TITLE: THE STATE-RUN ECONOMY--STABILITY OR OSSIFICATION?
AN ESSAY ON THE SOVIET PRODUCTION SYSTEM

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COUNCIL CONTRACT NUMBER: 801-15

DATE: June 1987

The work leading to this report was supported by funds provided by the National Council for Soviet and East European Research.
PREFACE

This report is one of 13 separate papers by different authors which, assembled, will constitute the chapters of a Festschrift volume in honor of Professor Vera S. Dunham, to be published by Westview Press. The papers will be distributed individually to government readers by the Council in advance of editing and publication by the Press, and therefore, may not be identical to the versions ultimately published.

The Contents for the entire series appears immediately following this Preface.

As distributed by the Council, each individual report will contain this Preface, the Contents, the Editor's Introduction for the pertinent division (I, II, or III) of the volume, and the separate paper itself.
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IV. Sources of Soviet Stability

Vera Dunham is primarily a literary scholar, but the implications of her work go far beyond the purely literary. Her analysis of literature is informed by sociological insights, and her conclusions about Soviet society and culture have influenced Western scholarly interpretation of the Soviet system as a whole. Disputing the view that the Soviet system, lacking popular legitimacy, remains basically unstable, Professor Dunham has identified sources of social support for the regime and emphasized elements of stability and cohesiveness in the Soviet system.

The following essays explore the question of stability -- which may imply inertia and ossification as well as systemic strength -- with reference to the economic and political system of the contemporary Soviet Union.
EXECUTIVE SUMMARY*

This paper reviews the history and nature of Soviet economic institutions, summarizes the present impasse to which they have led, and concludes that the basic institutions of the system must be rooted out or the problems will continue and perhaps intensify. In 19 pages this review may be the perfect preface to the CPSU Central Committee meeting on economic reform expected in June or July 1987. The final pages of the author's text are reproduced below.

The Present Impasse

The institutions of state-socialism, along with its strategy for economic growth, at long last have brought the economy to an impasse from which there is no escape short of scrapping the system that created the impasse. The growth strategy has already been abandoned, because it can no longer be implemented: the physical resources--labor and capital--are not there.

*Prepared by the staff of the National Council
The impasse is manifested in a persistent decline in rates of growth, of national product and industrial output; especially since 1975: in an agricultural sector that not only has essentially stagnated for over a decade, but also absorbs large shares of total labor and investment and, because of its chronic shortfalls, necessitates huge imports of grain and other food products from capitalist countries; in living standards that remain low by comparison with the West and much of Eastern Europe; and in declining productivity throughout the economy. During 1971-85 factor productivity has been negative--i.e. capital and labor inputs increased faster than output in the economy as a whole, as well as in the industrial sector.

What has gone wrong? The inevitable legacies of past policies implemented through the institutions of the state-run economy have become fetters on production. Above all, these fetters lie in the composition and quality of the gigantic capital stock that has been amassed. Politically-determined investment priorities have produced imbalances in the size and growth of capital assets, made worse by lack of an efficient guide to technological choice, a compass that is denied to the economy because of its state-fixed, Marxian-based prices. The capital stock is top-heavy with buildings and structures, relative to machinery and equipment. In widely varying extent among sectors and within sectors, the machinery and equipment park is technologically backward, overaged, and poor in quality. As is familiar, machines are often heavy, under-powered, prone to breakdown, and grossly undersupplied with spare parts. Small wonder that the repair industry continues to be one of the more dynamic sectors of the economy! Because these features characterize the capital stock of machinery producers, the machines they supply to other branches, e.g. agriculture, the textile industry, the railroads, serve to spread these features throughout the economy's capital assets. Most machinery is made in huge, general purpose plants, with little of the
specialization that promotes both efficiency and quality: this deficiency is rooted in the system of industrial organization through sectoral hierarchies and in the centralized allocation of producer goods.

Decades of misallocation and mismanagement of the economy's capital stock have finally culminated in sectoral imbalances in performance that are creating bottlenecks and constraining growth. Thus, for years the railroads have received short shrift in investment allocations in the rush to expand capacities for producing final goods. To keep up with the burgeoning growth of goods to be transported, the railroads were compelled to raise traffic densities to the point where freight pileups and long delays in raw materials deliveries have become common, perennially threatening industrial performance. The problems are compounded by unreliability and shortages of railway equipment and by the propensity of planners to build mainline and second tracks to the neglect of yard facilities. Throughout the industrial sector, the lion's share of investment has been devoted to building capacities for producing final products, to the neglect of investment in the requisite raw materials. So, steel production is constrained by lack of coking coal and iron ore; machinery production is constrained by shortages of metal; cement kilns are down because of lack of quarry materials; fertilizer output is held back by lack of sulfuric acid and potash, and so on and on in an ever-widening circle. Fire brigade tactics used by the planners to break one bottleneck have created others. In short, the economy has been put out of kilter. Perhaps most ironic of all, this condition has reduced the productivity of the vast quantities of modern Western plant and equipment imported in the past 20 years in the expectation that it would provide the remedy for faltering technological advance.

Similar considerations affect the present state of the economy's use of the other two productive factors—land and labor. Land, regarded as a
free good, has been ill treated and misallocated. Soils have been allowed to deplete, and their fertility has chronically failed to be restored through timely use of suitable agronomic practices. Agricultural output has been reduced thereby, and the consequent wide fluctuations in farm output have adversely affected the food processing industries. Farm cropping patterns have been dictated from above with little regard for specialization and comparative advantage, raising the costs of farm output. Labor has been misallocated as a consequence of misallocation of the capital and land with which it works. Thus, because of a long-continued bias in the allocation of investment, manual labor is used extensively in auxiliary processes throughout the economy, while workers are being educated to disdain such work. The remedy—extensive mechanization—is constrained by failure to produce the required machines in sufficient numbers. Incentives to hoard labor and impediments to its reallocation are deeply imbedded in the modus operandi of the production system, most notably/the pervasive tying of incentives to meeting plan targets for one or another variable. More generally, incentives for greater work effort are impaired by the failure of the production and distribution system to deliver the mix of goods and services that accords with consumers' preferences and to price them so as to equate supply and demand.

Conclusion

The present state of the Soviet economy and of its productive assets stems directly from the chosen production-distribution system—that of state-run socialism. Unless the basic institutions of this system are rooted out, the characteristic problems will continue and perhaps intensify. But these institutions have been set in concrete for decades and are not easily replaced,
even if there were a strong political will to do so. The institutional status quo
has strong sources of support. Institutional stability and continuance of the
perennial economic problems seem on the agenda, not fundamental systemic change.
But, if unforeseeable events should bring serious political or social upheaval or
if slow economic growth should turn into accelerating decline, the "objective
conditions" for radical institutional change might arise, along with a new V. I.
Lenin to point the way and lead the charge.
The State-Run Economy--Stability or Ossification?

An Essay on the Soviet Production System

Gertrude E. Schroeder

Predecessors

In the brief span of 65 years, the Soviet Union has experienced four distinct systems for organizing the production and distribution of goods and services. Although only one proved durable, the others have left their mark on institutions, attitudes and policies. The first economic system, which Lenin labeled "State Capitalism", endured less than a year. Its essentials were state seizure and redistribution of agricultural land, nationalization of large-scale basic economic activities (the "Commanding Heights"), attempted cooperation with the remaining capitalists, workers' "control" in factories, and prevalence of markets. The brief experience with this system taught the Bolsheviks what most of them wanted to believe anyway--that Capitalists were not to be trusted and that workers' "control" could subvert the desires of a socialist state.

The second system--later termed "War Communism"--evolved over roughly three years, during which the fledgling Bolshevik government was fighting a civil war and contending with unfriendly actions of foreign powers. In
its ultimate form, this economic system was a species of pure command economy, evolving out of the growing chaos created by its predecessor and living in the even greater chaos it itself generated in a war-strained environment. At its zenith, the system featured: total state ownership of the means of production; allocation of material resources to producers by the central government; rationing of most consumer goods; abolition of money and banks; conscription of labor and equalization of wages; abolition of markets (albeit black ones conducted by barter flourished); and state seizure of peasant "surpluses". Although military triumph was achieved under the command approach, the economy was brought to the verge of collapse, presenting the newly victorious Bolsheviks with "a profound political and economic crisis", in the words of Lenin. Even in this desperate period of operating a command economy, bureaucracies with familiar names were created to manage a state-controlled economy and gained experience, many present-day institutions had their beginnings--shock work, labor books, subbotniks, to name a few--and some Bolsheviks learned that leaping to Communism at a hare's pace can bring disaster.

Lenin's response to the crisis was to launch the NEP (New Economic Policy), introducing a third distinct economic system--a species of market socialism, and lasting roughly 7 years. In principle, this system involved a mixture of state and private ownership of the means of production and the use of relatively unfettered markets to allocate resources. As events unfolded, state ownership came to dominate overwhelmingly, and markets became increasingly fettered as a consequence of state intervention in the affairs of publicly-owned firms, growing discrimination against private producers and traders, and the government's perverse price policies, which were totally at odds with the requirements of supply and demand. NEP arrangements restored output to pre-war levels, produced a viable, growing economy, rapidly raised living
standards for workers and peasants alike, and eased class antagonisms and political tensions. Thus, in marked contrast to its predecessors, the third economic system was a distinct success. But NEP institutions were ideological anathema to many leading Bolsheviks, who shared Marx's strong dislike for both private ownership of means of production and the use of markets to allocate resources. From their experience with the mixed system of the NEP, the Bolsheviks learned that both markets and unleashed capitalists generate economic and political processes that can create difficulties for a state that is bent on industrialization and on building socialism in one country in a great hurry. Ultimately, a politically victorious Stalin determined that these institutions were incompatible with his economic and political purposes and decreed their replacement with a radically different set—the institutions of the Socialist state-run economy, the fourth distinct economic system.

**Institutions of the State-Run Economy**

The institutional arrangements of the state-run economy were developed by Stalin in the late 1920s and early 1930s to ensure that the pattern of production and its distribution reflected the preferences of the political leadership. Since these basic institutions proved admirably suited to that end and since the end has not changed, they have endured without essential modification for over half a century, surviving the upheavals of a terrible war and several changes in political leadership.

(a) *Property Rights*

The most basic of these institutional arrangements, rooted in uncompromising Marxist ideology, is state property rights in the means of
production. Land, regarded by Marxists as a free gift of nature, was nationalized in its entirety almost immediately after the Bolshevik Revolution and is allocated by the state for productive and other purposes without a charge for its use. Capital goods--buildings and equipment--also are the property of the state, which assigns them to state enterprises acting as trustees with strictly limited rights of use and disposal and (until recently) without charging for their use. Although producers' cooperatives and collective farms technically "own" their capital goods, cooperative property rights have proved in practice to be a distinction without a difference because of extensive regulation of disposition of both assets and income. With the abolition of producers' cooperatives and the gradual statification of collective farms, the formal existence of such property rights is of little importance.

Consistent with their strong preference for state ownership of productive property, the several political leaderships have displayed an abiding distaste for private economic endeavor. The right of private individuals to perform various kinds of services for profit has remained carefully circumscribed, and incomes from such activities are heavily taxed. The right to engage in farming for private gain, grudgingly accorded to the peasants by Stalin in the 1930s, because the alternative was mass starvation, has always remained tied to work in the public sector, allowable acreage tiny, and permissible livestock holdings few in number. The share of the legal private sector in total output, although still substantial, has declined persistently. In the post-Stalin years, government policies have zigzagged, at times encouraging and at times discouraging private farming, in inverse relation to the degree of success attained by the socialized sector. Even, as now, when the pendulum has swung once more in favor of encouraging private farming, it is clear that this policy was adopted reluctantly and is regarded
as temporary, for the official view holds that ultimately an advancing
and productive socialized sector will render individual peasant farming
obsolete.

(b) Hierarchical Structures

To replace the decentralized, horizontal economic relationships that
dominate in the despised "anarchy of the market", Stalin and his successors
have chosen to organize the production process to carry out their purposes
in a system of inter-locking political (Communist Party) and administrative
hierarchies. The rule of strict subordination of lower level units to higher
level ones has prevailed. In economic activity, the primary producing entities--
factories, farms, railways, stores--are the bottom units in a chain of com-
mand and are answerable directly to economic ministries, which themselves are
government agencies, part of the state "apparat". These agencies, in turn,
may be dually subordinate--to a regional government body as well as to a parent
ministry in Moscow. Various intermediate bodies also are often present, ex-
tending the chain of command, but not altering its nature. Complementing
the line structure, numerous staff bureaus have been added--the most impor-
tant ones being those concerned with central planning, pricing, and ration-
ing of raw materials and capital goods to producers. Although the assorted
line and staff agencies have been reorganized on innumerable occasions in
the perennial search for solutions to persistent problems, no change has
altered the fundamental status of the individual economic enterprise as a
unit in an administrative hierarchy. This fact has had profound consequences
for incentives and for the relationships of producers with their suppliers
and customers.
Incentives for the rank and file worker have always been primarily pecuniary and job-related; so-called "moral incentives" have failed to develop the efficacy originally expected of them. For this group, the problem has been to provide the mix of goods and services that is needed to make money earnings worth striving for, rather than the largely technical one of devising suitable structures of relative earnings. For the directing staffs of business enterprises, material rewards have consisted of job-related salaries, supplemented by bonuses. Bonus schemes have had three invariant features: (1) the bonus is a large percentage of total earnings; (2) it depends on meeting specified planned targets (success indicators) for the enterprise as a whole; and (3) the system is structured so as to provide a large reward for exactly meeting plan targets, large penalties for any degree of underfulfillment, and small rewards for overfulfillment. In practice, the authorities have been required to specify the particular targets, among the many fixed in the plans, to which managerial rewards are to be tied. For decades, when the priority goal of the political leadership seemed to be growth in total production at the most rapid rates feasible, the chosen success indicator was the plan target for output, expressed in value terms as well as in physical units. More recently, when economic efficiency and product quality have become important objectives, the success indicators have proliferated, but the target for output expressed in physical units has retained its pre-eminence.

The tying of managerial rewards to specified plan targets, combined with the position of the business firm as a unit in an administrative hierarchy, has resulted in incentives and behavior patterns that are observable in bureaucratic structures everywhere. To be explicit, directors of enterprises are motivated to strive to please their superiors in the ministries,
which fix and interpret the rules of the game and mete out rewards and punishment. Each director acts in such a way as to ensure attainment of those objectives that he deems have the highest value in the mind of his minister. In turn, each minister, whose fortune depends on the targeted performance of subordinate enterprises, is strongly motivated to protect his own and their mutual interests, if need be at the expense of the interests of other ministries and their subordinate firms. Each ministry in the production-distribution chain specifies success indicators defined to fit the nature of its particular activity—for farms, tons of cotton produced; for railroads, ton-kilometers of freight hauled; for textile plants, square meters of cloth produced. Enterprise success is assessed and managers rewarded in accordance with the indicators specified by its own ministry. As a consequence, the incentives of enterprises in each link to pay attention to the interests of the final users of products are nonexistent, or weak at best.

(d) Accounting Prices

With the abolition of formal markets for producer goods and the sanctioning of quasi-markets for most consumer goods, the government assumed the Herculean task of fixing prices for millions of products. Indeed, the state's role in setting prices, rather than leaving them to the "anarchy of the market", is viewed as one of the foremost virtues of socialism. In practice, prices have been determined with reference to Marxian value theory, which denies the value-creating capacity (productivity) of land and capital. Product prices basically have been set to reflect industry-wide average costs for labor, materials, and depreciation, plus an arbitrary profit markup and have been changed only after long intervals. Thus, the relative prices of products do not reflect full current costs of production, relative scarcities,
or relative utilities to users. For consumer goods, in particular, product prices have been further distorted by extensive and highly differentiated taxes and subsidies. Finally, the government's monopoly of foreign trade allows it to insulate domestic prices from prices prevailing in world markets, if it cares to do so.

This approach to fixing prices has effectively deprived them of economic content, rendering them unsuitable and misleading guides to choice. It is small wonder that physical measures and technological relationships (norms) have always played such a large role in economic planning and decision-making. For producers, prices serve primarily an accounting function, as befits their nature. But, by extension, all aggregated value categories based on product prices are also accounting categories in essence, for they also are deprived of economic (economizing) content. Gross value of output, sales, profits, and profitability are derived in one way or another from physical quantities multiplied by their prices. Because underlying prices do not reflect true cost and scarcity relationships, relative levels of profits and profitability cannot accurately reflect differences in efficiencies among firms and between sectors. They also tell nothing about the relative abilities of firms to please their customers.

(e) **Economic Accountability of Firms**

Producing units are formally organized as nationalized firms required to operate on the basis of profit and loss accountability (Khozraschet). They "sell" their output to customers as specified in annual plans and "purchase" raw materials from specified suppliers. The average, normally operating firm is expected to cover costs from receipts and make a profit, which is disposed of in accordance with instructions given in the financial section of the firm's plan. Funds for investment are supplied by the state
in the form of grants or authorization to use internally-generated "own" funds or bank credits. Relationships between buyers and sellers generally are governed by legally enforceable contracts. Finally, firms compete with one another for rewards through organized "socialist competition".

Although economic accountability of firms formally resembles the arrangement in a competitive market economy, its essence is fundamentally different; it might be described as "playing at business". The irrational nature of state-set prices, as already noted, means that sales, costs and profits are merely accounting categories, not economic categories. As Ludwig von Mises pointed out over 50 years ago, business (economizing) behavior cannot be induced in firms through manipulation of such accounting categories. Business contracts are not negotiated freely by firms, but are arranged by superior bodies in the hierarchy. In practice, contracts have been largely unenforceable, because plans have been taut and firms lack the freedom to seek alternative suppliers. The firm is not the residual claimant to profits, which accrue to the state as owner. Because it cannot benefit from enhanced value of its property, the firm lacks incentive to care for capital assets. Finally, socialist competition has been about meeting plan tasks, not about making profits and staying in business.

Some Enduring Consequences

These basic institutional arrangements of the state-run economy have proved highly functional, in that the pattern of production has reflected the preferences of the political leadership. Indeed, imposition of such a pattern was the reason for their establishment in the first place. From the outset, however, the economy has displayed a set of major, intractable problems that stem directly from these basic institutional arrangements and
the human behavior they generate. First, physical resources have been wasted on a grand scale ("gross waste", e.g., half the potatoes harvested are lost between the farm and the store). Second, scarce land and capital, lacking both price and individual owner, have been treated as free goods and squandered. Third, despite high rates of investment, the productivity of resource use has increased at a snail's pace, so that probably about nine-tenths of the considerable growth in output that has been achieved has come about simply because of greatly increased supplies of labor, capital and land. Fourth, technological advance has persistently lagged far behind that in the West, the consequence both of bureaucratic mismanagement of the research and development process and built-in incentives that generate resistance to innovation in producing enterprises. Fifth, product quality has been bad, the mix often not that desired by customers, and services both poor in quality and scarce in quantity; these debilities are mainly the consequence of weak or non-existent influence of consumers on producers.

Although these fundamental systemic ills were present from the outset, they became glaringly evident in the 1960s and 1970s, when labor and capital could no longer be rapidly mobilized to fuel growth, when the leadership discovered that the so-called "scientific-technical revolution" had largely by-passed the Soviet Union, when stocks of unsaleable consumer goods piled up in inventories and consumer grumbles multiplied, and when the planners found that most machinery and manufactured goods--the very fruits of industrialization--could not be sold in Western markets. In the 1970s, too, the chronic ills of state-run agriculture seemed to intensify. The farm sector has always suffered grievously from unsuitable organizational forms, poorly structured incentives, perverse pricing arrangements, and central dictation of output patterns, as well as the poor quality and mix of inputs purchased
from the industrial sector. In 1980, after more than 50 years of state-directed economic development, the agricultural sector still absorbed 22 percent of the labor force and about 27 percent of total investment. The sector's stagnant performance in the 1970s forced the government to import grain and other food products on a large scale, absorbing in 1980-81 nearly 40 percent of total hard currency earnings.

Reorganizations and Reforms

Once the basic institutions of the state-run economy were consolidated in the early 1930s, no attempt was made to alter them in any essential respect until the mid-1960s, although important changes were made in resource allocation policies after Stalin's death. Instead, remedies for the persistent economic inefficiencies they generated were sought in numerous reorganizations of agencies in the upper levels of the administrative hierarchy. The number of industrial ministries sprinted and was cut back, only to sprint again. Ministries were combined, separated, and recombined on several occasions. The State Planning Committee was split into agencies for current planning and long-term planning, only to be made whole again. Responsibility for managing the rationing of producer goods (material-technical supply) was handed from one agency to another many times. The most sweeping of these reorganizations was the replacement in 1957 of much of the ministerial structure with regional economic councils--surely one of the most "hare-brained" of Khrushchev's schemes. This upheaval and the subsequent bureaucratic proliferation that it generated endured for less than a decade. In 1965, the chaotic structure of regional councils and coordinating agencies was abolished, and the former ministerial structure was reinstated, with the addition of three staff agencies to centralize
control over price-setting, material-technical supply, and the research and development process. Later, various agencies dealing with labor matters were combined into a new state committee. Most recently, reorganization of middle level and local level units has been extended to agriculture.

In 1965, also, assault on the perennial problems of the state-managed economy took a new turn, with the launching of the "third great economic reform" in Soviet history, in the words of a prominent Soviet spokesman. The "reform" focused on the producing enterprise, with a view to turning its managers into true socialist businessmen, motivated to be innovative, to produce at minimum cost, and to serve the needs of customers. To this end: (1) firms were given a little more latitude for decisionmaking in matters concerning labor and investment; (2) total sales and profitability were established as the primary success criteria and the basis for meting out managerial rewards; (3) new and larger discretionary incentive funds were authorized, to be formed from a share of the firm's profits; (4) a charge for capital was instituted, and use of bank credit was encouraged.

Although these innovations did alter managerial behavior, they failed to solve or even ameliorate any of the basic problems. Moreover, in exercising their new freedom, enterprise managers made choices that the authorities considered to be "incorrect." So, the greater freedom of action accorded to managers was soon retracted and in its wake came a series of reforms of the reforms--a veritable treadmill. Success criteria and bonus arrangements were modified a number of times. Complexity was added to complexity, as one scheme was grafted on another in the ceaseless search for the one that would magically produce the elusive "socialist businessmen", efficient, quality-conscious attentive to their customers, while simultaneously carrying out the instructions of planners, with their ever more strident demands for more output and across-the-board "saving" of energy, raw materials, and labor.
Along with modifications in working arrangements, the reforms ultimately also involved changes in organizational forms, this time focusing on the enterprise level. Producing units were merged into various forms of "production associations", with the aim of realizing economies of scale, saving administrative costs, and linking R and D work more closely to the production process. Many sub-divisions of industrial ministries were converted into economically accountable associations, supervising groups of production associations and independent firms. Recently, a drive has been launched to organize workers within enterprises into brigades or work teams, with a view to strengthening discipline and providing more effective incentives. Arriving at the apex of power in early 1985, Michail Gorbachev has made discipline and changes in cadres his recipe for curing the economy's ills, along with some new super-ministries, still another reorganization of agriculture-related bureaucracies, and a few more modifications in the rules of the games for business firms.

The Results of "Reform"--Old Institutions Reinforced

Two decades of reorganizations and revisions in working arrangements have amounted to perpetual motion without essential change. The basic institutions of the state-run economy have survived intact, and some have even been strengthened. No modification has touched the established system of property rights in any way. Management of virtually all economic activity through directive planning has been reinforced through greater centralization of control over resources and proliferation of plan indicators governing enterprise operations. Although prices have been revised to reflect changed costs, they are still determined by government agencies on the basis of traditional criteria. An early experiment in the free purchase of producer goods was quickly aborted, leaving state rationing locked in place. Managerial incentive arrangements, made nightmarishly complex, remain tied to meeting plan targets, more of them than ever before. A multiplicity of reorganizations of bureaucracies and combination of enterprises has not altered the fact that all of them are units in one or another administrative
hierarchy. Instead of bringing change, the perpetual reorganizations and reforms have spawned waste, confusion and uncertainty.

Nor have the reorganizations and reforms contributed much, if anything, to resolution of the systemic problems related to efficient resource use, technological dynamism, and consumer satisfaction. The daily press continues to provide innumerable examples of egregious waste, both gross and fine.

Despite a plethora of glowing statistics to the contrary, no speedup is noticeable in the snail's pace at which the system has been able to improve the quality of its products. Soviet manufactures are largely unsaleable in Western markets, the quality and assortment of consumer goods remain abysmal by international standards, and low quality and technologically obsolete machinery and equipment continue to be a large drag on productivity throughout the civilian economy. Rather than improving the economy's performance, the numerous recent "reforms of the reforms" may have made matters worse by adding to uncertainty and diverting scarce managerial time and energies from coping with production tasks to dealing with the mass of paperwork involved.

The Sources of Support

Why have the institutions of state socialism proved so durable, or, some would say, so rigid and resistant to change? Not least of all, with them the Soviet Union has achieved substantial economic growth and massive military power, with which all the world must now reckon. They are supported by two unwavering tenets of the chosen ideology—the belief that
socially-owned property and collectively undertaken endeavors are superior forms of economic organization, and the belief that central planning is a sine qua non of socialist economic management. These beliefs have nearly universal support among both the rulers and the ruled. By their nature, the institutions of the state-run economy have required large bureaucracies, which like those elsewhere, have developed strong vested interests in maintaining the status quo and have devised innumerable, effective techniques to that end. In the post-Stalin era, in particular, socialist economic institutions, as they have worked in practice, have brought certain results that have virtually universal popular support—job security, and low work effort, relative small degree of inequality in the distribution of incomes, low overt rates of price inflation, and "free" education and health care. The fear of losing some of these accustomed benefits under alternative economic arrangements puts the populace on the side of the bureaucracies as a force opposed to basic institutional change. Although one and all would like the state-run economy "to be more economical", to use a current slogan, people have become used to its foibles, and nearly everybody, it would seem, has found ways to take personal advantage of them. This adaptation, too, has been a source of stability.

The Present Impasse

The institutions of state-socialism, along with its strategy for economic growth, at long last have brought the economy to an impasse from which there is no escape short of scrapping the system that created the impasse. The growth strategy has already been abandoned, because it can no longer be implemented: the physical resources—labor and capital—are not there.
The impasse is manifested in a persistent decline in rates of growth, of national product and industrial output; especially since 1975: in an agricultural sector that not only has essentially stagnated for over a decade, but also absorbs large shares of total labor and investment and, because of its chronic shortfalls, necessitates huge imports of grain and other food products from capitalist countries; in living standards that remain low by comparison with the West and much of Eastern Europe; and in declining productivity throughout the economy. During 1971-85 factor productivity has been negative--i.e. capital and labor inputs increased faster than output in the economy as a whole, as well as in the industrial sector.

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Decades of misallocation and mismanagement of the economy's capital stock have finally culminated in sectoral imbalances in performance that are creating bottlenecks and constraining growth. Thus, for years the railroads have received short shrift in investment allocations in the rush to expand capacities for producing final goods. To keep up with the burgeoning growth of goods to be transported, the railroads were compelled to raise traffic densities to the point where freight pileups and long de-
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liability and shortages of railway equipment and by the propensity of planners to build mainline and second tracks to the neglect of yard facilities. Through-
out the industrial sector, the lion's share of investment has been devoted to building capacities for producing final products, to the neglect of in-
vestment in the requisite raw materials. So, steel production is constrained by lack of coking coal and iron ore; machinery production is constrained by shortages of metal; cement kilns are down because of lack of quarry materials; fertilizer output is held back by lack of sulfuric acid and potash, and so on and on in an ever-widening circle. Fire brigade tactics used by the plan-
ers to break one bottleneck often tend to create others. In short, the economy has and has become accident-prone been put out of kilter. Perhaps most ironic of all, this condition has reduced the productivity of the vast quantities of modern Western plant and equipment imported in the past 20 years in the expectation that it would provide the remedy for faltering technological advance.

Similar considerations affect the present state of the economy's use of the other two productive factors—land and labor. Land, regarded as a
free good, has been ill treated and misallocated. Soils have been allowed to deplete, and their fertility has chronically failed to be restored through timely use of suitable agronomic practices. Agricultural output has been reduced thereby, and the consequent wide fluctuations in farm output have adversely affected the food processing industries. Farm cropping patterns have been dictated from above with little regard for specialization and comparative advantage, raising the costs of farm output. Labor has been misallocated as a consequence of misallocation of the capital and land with which it works. Thus, because of a long-continued bias in the allocation of investment, manual labor is used extensively in auxiliary processes throughout the economy, while workers are being educated to disdain such work. The remedy—extensive mechanization—is constrained by failure to produce the required machines in sufficient numbers. Incentives to hoard labor and impediments to its reallocation are deeply imbedded in the modus operandi of the production system, most notably the pervasive tying of incentives to meeting plan targets for one or another variable. More generally, incentives for greater work effort are impaired by the failure of the production and distribution system to deliver the mix of goods and services that accords with consumers' preferences and to price them so as to equate supply and demand.

Conclusion

The present state of the Soviet economy and of its productive assets stems directly from the chosen production-distribution system—that of state-run socialism. Unless the basic institutions of this system are rooted out, the characteristic problems will continue and perhaps intensify. But these institutions have been set in concrete for decades and are not easily replaced,
even if there were a strong political will to do so. The institutional status quo has strong sources of support. Institutional stability and continuance of the perennial economic problems seem on the agenda, not fundamental systemic change. But, if unforecastable events should bring serious political or social upheaval or if slow economic growth should turn into accelerating decline, the "objective conditions" for radical institutional change might arise, along with a new V. I. Lenin to point the way and lead the charge.