DELAY AND RIGIDITY IN THE INNOVATION IN CONSUMPTION GOODS UNDER THE SOVIET SOCIALISM: PROBLEMS OF MANAGEMENT SYSTEM*

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I. Introduction

The final criterion in assessing the functional effectiveness of any national economy lies in its level of consumption. The present paper is an investigation into the Soviet economy from this viewpoint. The term "consumption" is used here to imply not only personal but also social consumption in such areas as education, culture, and health-service systems. Furthermore, the "consumption goods" referred to in the title of this paper include not only physical products but also the non-material services, innovation in which indicates an improvement in the level of services performed.

Why do we put so much emphasis on consumption? Because the producer's goods are really only the means to produce consumption goods to the best of them as they are justifiably called the means of production. However many giant factories and power stations may be constructed, if they are not connected to the supply of consumption goods as the final goal of their economic activities, it must be said that those constructed are, after all, good-for-nothing. In the worse cases, they will bring out a great waste of resources as well as an irreversible destruction of the environment.

K. Marx has written: "There can be no consumption without production;

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however, there is no production without consumption on the other, because the production would then lose its objective."¹ Prof. Aliev of the USSR paraphrased this proposition of Marx as follows: "Personal consumption under socialism is not only the final goal of production, but also its direct aim."²

While investigating the delay and rigidity found in the innovation in consumption goods in the Soviet Union, what is implied here is those in the two-fold senses. First is the delay and rigidity compared with the advanced capitalist countries, which are so manifest as to need no further explanation. Second is the delay and rigidity compared with other sectors within the Soviet economy itself. Namely, innovation in the USSR is seemingly comparatively rapid in the sector of the munitions industry, while innovation of producer's goods lags behind. The level of consumption goods, however, which must be the original objective of economic activities, has a low reputation, both internationally and domestically.

To add a short supplementary remark to those mentioned above: On the basis of Soviet military successes at the close of World War II together with all recent information, we can be convinced that the level of Soviet munitions industry is taking one of the leading places in the world. Next, on the basis of our on-the-spot observations as well as Soviet reports on the execution of National Economic Plans, we may be able to believe in the achievements of Soviet heavy industries at least with regard to quantity, while leaving aside some doubts about the aspect of quality. In relation to this, it is suggested that the USSR has exported some highly esteemed heavy machines to advanced capitalist countries. In spite of this, however, is there any product among all Soviet consumption goods that can be exported to the world market with competitive quality? Excluding some speciality goods such as furs, amber and vodka, it may be no exaggeration to say that there is presently nearly no such product in the USSR.

Some passages from the recent testimony of a Soviet engineer give support to the above-mentioned points: "I am placed in a situation to hear frequently that someone was lucky enough to get a Japanese shawl, a Finnish costume, a

1. Marx [5], S. 623.
2. Aliev [8], pp. 55-6.
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Belgian overcoat or Austrian boots, etc. . . These commodities exert influences on the formation of buyers' tastes as well as the development of Soviet fashion. Regrettably, many commodities of ours—clothes, shoes and fancy goods—still fall behind the foreign ones. As a result of this, there are millions of dead stocks of goods which do not meet the needs of consumers. Where are the Soviet dresses and leather half-coat which can be competitive with the foreign ones? We see such things on the pages of fashion magazines as well as on the stages of fashion shows. Our country surely possesses the material resources to produce them. We have cotton, leather, sheepskin, furs, flax, wool and many other materials. But, what must be done to turn these materials into a high quality product that is nice to wear?"3

It may be perceived from the above discussion that there is such hierarchy among Soviet industries whereby the technological and functional level becomes lower according to the order. In this ordering, the munitions industry stands at the top, the sectors of producer's goods come next, and finally those of consumption goods follow. Furthermore, there is an inner hierarchy within the sectors of consumption goods themselves according to the order of (1) the light and food industries, (2) the sector of commerce and (3) the mass of consumers in general. In other words, the situation stands where the position of consumers is weak with regard to the shops that sell goods to them, while the position of the shops is weak with regard to the light and food industries that offer products to them.

Although, since the seventies, more attention than ever has been payed to consumption policy even in the Soviet Union, it seems that the situation has not fundamentally changed. What are the reasons for this stalemated situation regarding consumption goods? The present paper will attempt to clarify this problem, by focusing on the delay and rigidity in "innovation" (i.e., improvement of quality) in consumption goods.

II. Economic Mechanism of Innovation in Consumption Goods and its Functional Effectiveness

1. Case of the Capitalist Economy

3. Sultankulov [21], p. 134.
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While considering the circumstances around the delay and rigidity in the innovation in consumption goods in the USSR, it seems proper for us to begin with an investigation into that economic mechanism of innovation in consumption goods operating under modern capitalism, which would serve as the yardstick for comparison with the case of socialism. Before commencing immediately with that explanation, however, it is necessary to mention something of the background as well as the methods of approach of this paper. Firstly, while the topic of this paper is the innovation in consumption goods, almost all the factors described here are similar to the case of producer's goods, excluding only some minor differences. Secondly, the factors enumerated are only those, in which socialism is remarkably different from those of capitalism. Consequently, however important they may be, the inevitable factors of innovation that are common to both systems are not mentioned here. Thirdly, though the image of capitalism presented is exact, it might be naturally biased towards the Japanese one because of this author's origin. Fourthly, the author stands on the basic viewpoint that the socialist system is presently far behind in technological innovation, particularly with regard to consumption goods, in comparison with the capitalist system. Finally, although capitalism is used as the yardstick for investigation, it is not assumed that the present situation under capitalism concerning innovation in consumption goods is worthy of unreserved recommendation. Above all, it is the deepening of our understanding for the objective differences in the innovation process between capitalism and socialism that is the intention of this paper.

Fig. 1 is a simple block diagram illustrating a reproduction process. The comparatively important factors from among those that exert influences on the functions of each block are shown for the purpose of illuminating the economic mechanism of technological innovation in the capitalist economy, especially in the field of consumption goods. Before commencing with the explanation of them, however, it is necessary to enumerate those characteristics of the framework of firm activity under capitalism, which contribute to shape the general character of its reproduction process. Namely:

(1-K) There is freedom of firm activity under capitalism. Particularly in the second half of the 20th century, swift changes in the framework composed of various sectors took place due to accelerating technological innova-
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Figure 1 Economic mechanism of innovation in consumption goods under capitalism

(A) Self-managed decision on the project for new products. Market research.

(B) Self-managed procurement of productive facilities. Self-managed decision on the assortment of goods and their output. Free procurement of labor force and materials. Anxiety for unemployment.

(C) Freedom for price setting. Free decision on sales strategy. Competition in sales share. Advertising and PR.

(D) Ample scope of choice by consumers. Consumers' movement.

(E) Free pursuit of profit.

(F) Hard system of taxation.

(G) Free procurement of financial resources (stock, loan, etc.).
tion. For example, changes occur as a new entry into a different industrial sector, making use of any connection with one's principal trade, or as the supply of components and parts, in large scale, from the firm outside.

(2-K) There is a competitive economic environment under capitalism both domestically and internationally. Although this is a matter of course for capitalism, it is necessary to point it out in comparison to the existing socialism.

(3-K) There is setting up of guide-lines of economic activities by the government. It seems that the Japanese government is particularly eager in this area.

(4-K) There is highly developed infrastructure under capitalism such as railways, highways, ports and information facilities.

(5-K) There develops an effective organization of the production process under capitalism including external firms. For example, a technologically reliable network of small businesses exists as the producers of machine components and parts.

(6-K) Capitalism at the present stage is to be called an abundant economy or the "affluent society" named by J. Galbraith.

In pursuing these factors, we could indicate the mutual or causal relationship between them. For instance, there might be an inference that the "abundant economy" pointed out in "6-K" is established because of the "competitive circumstances" mentioned in "2-K". Conversely, as an "abundant economy" has already been developed, this further promotes the "competitive circumstances" for the purpose of enlarging sales share, etc. However, such an argument has to be skipped over here.

Now, it seems proper to start with the investigation in relation to Fig. 1. With regard to the innovation in consumption goods:

(A) As to the stage of R & D and trial manufacture, under capitalism a firm bears the responsibility for the project to develop a new product. Consequently, the decisions concerning to it are generally made promptly and timely as compared to the case under socialism. Further, a firm works out serious and detailed market research about the project concerned.

(B) As to the stage of construction of the production line and the production itself, a capitalist firm has the entire responsibility and competence to decide such items as the type of newly required production facilities, its scale,
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the firm with which its construction will be contracted and the period of its construction; moreover, it employs laborers and purchases materials with freedom. And at the same time, although it had better obtain the consent of an employee anyway at the present time, a capitalist firm could also freely fire a laborer. In other words, there is generally insecurity of employment for laborers in the capitalist society. Further, a firm has the sole responsibility for deciding type and quantity of its products.

(C) As to sale of its products, a capitalist firm sets prices for its products, chooses its sales agent and decides sales strategy with freedom, competing bitterly with other firms for the enlargement of sales share. Furthermore, under capitalism, there is swift and constant feedback of market information to the managing staffs.

(D) As to consumers, the capitalist society affords them a wide choice of commodities. Recently, consumers' movements are flourishing as well in order to keep a watch on firms activities. Permanent consumers organizations are active under capitalism, which regularly issue publications to consumers.

(E) As to profit, it is almost needless to say that profit is freely pursued under capitalism. This is the incentive symbol of economic activity in the capitalist society.

(F) As to tax obligation, a part of the profits acquired by a firm is transferred to the National Treasury in a form of corporation tax under capitalism. Because this is a transference of "holy" property rights, it is enacted by law and enforced by definite procedures. In principle, firms may not be exempted from taxation, contrary to the statute, because of bad business results. Therefore, a capitalist firm always makes all possible efforts to keep its business in a good condition.

(G) As to the process of procuring operating funds, a capitalist firm can freely raise funds for its business activity by inviting subscription to stocks, bonds, and loans.

While there is a wide freedom of activities for firms under capitalism as is enumerated above, a remarkably different situation exists in the Soviet socialist economy as will now be described.

2. Case of the Soviet Economy

In the preceding section, the mechanism of innovation in consumption
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goods under capitalism was described in reference to Fig. 1. In this section, a similar investigation will be made into the various factors which would cause delay and rigidity in innovation in consumption goods in the Soviet Union. At the beginning, it is necessary to enumerate item by item, as in the foregoing section, those characteristics of the framework of firm activity that contribute to the general character of the reproduction process of consumption goods in the Soviet Union. Namely:

(1-S) As is commonly known, there is no freedom of firm activity under socialism contrary to the case with capitalism. The framework of activity of any Soviet firm depends primarily on the circumstances in which the firm concerned belongs to any of the industrial ministries (such as the Ministry of Steel Industry or the Ministry of Light Industry, etc.), that are organized for each different industrial sector. The daily activities of a Soviet firm are also basically determined by the firm plan agreed upon with the upper authorities. The firm plan is prepared by allotting the various tasks provided for in 5-year and annual National Economic Plans of the USSR to each firm. Thus, upper authorities have much stronger powers in deciding the basic outline of each firm's annual production plan. Consequently, a Soviet firm can decide only details of their products' volume and composition under that basic outline handed down from above. Moreover, in the process of socialist construction since the Russian revolution in 1917, the sector of consumption goods has ranked lowest in the order of priority and it has submitted tamely to a policy of discrimination in allocation of resources and labor force. Since the early seventies, however, coupled with the beginnings of some room in the strength of the Soviet economy, policy makers began at last to put some effort into producing consumption goods. But the force of habit which had neglected consumption goods for so long could not be easily removed, as it involves changes in the social psychology of Soviet economic circles. In fact, F. Mochalin, who seems to occupy practically the highest post of policy making and execution-inspecting in respect to consumption goods in the Soviet Union as Head of the Section for Light and Food Industries of the Central Committee of the C.P. of the USSR, has severely criticized that attitude existing in the Soviet Union which has regarded the problem of consumption as if it were of secondary importance and he has stressed that this attitude should be eliminated.⁴
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(2-S) Compared to capitalist firms, which operate under a severely competitive environment both domestically and internationally, the Soviet firms seem to be having a soft time under non-competitive conditions: there is no bankruptcy and the firm's deficits are ultimately covered by the government. Furthermore, the level of Soviet prices is isolated from that of international prices. In other words, these two price systems are not interrelated in the usual economic sense.

(3-S) In comparison to the governmental guidance offered to private firms in the capitalist countries, the guidance or intervention by superior authorities in the daily activities of firms is practiced in the Soviet economy to a much more consequential extent. They are literally daily being conducted.

(4-S) Compared to the advanced capitalist countries, excluding the railways, such infrastructure as highways, communication facilities, and so on are much less developed in the Soviet Union. This seems to be caused to a large extent by the circumstances of immense territory, which far from being usual positive factors, combined with cold weather, deteriorate into negative factors in this case as a result of causing considerably increased construction costs.

(5-S) Since the centralized economic management system in the USSR is vertically oriented, the social division of labor and cooperation among the firms situated in the same locality is less developed in the Soviet Union in comparison to capitalism. Namely, as Soviet firms could not rely on a constant and timely supply of parts and services from external firms, they have developed a so-called Jack-of-all-trades production of parts within a firm itself. Consequently, these circumstances bring out the harmful results caused by the low volume production of a large variety of parts. In other words, such mutual relationship between big firms themselves and between big and small firms as has developed in the capitalist countries in respect to supply of parts and components has so far developed to a much less extent in the Soviet Union. We must notice, however, that the Soviet authorities have already began to critically reappraise the past policy of one-sidedly overstress-

4. [19], p. 17.
5. Kulagin, G., [18] Dec. 8, 1982.
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ing the giant firms. With respect to the present situation of small firms in the Soviet Union, we must also notice that the industrial firms with less than 200 laborers employ 4.9% of the total number of Soviet industrial workers and they produce 5.4% of the total industrial output.7

(6-S) As is commonly known, while J. Kornai has been building a system of "Economics of Shortage" on the basis of reality of the existing socialist economies these ten years, the Soviet economy is a typical example of this sort. He stresses that motivation for technological innovation is essentially missing under a shortage economy. In other words, a shortage economy itself implies the rule of seller's market. Therefore, since the producing firms can always easily sell the same old type of products, they are hardly inclined towards improving the quality of their products.8

In the foregoing paragraphs we have just enumerated such characteristics of the framework of firm activities as influence the entire production process of consumption goods in the USSR. Now, in contrast to the case of capitalism outlined in Fig. 1, let us start to examine the factors that influence each stage of the economic mechanism of innovation in consumption goods in the Soviet Union.

(A6) As to the stage of R & D and trial manufacture, whereas capitalist firms bear the entire responsibility for a project of developing a new product, there are two cases in this respect in the Soviet Union. Either an upper organ instructs or suggests it, or a firm itself proposes it. But it usually takes a long time before such a proposal can be executed, as it must pass through many barriers which exist outside of a firm's control. In order to obtain permission for the production of a new product, the application documents concerned are usually sent as far as the level of the ministry to which the firm is connected, where they are passed from one office to another. For example, concerning the permission for production of even a simple knitting machine for home use, it is necessary to obtain the signatures of a responsible person in each of some ten external organizations under the present system. In addition, the application papers have to pass through five or six different prelimi-

6. Bachulin [9], p. 11.
7. [22] p. 150.
8. Kornai [3], p. 125.
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...nary checks in each of these external organizations. Altogether, it is necessary to obtain signatures by some thirty or forty persons, a process that takes three or four months. This kind of building up of a “barrier of documents” is repeated again concerning the “decision of quality category” of this new product. According to another report, as it is usually necessary to obtain the permission of some 25 various superior levels in order to obtain the permission to produce any of a new product, so securing permission for construction of a new production line composed of some 10 or 15 various types of machines requires passing through four or five hundred barriers in all.

(B_k) As to the stage of construction of the production line and the production itself, a capitalist firm has the entire responsibility to decide such items as new construction of production facilities, a list of products, procurement of labor force and materials. In sharp contrast, a Soviet firm cannot decide any of such items at its own discretion. In the first place, there are five main sub-divisions in the system of Soviet national economic planning system: production plan, plan for capital investment, plan for labor force, financial plan and plan for material supply. Among these, with respect particularly to the production plan at a firm level, the difficult problem for Soviet planners has been to determine the best output indicator of a firm in terms of value. In the history of the Soviet economy, it had been “gross output” at first, this was then replaced by “realized output” and now “net output” has been adopted as the main indicator to assess a firm’s production activity. Further, in respect to various production indicators in terms of material as well, the policy changes have occurred according to the developmental stages of the Soviet economy with regard to what extent the detailed instructions from above must be issued towards firms.

At present, a Soviet firm must obtain approval of upper authorities with respect to 22 items altogether in compiling its annual operation plan. These items include, for example, what sorts of products and how much of them are to be produced, what kinds of production facilities are to be introduced,

9. Zhariakov, V., [24] No. 32 (Aug. 1981).
10. Guroff [2], pp. 312-3.
11. Kushnirsky [4], p. 12.
what sorts of materials and labor force and how much of each are to be procured as input, how much profit is to be gained, and in what manner is it to be distributed. Because a firm can start its official activities only after obtaining the approval of upper authorities, this Soviet economic management system cramps self-reliable firm activity.\textsuperscript{12} For instance, according to a speech in 1982 by N. Glushkov, Chairman of the State Pricing Committee of the USSR, after the "cost indicator" had been removed from the set of indicators that must be approved by its upper authorities, the cost of such durable consumption goods as color TVs, audio products, watches and furniture, rose unusually as a result of relaxation in self-controlled efforts by firms to reduce cost. So, the upper authorities had no choice but to bring the cost indicator back into the set that must be approved by them. In respect to costs, there is a psychological tendency in the Soviet Union to think that as products become mechanically more complicated, their costs should naturally be higher, and thus there is little effort at cost reduction of that product. Mr. Glushkov spoke irritatedly of this point as far as to say that the Soviet firms must learn from their Japanese counterparts in respect to the efforts at cost reduction of the same kinds of products.\textsuperscript{13} Furthermore, when a production plan is authorized only in terms of value, a Soviet firm is apt to attain its planned target one-sidedly only in value terms. In other words, a firm is often inclined to produce not the cheaper products which meet the extensive demands of consumers, but the more expensive ones with which the firm can easily attain the planned target, particularly in the case of clothes. In such a occasion, the introduction or re-introduction of the system in which the upper authorities instruct the production target "in material terms" is an instantaneous solution for the underproduction of goods concerned.\textsuperscript{14}

(C\textsubscript{s}) As to sale of its products, while a capitalist firm can set the prices of its products at its own discretion, excluding the case of public utility charges or other publicly regulated charges, a Soviet firm, under its state price system, must submit data for its products to the prescribed level of State Pricing Committee which fixes the products prices. Since the second half of the

\textsuperscript{12} [7] p. 77.
\textsuperscript{13} Glushkov [11], pp. 32-3.
\textsuperscript{14} Orlov [16], p. 55.
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sixties, the Soviet Union has recognized that price system is an important factor in respect to accelerating technological innovation. Seemingly because the former price system has not been effective in promoting the innovation in products, they have recently taken the measures to stress the stimulating functions of prices in respect to technological innovation. (We will refer to this subject again in section III.) Furthermore, under the present Soviet economic conditions, firms have no problems in respect to such matters as sales strategy and the competition for enlarging sales share. The status quo is that of a typical seller's market. Although the parties concerned are formally equal under the law, in reality a severe hierarchy exists according to the order of "firms producing consumption goods→wholesale and retail shops→consumers in general." 15 The problem with this scheme is that the mutual relationship between industrial firms and commercial organs or the feedback mechanism of market information does not operate well. Thus, a Soviet firm producing consumption goods tends to rather neglect or ignore market information. 16 Since the beginning of the seventies, whereas the Soviet commercial organization has been paying some attention to the general trends of consumption and sending orders on that basis, the producer's reaction tends to ignore the substance of the orders. Some recent examples evoke the proverb "Seeking bread, he was given a stone." According to a report by the Director of the Wholesale Association of Shoes in Donetsk (a city with more than one million inhabitants), this wholesale organ received a supply of sandals for the summer season from a shoe-making firm contrary to its order for high-heeled shoes for the autumn-spring-season and, likewise, it received an old style of women's boots in spite of its order for a new style. 17 About the degree of breach of contract with customers, it was reported in 1978 that a fourth of the total number of Soviet industrial firms breached their contracts with customers and barely fulfilled their planned target, including the production of goods for which they received no orders from customers. 18 Although Soviet commercial organs do have the legal power to penalize contract violators, as mentioned above, their position in relation to the

15. Ibid., p. 56.
16. Ibid., pp. 56-7.
17. Okushko, A., [24] No. 39 (Sep. 1983), p. 17.
18. Orlov [16], p. 62.

producing firms is weak and in reality they tend to refrain from exercising this power, worrying about aggravation of the future mutual relations between the two parties. As a result, the sanction power is really exercised in only about a third of the worthy cases. In short, at present there is no effective mechanism in the hands of the Soviet commercial organizations for expressing its intentions to the industrial firms.

(D_s) As to consumers, the Soviet system places them in a much weaker position compared to those in the capitalist countries. In the Soviet Union there is no counterpart similar to the consumer's movement under capitalism. Since the seventies, although the upper authorities and scholars have zealously urged the producing firms to supply quality consumption goods with a composition consistent with the demands of consumers, we cannot yet witness any resulting striking change.

(E_s) As to profit, under capitalism the process of technological innovation is built into the usual profit-making behavior of a firm. Normally, profits are increased in a capitalist firm by cost reduction through the innovation in production technology and by developing new products that appeal to consumers. In other words, it is in these efforts by firms that innovation in products and production technology is achieved under capitalism. A big problem for the USSR, however, is that profit does not play such a role in the present management system. In the Soviet economy, where producers occupy a predominant position towards consumers, the firm producing consumption goods tends to take an easy way, obtaining profit by producing only ever larger amounts of the same old types of products, rather than by improving quality and composition of production. In this regard, the recent decision of the Central Committee of the C.P. of the USSR, as well, acknowledged that the present criterion to assess firm activity is generally not effective in promoting technological innovation in the Soviet Union.

(F_s) As to tax obligation and bankruptcy, a capitalist firm owes a legal

19. Moiseev [15], p. 189.
20. (1) Orlov [16], p. 62; (2) Kushnerky [4], p. 16.
21. (1) Cherepanov, I., [18] Oct. 26, 1981; (2) Orlov [16], p. 56.
22. Radaev [20], pp. 56-7.
23. Cherepanov, I., [18] Oct. 26, 1981.
24. [24] No. 36 (Sep. 1983), p. 5.
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obligation to pay taxes according to definite enactment and, in principle, without exception. Moreover, a capitalist firm would go bankrupt if it invited failure in its business. On the contrary, in the Soviet Union the National Treasury is similar to a monopolistic insurance company and bankruptcy of a Soviet firm cannot occur. In this sense, the Soviet Union is typical of a society under the "soft budget constraints" referred to by J. Kornai.25

(G6) As to the process of procuring the accumulation fund in the USSR, in 1981 for instance, 94.5 billion roubles, an amount corresponding to 79% of the sum of profits to state firms, were payed to the National Treasury through channels for the charge for use of production facilities, the refund of long-term loans and the payment of a prescribed part of interest. These payments amounted to 28.8% of the total income of the Soviet State budget of that year and together with turnover tax form two of its largest income items. In contrast to this, an amount corresponding to 145% of the sum of profit to state firms was expended from the State budget for the item of "Expenditure for national economy." While only 4% of the sum of profit to state firms was directly expended for capital investment, an amount corresponding to 27% of the firm's profit was likewise expended from the amortization fund.26 In summary, considering the sum of profit to state firms as the yardstick, whereas the Soviet firms directly expended an amount corresponding to 31% of it in capital investment, the Soviet State budget likewise expended an amount corresponding to 145% of it presumably mainly for capital investment. Therefore, as the latter amount is more than 4.6 times the former, it seems that the Soviet scheme of capital investment is rather much more centralized and the autonomy of firms is not considered with esteem.

III. Concluding Remarks

The author of this paper does not intend to one-sidedly assess the Soviet situation in respect to the innovation in consumption goods on the basis of an

25. Kornai [3], p. 144, etc.
26. [23] pp. 549-50, 560-2.
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uncritical idealization of the corresponding situation in the advanced capitalist countries. As we approach the 21st century, mankind has in its hands a productive capacity unparalleled in history. If this great capacity is channelled only into the pursuit of private profit, it will surely bring about the depletion of many natural resources, the destruction of the global environment, and, consequently, the devastation of humanity. In respect to them, as the advanced capitalist countries have obtained the mightier capacity compared to the present socialist countries, so it seems that the former have been confronted with the bigger problem of balancing economic activities and environmental concerns. Keeping these points in mind, this paper has investigated into the delay and rigidity in the innovation in consumption goods under Soviet socialism.

As was mentioned in section I, however, technological innovations in each sector are not equally affected by the condition of delay and rigidity under the present Soviet system, for it seems that there is no particular delay compared to capitalist system in respect to the Soviet innovation in weapons. In classification of all kinds of products into the three categories of weapons, producer's goods, and consumption goods, the production of weapons has a feature of "limited variety production" compared even to producer's goods. In such a case, if a necessary degree of preferential treatment is ensured in respect to human and social resources, it seems that the existing socialism can presently cope evenly with capitalism. However, the circumstances become completely different with respect to the consumption goods where the "diverse composition of production" is a characteristic feature. In the latter case, the state of affairs depends decisively on the general character of management system in each national economy.

In the foregoing section, we examined the economic mechanism of innovation in consumption goods in the Soviet Union referring to Fig.1. As the concluding remarks from these investigations in the first place, we must point out that a competitive environment is lacking in the activities of a Soviet firm, and as a result the self-determination on the firm level of innovation in consumption goods is lacking to a considerable extent. In other words, as the activities of Soviet firms are regulated by centralized planning, it is inevitable that a sort of "partial monopoly" situation exists with respect to each firm's activities under the umbrella of its firm plan approved by the upper authori-
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ties. Because the activity of each firm is protected by the government, a firm tends to lose its autonomous motivation to innovate anything, and it tends to continue in the same old type of production.

Secondly, there are varying degrees of centralization existing under the centralized system itself. In the present situation in the Soviet Union, the barely remaining motivation at the firm level for innovation is oppressed as a result of over-regulation by the upper authorities. For instance, as is mentioned in (A₅, B₅) in (2) of section II, it stems from imposing too many restraints by the upper authorities on the procedures for obtaining permission for production of new products.

Then, what prospects are there for the circumstance concerned in the Soviet Union? The first steps in the direction toward improvement taken by the Soviet government strive to promote innovation in consumption goods by partial readjustments, while basically preserving the present centralized scheme of economic management. Namely, they are such measures as: (a) the readjustment of guiding methods by normatives, (b) the improvement in the material supply system, (c) the readjustment of stimulating methods by prices, and (d) the stimulation by subdividing the unit of khozraschet.

(a) The measures which indicate as normative the ratio of high quality products in firm's production have been in practice since 1976. In addition to these, the target to cancel old types of products from production has been included in the firm plan since 1982. But in order to put the measures into practice effectively, there remains a troublesome problem of applying sanctions against the firms which do not fulfill the target. If such firms are left to take their own course, those measures would become of no use.

(b) In order to accelerate the improvement in effectiveness of production as well as that in quality of products, it is necessary to put the system of material supply in a better condition. According to the opinion of a high ranking staff member of Gosplan of the USSR, the direct relations among firms must be strengthened for that purpose. As opposed to the past procedures, the upper authorities are presently considering giving a firm the right to choose a supplier of materials under their organizational guidance.

27. Kushnirsky [4], p. 20.
28. Baehurin [9], p. 15.
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Under the present system in the Soviet Union, as the supply of materials is uncertain in regard to quality, quantity and date of delivery, so each firm has no choice but to take self defensive action by maintaining the higher than normative levels of material stocks. Therefore, if the shortage of materials is mitigated to an extent as to improve on the present circumstances, this will surely exert a favorable influence on the promotion of innovation in consumption goods as well.

(c) While the price function had been introduced in the Soviet Union near the close of the sixties as a means for stimulating innovation in products, these measures were stepped up at the end of the seventies, with the introduction of a system of temporal premium prices for new products of high quality. Recently (in September 1983), this kind of measure was further stepped up. Namely, new stimulating measures were introduced, sanctioning a premium price 30% higher than normal for new products of high effectivity and, to the contrary, imposing a price 30% cheaper for the products which must be taken out of production.

(d) At present, a more precise assessment of the correlation between the economic activity performed and its results has been stressed in respect to a smaller unit of production. As one such unit, the authorities have recommended the "khozraschot brigade" which applies the khozraschot system to a productive brigade composed of fixed members. This step intends to clarify the results of activity with respect to every production unit at which the definite laboring members are fixed, allowing the quality and effectiveness of their work to be more precisely assessed.

Next, as the second possible direction for improvement in the situation, we could point out the gradual progress towards a decentralized type of socialist economy, which is drastically different from the Soviet way to the present. The main points of decentralization intend to convert the economic environment (management system of the national economy) from one that causes passive firm activity under the direct normatives indicated by the upper authorities, to one that induces firms to autonomous efforts, intro-

29. Ibid., p. 11.
30. Orlov [16], p. 59.
31. [24] No. 36 (Sep. 1983), p.5.
32. (1) Bachurin [9], pp. 12-3; (2) Vilkov [10].
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Introducing a moderate condition of competition among them at the same time. Of course, it is just an illusion to think that a Hungarian type system would be introduced into the Soviet Union at once. However, even a member of the Soviet Establishment like A. Bachurin has come to recently propose the enlargement of a firm’s autonomy in respect to preparation of the annual plan, as long as the upper authorities can keep firms under its control with the 5-year plan as the basis for each firm activity. V. Radaev, who enjoys a more liberal position as a scholar, is more radical in insisting on autonomy for firms. Further, younger B. Kurashvili is much more radical on this point and has gone as far as to propose a reform that partly surpasses the present Hungarian system: the nomination of a director by the firm collective. In this case, we must pay attention to the fact that his paper was published in a regular academic journal. In relation to the above-mentioned, as a successful example of the introduction of moderate competition, we can point out the case of “Masis”, the Armenian Production Association of Shoes, which recently became the center of attention in the Soviet Union as an excellent association. Eliminating the specialization in definite products group for each factory within the production association, “Masis” has adopted a policy in which the same sorts of products are being produced in parallel at several factories and, they say, a sort of competition among the factories is effectively raising the level of production quality.

Finally, I would like to touch a little on the prospects for introducing private firms into the Soviet Union. Whereas private firms are publicly permitted to operate in certain fields in such socialist countries as the GDR (East Germany), Hungary, and China, they are prohibited to operate in principle in the Soviet Union, with the exception of those involved in agriculture. However, the actual situation regarding private economic activities still remain an open question in respect even to the Soviet Union. The so-called “Classified Report”, which was likely compiled in the Siberian Department of the Academy of Sciences of the USSR, assumed a critical attitude towards the present strict regulation of personal economic activities in the Soviet Union,

33. Bachurin [9], pp. 7-8.
34. Radaev [20], pp. 53, 56.
35. Kurashvili [12], pp. 42-8.
36. “Masis” [13], p. 44.
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as this policy invited a decline of effectiveness and creativity in respect to economic activity. In contrast, J. Kornai has pointed out that the constantly enlarging trend of the non-state sector for the past 15–20 years is one of the vitalizing factors in the relative prosperity of the Hungarian economy. The non-state sector means the cooperative and private firms in this case. These types of firms are particularly suited for innovation in certain fields such as the service sector. Although we are confident that the introduction of private firms is now being seriously examined in the Soviet Union, the question for the Soviet authorities is how to promote effectiveness and innovation in the economic activities, containing the private firms within a scope that is compatible with the socialist system as a whole.

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37. Kornai [3], pp. 59-60.
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