterprises the approval of the State Supply Commission – GOSSNAH – was needed).

The relative independence of enterprises and the power position of managers can be also concluded by the fact that it was quite normal for the goals of the plan to remain unfulfilled, with the result not that the prescribed sanctions were imposed on the enterprises, but that the goals of the plan were revised and adapted to enterprises' actual performance (quality of products, non-fulfilment of production deadlines and delivery dates to other state enterprises, etc.). The state economic administration and planning services remained, however, the dominant pole in the Soviet economic system in respect to productive units and managers.

The most significant type of state control of the productive activity of enterprises took the form of the appropriation by the state (in the state budget) of the greater part of the economic surplus produced by enterprises. This appropriation of enterprises' economic surplus was effected through two mechanisms:

a) Transfer to the state of a proportion of the overall earnings of enterprises (profit-making or otherwise) from the sale of their products on the market. This amounted to a kind of "circulation tax" (Academy...1954: 606).

b) Transfer to the state budget of a part of the income of state enterprises, i.e. of their profits after the deduction of the "circulation tax". The portion of the total surplus of state enterprises which finds its way through these two mechanisms into state coffers was called the "concentrated gross income of the state", with the remaining part of the surplus in the hands of the enterprise characterised as the "gross income of the enterprise".

It is important to note that the concentrated gross income of the state was "overwhelmingly greater" (Academy..., 1954: 671) than the gross income of enterprises. A large part of the "concentrated gross income of the state" returned to enterprises in the form of investment finance for the implementation of the plan. The economic surplus was redistributed between the enterprises and the different branches of the economy on the basis of criteria which, to a greater or lesser extent, had to do with the state's economic policy and goals (Abalkin et al 1983: 386).

One of the results (and also the prerequisites for its stabilisation and reproduction) of state control over enterprises was a downgrading of the element of competition, in the first instance within each branch of the "people's economy". What this amounts to in essence is monopolistic regulation by the state of the productive activity of each branch of the economy, accomplished through a dual mechanism:

a) The concentration of capital in ever larger productive units; the subsequent reduction of the number of enterprises in each branch of production.[2] Concentration was effected largely through the so called "combination of production" that is to say administrative mergers into "combinats" or production "unions" of companies manufacturing similar products (Academy ... 1954: 485, Bettelheim 1971, chapter 2.4). The often enormous size of Soviet enterprises, along with their monopolistic position in the market stabilised and in many cases increased the power position of managers in the Soviet society, and increased their ability to negotiate the plan objectives with central authorities.

b) The segmentation of the market, through "collaboration" by enterprises in the same branch and the (geographic or otherwise) dividing up or parcelling out of the market between them (Academy ... 1954: 595 & 486).

A principal method of achieving market segmentation was an attempted precise adjustment of production to anticipated expected demand, avoiding "surpluses" in the supply of products (Academy 1954: 518, Abalkin et al 1983: 297) which might have provoked competitive tensions, through the spontaneous tendency of commodities manufactured by enterprises with higher labour productivity (higher quality

[2] "In 1950, manufacturing companies with a staff of over a thousand employed 62 percent of the total workforce and accounted for 70 percent of the country's industrial production, while in the United States, according to the first post-war census (1947), enterprises employing more than a thousand people absorbed 32 percent of the working population and accounted for 34 percent of total industrial production" (Academy... 1954: 485).

commodities) to penetrate sections of the market "planned" to be serviced by lower productivity enterprises.

The problem was particularly pertinent for sectors producing consumption goods because here demand could not be pre-calculated, at least to a degree similar to demand for investment goods by state enterprises. The only method to avoid "surpluses" was the notorious queues and empty shelves in shops selling consumer goods that were an endemic phenomenon even in periods of conspicuous idle capacity for industries producing consumption goods (Gorbachev 1986).

The problems arising for the economy of "existing socialism" out of the monopolistic regulation of the productive procedure and the absence of intra-sectoral competition had to do with the lack of powerful incentives for increasing labour productivity (incentives which in Western capitalism are created by competition as such, which sees to it that less productive enterprises are excluded from the market) and with impediments to the generalisation of the most productive techniques. The plan was supposed to be able to tackle this problem, setting itself the goal of technological modernisation and an increase in labour productivity in the individual enterprise. Besides, the state possessed two further mechanisms: (a) the institutionalisation of a system of material rewards (incentives) for overrated performance, on the one hand and (b) on the other setting commodity prices in such a relatively low level as to encourage modernisation of average- and low-productivity enterprises.

In essence the management of the enterprise determined the quantitative content of its planning goals and the central planning authority, through institution of a system of incentives and disincentives, acted like a lever exerting pressure to increase enterprise efficiency (enterprise acceptance of more ambitious planning goals). In other words (in the conditions of monopolistic regulation that characterised the Soviet economy), it functioned as a "substitute for capitalist competition".

Despite the remarkable development of the Russian economy in the 1930s, as well as in the first decade after world war II, what emerged afterwards, since the late 1950s, was clearly anything but positive: the economic system of "existing socialism" did not succeed in resolving the contradictions, which obstructed both, (a) the process of increasing labour productivity (with rates comparable to the corresponding performance of Western capitalist countries), and (b) regulating of the sectoral and subsectoral structuring of the "people's economy", in order to counteract the system's inherent tendency towards increase in "accumulation reserves", i.e. production of means of production (disposal of which was guaranteed in advance through the agreements negotiated between the state enterprises). (Rutland 1985: 100 ff.; Gorbachev 1986: 29 ff.; Aganbegyan 1987, Schroeder 1988).

2. Unsuccessful Reform Attempts and the Final Triumph of Enterprise 'Insiders'

The problems of the Soviet economy had attracted the attention of the country's leadership as early as the mid-50s. The first requirement for the Soviet leadership was, thus, increase in the productivity of labour at a higher rate than that of the increase in accumulated fixed capital. This in turn was seen as a means of dealing also with the problem of sectoral and subsectoral disequilibrium (Abalkin et al, 1983: 365 ff.).

The economic reform plans underwent continual modifications during the entire 1965-84 period (Khrushchev's reforms of the early 60s, the Kosygin reforms of the latter half of the same decade ...) but were unable to check the tendency towards stagnation in the Soviet economy, a tendency outlined with great eloquence in the second half of the 1980s by the Soviet political leadership under Gorbachev.

The economic stagnation of the USSR in the post-war period was not a result of a technical inefficiency of planning in general, but, as I have tried to illustrate in the past, an outcome of the social relations of power which were established since the 1930s, along with the social conflicts and contradictions of the post-war period (Milios 1990).

The key issue for the interpretation of Soviet economic performance is to comprehend the social (class) character of this specific form of society and, consequently, the character of the social conflicts and antagonisms that emerged. "State ownership" over the means of production, while under certain circumstances, it is possible for it to constitute the initial precondition which gives the working class the possibility of control over the means of production, does not insure, in itself, however, that control: It may constitute a legal form on the basis of which the politically mobilised and politically dominant proletariat intervenes to economically control the means of production, but *this may as well not be the case*. In the case of the USSR and the other East European countries, the working class did not control either the state apparatus or the enterprises, meaning that one cannot speak about a regime of "workers' power", a socialist regime. It was an exploitative class regime, a class dictatorship *over the proletariat* and not a "dictatorship of the proletariat". As Charles Bettelheim pointed out:

> "The real importance of state ownership depends upon the actual relations which exist between the masses of workers and the state apparatus. [...] If the workers do not determine the state apparatus, if it is dominated by a body of employees and managers and escapes the control and the direction of the working masses, then that body of employees and managers becomes the actual owner (with the sense of a relation of production) of the means of production. In this sense this body forms a social class [...]" (Bettelheim 1970: 143-144).

We leave open the question of whether this exploitative class power established in the USSR was a state-bourgeois class power, as Bettelheim (1974, 1977, 1982-83) argues, or a historically unique, new form of class power and exploitation, as other authors (e.g. Kappos 2000) claim. At this point, we would just like to summarize those parts of our previous analysis that stress the differences between the Soviet class society and classical capitalist societies.

In capitalist societies the ruling class has the *economic ownership* of the means of production (the appropriation and control of the surplus-product), as well as the *direct possession* of them, i.e. the power to put them to work (to manage enterprises), *on an individual basis*. In the USSR and the other East European societies, surplus labour *was individually appropriated* (in the enterprises) *but collectively controlled by the ruling class* (which was organised in the so-called "socialist state"), whereas the direct possession of the means of production was *assigned by the state* to the individual enterprise directors.

Thus, these societies obviously differed from societies of Western capitalism, which means that it is wrong to speak generally about a "restoration of capitalism" in the USSR, as if we had to do with (the recursion to) the pre-revolutionary form of capitalism. However, the particular difference between the regimes of "existing socialism" and those of the countries of Western capitalism, was not that of labour (in place of capitalist) class power, the social and political institutions of worker democracy and of people's power, nor that of socialist economic relations of production. It was the *collective ownership* of the means of production by the ruling class, i.e. the state control over enterprises and thus the *absence of the capitalist principle of profit maximization of the individual enterprise.* Subsequently, the *absence of a capital market* and a typically *capitalist financial sphere*; the regulatory role of the financial sphere was in the case of "existing socialism" substituted by the *"monopolistic regulation"* of the economy.

Nevertheless, both the *imperative of profit maximization of each individual enterprise* and *capitalist competition* on the one hand, and *finance and the capital market* on the other, are *structural constituent elements of capitalism*, according to Marx's analysis[3]:

> Free competition is the [...] real conduct of capital as capital […] it is the free development of the mode of production founded on capital; […] Free competition is the real development of capital. By its means, what corresponds to the nature of capital is posited as external necessity for the individual capital; […] The reciprocal compulsion which the capitals within it practice upon one another [...] is the *free*, at the same time the *real* development of wealth as capital" (Marx 1993: 650-1).

> "Money [...] may be converted into capital on the basis of capitalist production, and may thereby be transformed from a given value to a self-expanding, or increasing, value. It produces pro□t [. ..]. In this way, aside from its use-value as money, it acquires an additional use-value, namely that of serving as capital. Its use value then consists precisely in the pro□t it produces when converted into capital. In this capacity of potential capital, as a means of producing pro□t, *it becomes a commodity*, but a commodity *sui generis*.[4] Or, what amounts to the same, *capital as capital becomes a commodity*" (Marx 1991: 459–460, the trans. compared with the German original and slightly altered, see MEW 25: 350–351. Emphasis added).

The USSR was a form of class society whose ruling class consisted of two fractions: the high "state bureaucracy" and Communist Party officials – who manned both the political apparatus and the administration apparatus of the "planned economy" – on the one hand, and on the other the managers of the state-owned enterprises (who hold dominion over the direct possession of the means of production). As argued above, the relations between the two fractions were often antagonistic: the high state administrators consisted in the dominant fraction of the

[3] See also Milios et al. 2002.

[4] i.e, it takes the form of a financial security. See Sotiropoulos-Milios-Lapatsioras 2013.

ruling class, pursuing an even effectiver control over enterprises, whereas managers struggled for a higher degree of enterprise autonomy, as a means to acquire also (aspects of) the economic ownership of the means of production.

The labouring class, subjected to the exploitation relations of the Soviet economy and confronted with the political dictatorship of the one-party regime, had not the opportunity for a legal open opposition to the Soviet ruling class of state administrators and managers. The ruling class could partially relax social tensions and social distress, and elaborate a consensus with the ruled labouring class on the basis of a social protection system based on three pillars: a) full employment, entailing a series of benefits administered by enterprises; b) free education and social care (health care, pensions, etc.); c) a system of subsidies which ensured low prices of necessities, such as housing, food, public transportation etc.

The intervention of the labouring class attained from the beginning a hidden and underground form, attempting to enlarge the worker's legal rights (system of benefits etc.) on the one hand, and on the other to reduce the exploitation rate of the labour force, by faking plan fulfilment. The workers' objective, not to allow full transparency of enterprises' performance to the central state administration, coincided with the managers' objective to ensure a higher degree of enterprise autonomy from "central planning". A social coalition between enterprise managers and workers was then formed, attempting at a higher enterprise autarchy and power .

To minimise administrative regulation by the state authorities, the managers always tried to accumulate surplus material resources and industrial equipment so as to enable themselves to function more independently (Rutland 1985: 128-133). Besides, the enterprises concentrated within themselves all those facilities for repair and maintenance etc. of the means of production, but also for manufacture of some semi-finished products as well as necessary tools, thereby dispensing with the time-consuming business of ordering from other enterprises, getting orders approved by the planning authorities, etc. (Liberman 1974: 141).

The central authorities considered the low level of enterprise specialisation, emerging from the tendency to hoard raw materials and other goods, as a major cause of economic stagnation, correlated with inadequate utilisation of productive capacity (Liberman 1974: 21, Aganbegyan 1987). So in the 1970s more stringent checking procedures were introduced (along with a piecemeal provisioning system of materials supplies to enterprises), while at the same time regulations were introduced to impose restrictions on the provision of state investment funding, limiting eligibility to enterprises which over-fulfilled the plan.

However, the enterprises' "insiders" (the coalition of managers with the workers' representatives) were able to resist to all checking procedures introduced by the central state authorities. As the tendency towards stagnation continued to predominate in the economy of the USSR, the post-1985 leadership decided to carry the reform plans much further than in the past (even if this might mean weakening of planning control over enterprises), by questioning one of the basic operating principles of the economic system of "really existing socialism"; monopolistic regulation of the economy.

> "Enterprises must be put in such conditions as to encourage economic competition for the best satisfaction of consumer demands and employees' incomes must strictly depend on end production results, on profits. […] When we have acquired the necessary experience, we will place state orders on a competitive basis" (Gorbachev 1987: 86 and 90).

What must be borne in mind here is that while the Gorbachev reforms were promoted initially by the Soviet leadership as measures for modification of the economic system of "existing socialism", in the event they turned out to be the point of departure for triggering the process of overthrowing that system.

The Soviet leaders seemed to believe that the "forces of enterprise" (managers, engineers, senior cadres, etc. on the one hand, but also workers on the other), could be mobilised to increase enterprise efficiency when state sovereignty ceased to deprive them of those incentives to profit-making which are usually connected with private control of the means of production. The granting of "powers" to enterprises proceeded as never before in the past and the system was thus led to a situation of unstable equilibrium where any development (return to the "norms" of "existing socialism" or the leap to the "free market economy") was equally likely. The outcome of the political antagonisms of this period (the 1991 coup and its failure, the removal of Gorbachev, secession by a series of formerly federated republics etc.) finally tipped the scales in the direction of the transition to multi-partyism and the market economy. *The collapse of "existing socialism" was, thus, not a "historical indispensability", but one of the possible outcomes of the class struggle.*

On the economic level, the overthrow of “existing socialism” led to the abolition of the mechanism of “economic planning”, i.e. “freed” enterprises from control by state administration and the processes of appropriation and redistribution of the surplus. At the same time it set in train the process of privatisation of enterprises and brought to the surface the country’s hidden semi-legal “second” or informal economy. The managers finally attained also the *legal ownership* of the means of production, becoming thus the ruling class in a classical (Western) capitalist sense. The state ruling class was disintegrated, as it was deprived of the collective ownership of the means of production. As the *transition to classical (private) capitalism* had begun, parts of the former state authorities attained a new role, namely, they constitute in the political representatives of the new private-capitalist social order. The multi-party political apparatus that emerged, was manned by former state- and CP-officials.

The privatisation process was nothing more than a transfer of enterprise ownership from the central planning authorities to managers and senior cadres. “Enterprises were virtually given free to their employees” (OECD 1995: 78), i.e. to managers and senior cadres supported by workers, as in almost all cases “employees give the voting proxies to management representatives” (OECD 1995: 80). All efforts of the Russian government to weaken the control of enterprises by “insiders” failed.

> “The April 1994 Presidential Decree mandating that insiders’ representatives account for no more than a third of the board of directors was largely ignored [...] foreign investors would account for less than 1 per cent of shareholding” (OECD 1995: 80).

The collapse of “actually existing socialism” followed the disintegration of state planning, which shaped the until then predominant fraction of the Soviet ruling class; thus, collective economic ownership of the means of production by the former state-bourgeoisie gave way to private economic ownership by enterprise managers, who kept, naturally, also their traditional role of *direct possession* of the means of production. Private capitalism prevailed “peacefully, from above”!

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