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Articles in the field of agricultural economics, suitable for publication in the journal, will be welcomed.

Articles should have a maximum length of 10 folio pages (including tables, graphs, etc.) typed in double spacing. Contributions, in the language preferred by the writer, should be submitted in triplicate to the Editor, c/o Department of Agricultural Economics and Marketing, Private Bag X250, Pretoria, 0001, and should reach him at least one month prior to date of publication.

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Contents

	Page
S.J.J. DE SWART AGREKON PRIZE	1
I. ARTICLES	
1. Expectation models in farm business Management	2
2. The economic selling weight of pigs	8
3. Socialist enterprise forms in agriculture III: Planning and Reform in the communist countries	11
4. Socialist enterprise forms in Agriculture IV: Israel	16
II. STATISTICS	19

2001

SOCIALIST ENTERPRISE FORMS IN AGRICULTURE. III: PLANNING AND REFORM IN THE COMMUNIST COUNTRIES*

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1. MARXIST-LENINIST DOCTRINES ON PLANNING

It is the view of Vesznik that the prerequisite for the transition to a centrally planned economy is the destruction of the capitalist system with all its contradictions.¹ This proposition arises directly from Marx's view of the capitalist system, namely that it is a planless complex in which unemployment and consequently under-utilisation of capacity occur and where the workers are exploited by the capitalists in that the workers produce surplus value for the capitalist without additional remuneration.² According to Marx, the revolution of the proletariat was the proper way to end this state of affairs. In the Communist Manifesto Marx and Engels argued that the proletariat had nothing to lose except their "chains".³

Engels⁴ in his plea for a planned economy argued that the existing anarchy in production should be replaced by a planned form of production on the basis of the needs of the whole of society and of each individual.

Central planning therefore played a key role in the unfolding of the socialist system in communist-controlled countries.

Stalin⁵ emphasised that a nationalised industrial credit system and nationalised land were prerequisites for planned control; the power should be concentrated in the hands of the working class.

According to him the socialist plan is not of a prognosticating character; it is rather an obligatory programme of tasks influencing the development of the country as a whole.⁶

The socialist plan has three main objectives, namely:⁷

1. It should safeguard the economy from capitalist influence. This objective is very closely connected with the expansion of the defence force of the Soviet Union.
2. The plan must help to stabilise the socialist system by systematically eradicating all attempts towards capitalist revival.
3. The plan should provide for continued economic progress on a priority basis.

Within the general framework of the planning mechanism there are no references to individual interests. However, individuals and collective organisations do expect remuneration proportional to the volume of work done and the quality, degree of complexity and usefulness to society, of such work.

The neglect of individual interests was usually attended by unfavourable consequences. Workers' work activities decreased, contradictions in various areas of the economy occurred and consequently economic growth was both unbalanced and slower than expected and hoped. The economic setbacks may be attributed largely - directly or indirectly - to the absence of elements of individual incentive in the planning system.

The under-estimation of the importance of individual and enterprise (collective) interests and of the role of incentive measures led to restrictions in enterprise independence, categories of value and the role of the market.

In judging these problems there are today still differences between the communist countries, but the role of the market and of goods and money relationships has expanded noticeably and both the use of incentive measures and enterprise independence are generally accepted to a greater or lesser extent.

Earlier doctrines therefore had to be reconsidered, going back to Marx and Engels' proposition. They proposed that in socialism goods would not be produced for the market; money would be withdrawn and the theory of values

* Based on an M.Sc. (Agric.) thesis by T.I. Fényes at the University of Pretoria.

would cease to function. With the taking of social possession of production apparatus they foresaw that the planning of production, organisation and the distribution of produced goods could take place without bartering relationships, a money system or the intervention of the market mechanism.

The production of goods was to Marx and Engels irreconcilable with the socialist system. Marx wrote in his critique on the Gothic programme to the effect that in a system based on the joint ownership of the production apparatus, that is to say in a collective community, the producers do not barter their products; the labour inputs used to create a specific product should also not be valued in accordance with a market value.⁸

The Marxist-Leninist view was that economic division would disappear and that the work carried out by individuals would assume a social character. They foresaw the formation of a complete and uniform national property and considered that it would be possible to divide the total national product directly within the framework of the broad national economic plan.

The solution to the problem of division was to Marx a direct process, namely, according to work performance. His argument was that the individual worker would - after the deductions - get back from the community precisely as much as he has given. What he has given is his own work performance. The worker receives an allocation from the community for the work he has done and according to this allocation he receives consumer goods from the communal supply and receives as many goods as require the same work effort for production. Exactly the same amount of work as he has done for the community in any form, he gets back in another form.⁹

In the works of Marx and Engels there are no references to the existence of collective interests besides individual and social interests. Marx regarded the production units of the socialist community as organisational and technical units that would function without market relationships and would therefore have no interests of their own.

Practical experience in socialist countries has not proved Marx's propositions correct. On the contrary, in the Soviet Union and in the other socialist countries two types of categories of property have developed - State and collective. The socialist enterprises - State or collective - maintain commercial relations with each other and these commercial relations require the functioning of the market mechanism, money system, etc.

Lenin, who was the first to try to apply the Marxist doctrines in practice, very quickly realised the necessity for production of goods, market dependence and incentive measures in production. Although he commended the policy of "war communism", he pointed out that it was only intended for the consolidation period.¹⁰ The compulsory production and division system in use in the times of the "war communism" served as an example of what could not be done. Lenin's explanation was that they had supposed - without the necessary calculations - that with the command

of the proletariat state they would succeed in establishing state production and state division according to communist theory, but that time had shown that they were mistaken.¹¹

He went on to say that these miscalculations were the main cause of the serious political and economic crises they encountered in 1921.¹²

2. CENTRAL PLANNING AND CONFLICT WITH INDIVIDUAL INTERESTS

From the end of the twenties the central planning of the economy gained ground increasingly and the role of the market mechanism was pushed more and more into the background.

Goods and money relationships and independent accounts and planning for all practical purposes lost their meaning in government organisations and only occurred as a result of compulsory administrative regulations. Organisations' production tasks were centrally prescribed and economic relationships with other organisations, in other words bartering of production goods, took place in accordance with predetermined rules. All facets of economic activities were therefore centrally planned. The central planning in the course of time expanded to the kolkhozy. The limits on economic independence and individual interests strengthened increasingly as a result of the great volume of production that had to be delivered to the government under obligation and the low level of prices of agricultural products. This situation was aggravated by the prescribed organisational and planning system and the compulsory system of payment in kind to the machine and tractor stations for their work.

There were certainly differences in the central planning for the government and kolkhoz sectors. The kolkhozy did still enjoy a degree of independence as regards the division of goods and as a result they had some incentive towards greater production whereas this motive, which amounted to incentive based on individual or group interests, was completely absent in government bodies.

Before the general reorganisation of agriculture, the work done in kolkhozy was valued in monetary units and the members received remuneration in kind in accordance with this valuation. From the thirties the kolkhozy were increasingly unable to meet the remuneration obligations so calculated to their members. Consequently the work unit system was created. One objective of this system was individual incentive to greater achievements and consequently also greater income.

The system of remuneration according to work units made it necessary for the kolkhozy to share out as remuneration only the products that remained after meeting obligations towards the state and the machine and tractor stations. However, these obligations were usually so big that the degree of independence that the kolkhozy had in connection with the division of goods lost its importance.

All this led to a slow process of change which eventually resulted in the present system of multi-level planning and "market-socialism".

3. THE TRADITIONAL PLANNING SYSTEM

The planning system was for a long time identical in all the communist-controlled countries in Europe. The Russian system was simply copied in almost all aspects everywhere.

Today, however, this is no longer the case. Two approaches are used now - the conservative (Soviet) and the radical (Hungarian) approaches - to reform the heritage of the Stalin era.¹³

The principles involved in the traditional planning systems are:¹⁴

1. Resources are allocated by administrative decisions and not by the market.
2. Such decisions are based on an estimate of social requirements reflected by the volume and direction of investments and the time and other preferences of the planners.
3. The requirements so estimated are the combination of the requirements of the consumers.
4. Because the requirements usually exceed the available resources, the priority of private sectors is determined by political decisions.
5. Organisations and dealers have to apply to be able to order goods. These applications are then transformed by various administrative organs into production and supply plans. The practical implication of this procedure amounts to total centralisation of decision making and the planning processes. Central planning commissions had the sole right to decision making in all aspects of economic life, from the national economic objectives to the activities of enterprises. The targets were formulated for the long-term (15-20 years), medium-term (5-7 years), annual, quarterly and monthly plans.

There was an enormous concentration of power at the peak of the bureaucratic machinery. Two pillars of unequal political strength were involved: the party and the government. The party is the ultimate repository of power, the source of energy and the seat of control; the government is the agent in charge of the day-by-day administration.¹⁵

The party laid down the goals, the central planning commission prepared the plans and the government had to see to their execution. Economic accounting was done in physical units, both at central and operational level. Leontieff points out that this much-discussed method of planning with the help of physical balance simply means that the national plan must be so drawn up that the total output is equal to the quantity that all consumers are supposed to receive.¹⁶

Western economists criticised the lack of a theory of values in the Soviet Union which could serve as a basis for distribution and allocation decisions. Doing away with private ownership and the fact that all resources belong to the community

does not mean that the resources are not still relatively scarce.¹⁷

Another characteristic is that prices are determined arbitrarily, so prices are not scarcity coefficients. Still less is it possible to speak of an absence of a price system and/or market mechanism. The question of choice, therefore, does not exist as far as it concerns the manager working in the micro-level (functional level) of the national economy. The macro-manager, on the other hand, is confronted in making decisions by the obscurity of the national economy, the impossibility of understanding the overall picture and the lack of relationship between the national economy and the functional level. The information on which he bases decisions is usually manipulated information and lies buried in a vast mass of obscure reports provided by the micro-managers to whom the concealment of capacity and resources is an important objective.¹⁸

A classic example of this is a case that apparently occurred in the early years of industrialisation in Russia in the production of nails. A firm received an order to produce a certain number of nails. Only small ones were produced and so a surplus of these arose and a shortage of big nails. The instruction was amended to the effect that a certain mass of nails should be produced. The result was that the firm now produced only big nails and no small nails.

Such practices, together with miscalculations as to what the consumer would take from the market, led to chronic shortages of certain commodities and unsaleable surpluses of certain other commodities.

Kaser¹⁹ points out that both Khrushchev (1957) and Kosygin (1964) continually drew attention to the fact that the economy of the Soviet Union during the thirties was underdeveloped to such an extent that it could easily be controlled from a central point, but that the qualitative and quantitative change in the national economy by the middle of the fifties had become so complicated that scientific methods were needed for management and decision making.

Record-keeping and data gathering became increasingly difficult. By the fifties the obligatory accounting procedure for the collective organisations, compared with the pre-war situation, had increased by about eight times.²⁰ This inevitably resulted in administrative inefficiency.

Socialist economists defend the system and say that central planning is the best system for developing countries to bring about fast economic development.²¹

Lange²² further emphasises the necessity of central planning and control of the allocation of resources in the case of the socialist countries because one social system had been replaced by another system with new categories of proprietary rights.

The method of planning by physical balances meant internal consistency of the plans, but it did not lead to the most effective structure of the output. Enterprise independence, in particular,

suffered damage and there was very little opportunity for managers to keep pace with changed circumstances, such as change in costs and demand. Managers also had little opportunity for using modern management techniques and technology and this would undoubtedly lead to stagnation in the long term.

4. DECENTRALISATION OF PLANNING

After Stalin's death in 1953 a slow but more or less continuous process of liberalisation began on the political front.

The economic reforms of the sixties should, nevertheless, not be interpreted as a by-product of the de-Stalinisation or "back to capitalism" movement, but rather as a logical and necessary evolutionary process towards achieving higher levels of economic development.²³

However, it is clear that socialism today has a more capitalistic character than in the Stalin period.

The economic reforms are aimed at intensive growth and have an important objective, namely, the replacement of administrative methods of planning and control by economic methods. The objective is particularly to create economic mechanisms that will motivate each enterprise to make the most efficient use of its available capacity, capital, labour and raw materials and at the same time to stress quantitative considerations.

The mechanisms used include financial considerations, such as the interest rate and profit, bonus remuneration and aiming production at satisfaction of consumer needs and preferences.²⁴

Kosygin²⁵ in his report to the Supreme Soviet (December 1964), expressed sharp criticism of the misuse of investment resources, the long-drawn-out construction periods, the under-estimation of costs, the under-utilisation of production capacity, the slowness in incorporating technical progress, the non-completion of programmes, the low quality of products, the endless string of orders and the pyramid building in the administrative hierarchy. He argued in favour of the management of enterprises on a business basis, direct liaison between producers and commerce and the reinstatement of initiative and economically sound prices at every level.²⁶

This appeal illustrates the change in way of thought and produced important changes in the planning system; the old hierarchical planning was replaced by plans constructed from below and simultaneously co-operation between enterprises in planning, in other words, horizontal planning and co-operation, also began to receive increasing attention.

The economic reforms affected the socialist countries as a whole, but in view of the relative importance of agriculture in these countries and the permanent challenge with which the Russian agricultural sector is faced these reforms are of particular importance in the agricultural sector.

Emphasis is now largely placed on what is known as "flexible" planning.

Another approach to planning is the so-called structural planning. In this case the planners are interested in selected problems such as modernisation, specialisation, applied research and innovations.²⁷

To facilitate the process of intensive growth; the long-term plans must be based on economic prognosis in order to promote continuity in technical progress.²⁸

Decentralisation in planning cannot be effective without parallel development in economic administration. This development includes the delegation of various responsibilities of the central planning commission within economic ministries and from them to intermediary organs; a greater independence of enterprises (including the various forms of agricultural enterprise) and expansion in the practice of selfmanagement by workers.

The decentralisation of planning and management does at least reduce the effect of the two main shortcomings of the socialist economy, namely, irrationality of decision making at the micro-economic level and inadequate liaison between the central authorities, on one hand, and the executives of the plan at the operational level, on the other hand.

The role of the central planning commissions in all the socialist countries continues to be important, but as a result of decentralisation they are now freed of an enormous amount of routine work and they can concentrate more on long-term macro-economic goals.

It would be wrong to see a complete abolition of centralisation in the process. In the countries where decentralisation has progressed furthest (Hungary and Yugoslavia) the government still has the power and is authorised to institute and apply drastic direct control measures at any time.

Probably the most interesting feature arising from the reforms of planning systems in the socialist countries is the peaceful co-existence of the central planning with the market mechanism. In the traditional Russian economic theories the plan and the market were regarded as antagonistic categories that were mutually exclusive.

The majority of socialist thinkers and policy makers now accept that in the advanced stages of economic development an organic fusion of the two mechanisms is not only possible, but indeed essential for incentive-oriented growth.

In modern Hungarian literature the term market socialism is encountered increasingly often and a Soviet Marxist economist recently referred to the matter as the dialectic union of the plan and the market.²⁹

A Czechoslovakian economist expresses it as follows: "We cannot operate with a plan which eliminates the market, just the same as we cannot operate with the market in the absence of a plan, nor can the market be regarded only as an instrument for putting the plan into effect. The market represents an objective economic category which constitutes an object for the recognition and function of the plan."

It must be taken into account that when

socialist economists refer to the peaceful co-existence of central planning and the market mechanism they probably mean the already to an extent decentralised planning process. On the other hand, progress in the use of mathematical techniques and computers in the planning process and the increasing economic integration of comecon countries may encourage greater centralisation.

The concept of optimality has for many years meant striving towards quantitative maximisation of national income. Now, however, the accent is shifting to the maximisation of consumption.³⁰ Others³¹ believe that the maximisation of production, associated with continued growth in social welfare (increase in consumption, shortening of working hours, etc.), are the proper criteria.

Miszewski goes still further by proposing various criteria for optimisation, namely, four-tier planning - for enterprises, branches of industry, the national economy and the Comecon countries.³²

However, it appears that - notwithstanding attempts at reform up to date - the greatest economic problems of the Soviet Union and the satellite countries lie in the operation of the optimality function. It is checked by the lack of a method of identifying relative scarcities and also by the belief that the solution should be sought in the direction of market simulation. A central problem in this connection is the aggregation and disaggregation of economic information.³³

Another problem is that the various formulations of the optimality function would of necessity cover different optimum situations. There is obviously no unanimity as to what operational target should be aimed at.

A great deal of work has been done on the optimality function in the preparation of the 1971-1975 five-year plans, but little useful information has so far been released.

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