
ECONOMIC PLANNING

WITH SPECIAL REFERENCE TO U.S.S.R.

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The pre-occupation of economic analysis in the past has mainly been with the concept of equilibrium or an optimum allocation of resources between alternative uses. Consideration, no doubt, was given to variation in factors like population, demand, technology, etc., but the variations were conceived of as being smooth and continuous, so that adjustments to them could be made relatively quickly. In other words, even in the notion of a “moving equilibrium” was implied a movement slow and continuous, and a situation where the rate of movement was greater than the rate of adjustment, was seldom considered. The result was that such important aspects of economic progress as those pertaining to transition of an economy from agricultural to an industrial one, had no place in economic analysis. The concern of economists was with attainment of perfect equilibrium in a given economic situation with a given and only very smoothly changing pattern of demand and of combination of resources. The question as to whether there was any possibility of a better economic situation passage to which from the given one would form a fit subject for economic analysis was never posed. This attainment of equilibrium in a given economic situation ran in terms of ‘optimum allocation of resources between various uses’. The ‘optimum’ was so conceived as to imply the existence of —

- (i) an infinitely large number of ends to be achieved by fairly limited resources,
- (ii) high tractability of productive resources so that the patterns into which these resources can be woven for the satisfaction of unlimited ends is very numerous, and
- (iii) high flexibility in the consumers’ wants so that for a particular type of demand, a large number of commodities can serve as rivals.

Obviously, therefore, to the extent to which actual economic situation does not correspond to these conditions, economic problems will have a significance other than that attached to the ‘optimum analysis’ with all its emphasis on the market

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forces and the pricing of consumers' and producers' goods. Regarding the actual economic situation, it may, not inappropriately, be said that a definite limit is set to the number of ends by the available resources and the techniques of production. It may not be possible to produce some of each of 'x' commodities because production of 'a' may mean that nothing of 'b' can be produced. Add to this the fact that, at least in the short period, resources are not much tradable so that the number of patterns into which they can be combined is small relative to the scale of wants. In other words, 'indivisibilities' of productive units and interdependences of supply are big rather than small. This means that the proportion in which various commodities are produced and put in the market is not susceptible to any very large variation. In regard to consumers' wants, it may be said that, because of social conventions, commodity inter-relationships, etc., consumption goods tend to be grouped into sets which are wanted in combination. So that a consumers' choice relates not to a host of individual commodities, but to a relatively fixed number of 'sets' of consumption goods.

In view of what has been said above of actual production possibilities and consumption possibilities, economic problems 'seem to acquire a resemblance to the problems of military strategy where in practice the choice lies between a relatively small number of plans which have in the main to be treated and chosen between as organic wholes and which for a variety of reasons do not easily permit of intermediate combinations'. This organic treatment of economic problems lies at the root of economic planning as it has recently come to be viewed. This change in the outlook of economists can be attributed mainly to a more sympathetic understanding of the Soviet experience especially since the '40s. Not much faith is now placed in the working of the blind market forces. Its weaknesses have become only too obvious. The market economy permits, rather necessities very wide income differentials; it is instable; it is wasteful and most importantly, it is incapable of effecting any major economic change. For these reasons some sort of governmental intervention and a bit of planning is advocated even by staunch supporters of capitalism.

The purpose of economic planning is to achieve a given end with minimum expenditure of factors of production, worked out in the form of money expenditure, in minimum time. To be sure, such planning is involved, in every decision of productive nature in the capitalist system of production. Enterprises in the market economy do not produce for enjoyment's sake. The motive is profit and an efficient attainment of this motive makes detailed planning inevitable. But the unit of decision here is too small. The desirability of an end is tested in atomistic

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terms. Production of those commodities will be undertaken which are expected to bring maximum profits to the producers. And since producers are very numerous, production-decisions are very, numerous. And, consequently it is not infrequently that the end 'a' is conflicting with the end 'b' and both 'a' and 'b' are conflicting with 'x' which would have emerged had the unit of decision been larger. In addition to a huge wastage consequent upon conflict of production-decisions, the time-horizons in which such decisions are set are very narrow. Because of uncertainties about the future availability of productive factors, such time-horizons cannot be very wide even in a planned economy: but in a market economy, they are unnecessarily narrow because of the very nature of such economy. Production in a market economy, we may repeat, is undertaken for profit. The factors, which are expected to influence profit prospects in future are, therefore, to be given most importance to. Under such factors come the production-decisions of a host of other producers producing related or even unrelated commodities. These decisions are highly unpredictable even in the short period, so that a definite and narrow limit is set to the time-horizon§ in which they are cast. In investment plans, therefore, the future is not given its proper share and as a result the economy may find it difficult to move to a higher economic level.

In order to make the unit of decision larger and to extend the time-horizons has been advocated what the Fabian Socialists have called supplementary planning as distinct from directed planning. Under such planning, market relations are to be left in tact and the business of planning is to supplement these relations by removing the immobility of productive factors and by actual participation in business where it seems necessary. The familiar methods here are taxes and subsidies. If, for example, the government plans that more milk should be produced, the best way is to give subsidies to milk-production. The pricing system will remain the same because planning, by rationing is thought to be undesirable in normal circumstances. The opposite case will hold for taxation. Under certain circumstances, government may directly undertake the production of certain commodities and unless it monopolizes the production, the commodities will be sold through the familiar market mechanism. Such planning has become well established in the under-developed countries and, to a lesser extent, in capitalist countries as well.

Under such a system special problems are created due to the fact that the unit of control does not correspond to unit of decision. Control still lies mainly with the atomistic enterprisers and they may resist direction from above. This resistance may become all the more obvious ii planning is not restricted to

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production only but is extended into the sphere of distribution also. That is why the main emphasis of planning under such conditions is on production rather than on distribution. Thus a sort of tension is created between government and business which makes complete coordination between various sectors of economy impossible. Individual plans, relating to sectors where productive factors are owned by the government may, on doubt, prove successful when judged by the traditional market standard. But, owing to absence of integrated planning, there is no standard to show the real usefulness of the plans to the economy as a whole. There may be many plans; but there is no Plan.

The very nature of planning requires that both unit of decision and unit of control be made as large as possible. Integrated planning then becomes possible and the process becomes an organic whole. Coordinated planning is so distinct from ordinary planning and the success attendant on it in the Soviet Russia has been so enormous, that it has earned a special name for itself. Planning (with capital P), therefore, may be taken to imply integrated planning.

Before undertaking a somewhat detailed study of the planning system in the Soviet Russia, certain points may well be made clear. The predominantly industrial character of the Russia of today should not blind us to the fact that pre-Revolutionary Russia was a backward, agricultural country not very much unlike countries like Pakistan. The devastations caused by the First World War, the Revolution and the Civil War, were so enormous that it took Russia more than ten years to attain the pre-War level of her production. It was only by 1928 that the possibility of experimenting with the planning system appeared. The technique of planning was not ready at hand. It had to be learnt almost from the very beginning with the passage of time. Errors and mistakes were sure to be made, but they were generally recognized and, as much as possible, made good. Then there was a huge amount of harm done to agriculture by the liquidation of the 'Kulaks'. Again a mass of uneducated people had to be taught the wisdom of planning. And lastly, but most importantly, Soviet leaders had to prepare the nation for and actually be involved in the most devastating war in the history of mankind. A lack of understanding of these conditions has been leading even impartial observers towards prejudice against the Soviet economic system.

In the U.S.S.R. all the requisites of planning, namely, governmental ownership of land and capital, governmental domination of most fields of economic activity, a unified leadership and absence of market forces in the determination of costs and prices are, to a more or less extent, present. But the planning system has not been content with merely making the

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system go. It has aimed at increasing the national wealth, rapid industrialization of the country, reducing costs of production in the real sense, and a host of other economic and cultural activities.

At the head of the planning system in the U.S.S.R. stands the State Planning Commission or Gosplan. It is divided into four departments relating to general economic plan, capital construction, finance and regional distribution of production. The Commission's duties consist of —

- “1. The working out of economic plans of all kinds and their presentation for review by the Council of Ministers,
2. Presenting the Council of Ministers with conclusions concerning the plans which are worked out by various subsidiary planning organizations,
3. Reviewing the execution of the plans,
4. The study of various individual economic problems,
5. The appointment of expert commissions to specific economic problems,
6. The working out of questions of planning methodology, and
7. Directing the work of socialist accounting.”

Each Ministry and each economic unit such as a trust, a factory or a store has its own planning agency which is called “functional subsidiary”. The same is true of geographical divisions like republics, provinces and regions. Planning agencies in this case are known as regional subsidiaries. In both the functional and regional subsidiaries, each planning agency is responsible to the next higher one and so on up to the Gosplan. These subsidiaries have very important task to perform. The draft plan is submitted to the Ministries and from there downwards till it reaches the smallest economic unit, *i.e.*, factories and stores, A lot of discussion takes place and improvements suggested. These suggestions are collected upward and in their light the final formulation of the plan takes place. These subsidiaries also act as a sort of “progress offices” of the plan when it comes to the question of what is called “plan fulfillment”. We will soon have occasion to come to this point again.

In one of the most difficult phases of planning, that is, in the cilice of goals or objectives, the Commission is greatly helped by the government. Indeed a discussion was very early started as to what should be the element of policy and Prognosis in the choke of objectives. Should the goals be dictated entirely by the State or should it be left entirely to the working of the so-called economic laws. The

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former would mean a divorce of the plan from sound methods of economics and the latter a more or less return to the capitalist system. A synthesis was finally effected so that prognosis had a predominant part in short term projects and policy had its sway in the long run.

Formulation of the plan is not the only task of the Commission. What is called "plan fulfillment" is even more important. When the plan is put into operation, a question, so to say, is put to reality. To what extent is the plan workable? In actual practice there may be serious deviations in this respect. The fact that the plans have been named as "Five Year Plans" may give the impression that they are made only at five-year intervals. This is anything but the actual case. Within a Five-Year Plan, in fact, there are yearly, six-monthly and even monthly plans. Planning is a continuous process and a plan is regularly tested as to what extent it is workable. Inconsistencies with the actual situations are discovered and the plan is accordingly modified. At the time of the formulation of the second Five Year Plan, Molotov greatly criticized the method of "arm-chair planning" and insisted that a plan should be deep-rooted in reality and should be regularly tested. In this task of "plan fulfillment", the subsidiary agencies are of great help as we have noted above.

The backbone of the Russian planning system lies in the production programmes, in what the economy really wants to produce and the crucial balances or equations which test the internal consistency of the plan. Problem of investment is simply problem of directing resources to the production of investment goods rather than to consumption goods. The question of mobilization of capital, as it is understood in the capitalist countries, is, therefore, simply irrelevant. Money, accordingly, plays a minor role in the economy of U.S.S.R. But the fact that wages are paid on money and its disposal is free in the retail consumers' goods market makes some sort of monetary planning necessary. The role of what is called the Financial Plan is subsidiary to that of the Production Plan and its main task is to make the working of the latter smooth and easy, financial Plan serves the purpose of, so to say, oiling the Production Plan. Space does not permit us to go into the details of the Cash Plan and the Credit Plan which together make up the Financial Plan, but a few words must be said about the pricing of consumer goods in the economy of the U.S.S.R.

The crucial point at which the Financial Plan is geared to the Production Plan is the translation of the basic costing data about production programmes into money terms. Initially, this costing is in real terms, *i.e.*, in-puts of labour, capital, raw materials, etc. These real costs are then translated into money-costs according

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to such notions of relative scarcities as are consistent with the objectives of the Plan. This is the “planned cost”. To this is added a small margin of profit calculated at varying degrees of “planned cost” and known as “planned profit”, and finally is added the cost of distribution and the resulting figure is the selling price of the product of the enterprise. This latter price is only an arrangement for crediting and debiting the accounts of various enterprises through the wholesale distributing agencies into whose details, as we have said above, we have no space to go. The point to be especially taken note of is this. From what has been said above about the method of costing, it would appear that the price at which consumer goods are sold in the retail market is nothing other than the figure arrived at by adding the “planned cost”, the “planned profit”, and the “cost of distribution”. But this is hardly the actual case. The retail price is far above this figure. There is a wide gap between the cost of production of consumer goods and their retail prices in the retail market. Let us see, why?

The general living standard of the people depends, of course, on the amount of resources devoted to the production of consumption goods. Now, if the consumption goods were made available to the consumers at the “cost price”, this amount, being already planned, would not increase. But certain other difficulties would be created. In the U.S.S.R., people derive their incomes almost entirely through their wages. These wages are paid not only for the production of consumption goods but also for that of investment, goods. Private savings in the U.S.S.R. are quite negligible so that almost whole of this income is to be spent on consumption goods which form only a portion of total production for which wages have been paid. Investment goods do not enter the market. The result is that if the consumption goods were made available at the “cost prices”, the purchasing power in the hands of the consumers would be in excess of the total value of consumption goods. As the prices are fixed and the disposal of money, — free, there would be a rush of buyers at the stores and some people would have to go without any commodities and some will have them in excess. The wage differentials would lose meaning and the “discipline of the rouble” would break. This excess of purchasing power is washed away by what it called the Turnover Tax which is added to the retail prices of consumption goods. Hence the gap in the cost of production and the retail prices of the consumption goods. The Turnover Tax goes to the budget the government and is utilized for investment purpose. The greater, therefore, the amount of resources directed towards production of investment goods, the greater the amount of Turnover Tax and greater the magnitude of this gap.

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The role of foreign trade in the Soviet economy is quite negligible. It is strictly controlled and is not allowed to have any effect on the prices of domestic consumer goods. The question of foreign trade, therefore, is not very much relevant to Soviet economic planning.

Into a detailed study of the pros and cons of a planned economy, we have no time to go. The only thing we can do is to point towards the unprecedented progress of the Soviet economy in a very short span of time and with great hurdles in its way. A few words, however, may well be said about the two most debated points in this connection. They relate to the position of the consumers and the productivity of labour in the U.S.S.R. especially and in planned economy, generally.

It is often said that the position of general consumers in the U.S.S.R. is very precarious; that they have no say in the production programmes of the economy and are deliberately starved of consumers goods. They are, it is held, thoroughly exploited in the interest of those who are at the helm of affairs.

At the root of such thinking, obviously, lies a thorough lack of understanding of the problems that confronted the Soviet economy at its very birth. A great emphasis had to be given to capital construction if the economy had at all to change its character from the agricultural to an industrial one. We have already noted this point above. To the extent, therefore, to which greater importance began to be attached to capital construction, consumers had to suffer. But suffer only in the short period, because capital construction means increased productive capacity in the future. The question is simply of sacrificing something at present to have greater in future. It is quite another thing that the U.S.S.R. had to cross some undesirable hurdles and had to fight a devastating war, and so the full fruits of the past capital construction could not be reaped. While analyzing the planning system, we noted that before finalization, the plan reaches every factory and a very store, so that every worker, who is himself the "consumer", has the right to give suggestions. The element of direction from above in the planning system is, no doubt, there, but, firstly, this direction is not always against the interests of the consumers and, secondly, it is not of such a magnitude as to warrant the validity of statements like the above ones. In fact, there has been a steady increase in the living standards of the Russian workers since the formulation of the first Five Year Plan.

In the capitalist system, the incentive for productive activity is the money incentive. This incentive results in great wealth differentials to which a socialist economy by its very nature is opposed. Accordingly, money incentive is not allowed

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to have a free hand in such an economy. Supporters of capitalism assert that under such conditions, people are sure to lose interest in their work and so productivity of labour is sure to fall. The argument, we most admit, was valid for the earlier phases of the Soviet economy. The average labour productivity was very much below the standards prevailing in the capitalist countries. The causes were partly historical and only partly relevant to the planned nature of the economy. The problem, anyhow, was tackled in two ways. Greater wage differentials were allowed and they were carefully geared to labour productivity. Efficient workers could earn more than their fellow-workers. Non-economic incentives were provided which took the form of various prizes, public acclamations, placing of busts and hanging of pictures of exceptional workers in the factories, etc. As a result, productivity definitely began to increase an outstanding example being what is known as the Stakhonovite movement. To say, therefore, that a planned socialist system can provide no incentives for labour to increase its productivity is to be rather unjust. We, in fact, should not forget that, firstly, even in the capitalist system, money motive is not the only motive. Desire for power, popularity, etc., may and do count. And, secondly, the psychology of the people in a socialist economy is expected to be somewhat different from that of the people in a capitalist one. If in the former, people have a firm faith in the wisdom of socialism and planning, we have no light to blame them just because ours is a different system.

SOURCES

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3. *Economic Planning*, by Arthur Lewis.
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