Are Profits in Command in Brezhnev’s Russia?

By Joseph Seymour

Editor’s Note: In the first installment, the myth of a workers paradise in Stalin’s Russia was refuted. In tradition, the notion presented by Marxist economist Martin Nicolaus (recently expelled from the October League) that factory managers in the USSR were the core of a new capitalist class was debunked and the similarity of Khrushchev’s regional decentralization to the capitalist economic organization demonstrated.

The Kosygin reforms “restored capitalism” in the USSR, proclaims Martin Nicolaus, and he may well be the only person in the world who thinks so. (Unfortunately for his career as a Marxist, the official Peking line is that capitalism was restored under Khrushchev.) However, many commentators did regard the 1965 Soviet reforms associated with the economist E.G. Liberman as capitalistic because of their emphasis on enterprise “profitability.” Time magazine ran Liberman’s picture on its front cover with a story entitled “Borrowing from the Capitalists,” and focused on enterprise “profitability.” In addition, the emphasis on enterprise “profitability.”

Of course, the planning authorities always knew that enterprise managers systematically understated capacity and attempted to correct for this. Plant executives and Gosplan (plan organization) authorities played a cat-and-mouse game with one another, and the resulting output targets bore only a rough relation to actual production capacity.

Since managers were rewarded for output regardless of the usability of or demand for their products, there was a tendency to sacrifice quality and assortment of goods in order to maximize output. Targets are set in physical units (e.g., silverware in kilograms, cloth in square meters) so that managers chose items maximizing this index even if the products had little use value. In a famous cartoon from the Russian humor magazine Arkady, the annual output of the nail factory (measured by weight) is shown as one mammoth nail. Another example is the notorious fragility of plate glass in the USSR, since plan targets are set in square meters, managers maximize output by producing over-thin glass. In his September 1965 speech introducing the new system, Kosygin bluntly stated the problem.

“Experience indicates that the index of volume of gross output does not stimulate the enterprise to produce goods which are really needed by the national economy, and in many cases the index tends to limit any improvement in the assortment of goods and their quality. Not infrequently our enterprises produce low-quality goods which the consumer does not want and which therefore remain unsold.”

Another problem with the traditional system was that output was measured by total (gross) value, not that added by the enterprise. So managers naturally tended to use the most expensive inputs which thereby maximized the value of “their” output. And since managers had little incentive to minimize cost, hoarding labor and building up huge inventories of supplies was the rule. In particular, there was no material incentive to economize on plant and equipment, because investment was financed by a non-repayable budget grant. Since it was “free,” managers consistently overstated their need for new equipment.

It is clear that what we have described is nothing but bureaucratic parasitism at the enterprise level. A plant manager who understates actual enterprise capacity in order to receive an easy plan, or one who produces low-quality goods so as to more easily meet output goals, knows he is behaving in an anti-social manner. Some managers may be personally honest but believe they will be victimized in income and career advancement if they don’t over-fulfill the output plan. Moreover, all spokesmen for the Soviet bureaucracy regard the kind of managerial dishonesty depicted above as inherent in the system.

Liberman is a fruitless effort to overcome managerial parasitism through more sophisticated plan indices. But no planning techniques, however sophisticated, can prevent dishonest managers from subverting the planners’ intent and squandering resources. As we shall see, the 1965 reforms perpetuated some of the old problems while generating new forms of managerial dishonesty and waste of resources.

The elimination of bureaucratic parasitism at the base of the economy as well as at the top is impossible without thoroughgoing socialist democracy, which in turn requires revolutionary action by the working class to topple the Stalinist bureaucracy. Two requirements, in particular, are necessary to ensure conscientious management: selection of managers with demonstrated socialist consciousness and workers control of production.

Following the Bolshevik Revolution and during the 1920’s, Soviet economic management had to rely on bourgeois experts drawing high salaries. Lenin’s Bolsheviks regarded this as a necessary evil, only partly offset by workers control. A revolutionary workers government coming to power in the advanced capitalist countries through social revolution or in the USSR and East Europe through political revolution would not face the same situation today. Managers would receive straight salaries commensurate with the wages of skilled workers, and a central task of the factory committees would be ensuring against managerial wastage of resources. Under the close scrutiny of the workers in the enterprise, incorrigibly incompetent, abusive or dishonest managers would simply be removed.

Objective Pressures for Economic Reform

Managerial parasitism and the consequent squandering of resources at the enterprise level have long characterized Stalinist bureaucratic planning. Why then did pressure for reform build up in the early 1960’s, culminating in the action of the incoming Brezhnev-Kosygin regime?

During the last years of the Khrushchev period a number of objective factors caused the bureaucracy to become more concerned about micro-economic inefficiency. A rising standard of living in the late 1950’s made...
consumers more selective and unwilling to purchase shoddy or otherwise undesirable merchandise. Also, in Stalin's day a manager who played too fast and loose with the plan and his superiors could get into very hot water indeed. Thus the post-1956 relaxation of totalitarian state terror may have allowed greater managerial dishonesty and violation of planning instructions. However, the basic motives for the 1965 reforms reflected profound changes in the Soviet economy. The later Khrushchev years (1958-64) saw a marked fall in economic growth, particularly in productivity, and a greater managerial dishonesty and violation of planning instructions. The later Khrushchev years (1958-64) saw a marked fall in economic growth, particularly in productivity, and a greater managerial dishonesty and violation of planning instructions. Furthermore, the Khrushchev period marked a re-establishment of the traditional Stalinist pattern of operation, production, and determining investment at the enterprise level. The standard Soviet work on current economic policy in Soviet Economic Reform: Progress and Problems (1972), which describes the relation of enterpris production to the planning authoritie follows as:

...guiding themselves by the prices at which the bureaucracy realized effectiveness of new investment. In part this worsened changes in the Soviet economy. The could get into very hot water indeed.

A significant effect of the 1965 measures which is often overlooked was the re-establishment of the tithe ministerial system. In one important respect the post-1965 economic struc the enterprise was modified. Before 1965 the Soviet economy had an enterprise-planned system. After 1965, with the introduction of the enterprise-planned system, the Soviet economy had an output-planned system. The enterprise was the basic unit of production and the enterprise production plan was the basis for the output plan, measured in physical units, which must be fulfilled. A manager who does not fulfill the output plan will not receive a bonus (regardless of profit), and he may also be administratively disciplined as a state functionary!

This official description is confirmed by a leading British bourgeois expert on the Soviet economy.

"Managerial bonuses have simply redirected effort from output to profit—but only when output has exceeded the plan targets; below that level, profit counts for little." [our emphasis]


In contrast to capitalist firms, Soviet enterprises do not seek to maximize higher sales volume on the enterprises. This is an expression of uncertainty that, independently, the enterprises will sufficiently utilize their production capacities and discount prices. "The question of what the product-mix of most important items is must be clarified. At present, its definition is chiefly left to the ministries. But the ministries tend to expand rather than restrict this product-mix, and this creates a tendency to take the old methods—to provide a greater degree of guidance."

-E.G. Liberman, Economic Orderings in the USSR (1971)

Since Liberman's book was written, the tendency has been to restrict enterprise autonomy even more.

The continuity of the post-1965 system with traditional Soviet planning is strongly emphasized by Alec Nove, one of the foremost bourgeois experts in this field. Under a sub-headed entitled "The reform that never was," Nove writes:

"The power to allocate resources and to take production decisions resided outside the central authorities, and is shaped between the revived central authorities, Gosplanners and Gosplans, under the general supervision of the higher party organs... current doctrine regards an increase in profits due to a change in the product mix or in inputs as somehow illegitimate... Yet this means that both the product mix and the inputs of the enterprise are laid down in a plan submitted to and approved at the ministerial or glavk [sub-ministerial] level. It logically follows that the supply plans made in one or another of the central bodies is far more than the mean purposes of each individual enterprise, and whether in this output, and that both its production and its delivery to designated customers must form part of obligatory plans, of course well in advance of the system of the old system. It survives today."

[our emphasis]


Are the Means of Production Controlled in the USSR?

According to Nicolaus the 1965 measures transformed the means of production into marketable commodities. "The 1965 measures, in sum, wiped out the legal and financial barriers that had kept the emerging market in the means of production underground during the Khrushchev years. The exchange of means of production as commodities became respectable, universal and amply supplied with liquidity."

Another gross falsification! One might accuse Nicolaus of conscious deceit, except this would assume he purposely seeks to mislead the Soviet economy. Far from the means of production having become commodities, as Nicolaus claims, it is clear that the Soviet economy is still controlled by the central planners, who decide what to produce and how much. "The 1965 measures, in sum, wiped out the legal and financial barriers that had kept the emerging market in the means of production underground during the Khrushchev years. The exchange of means of production as commodities became respectable, universal and amply supplied with liquidity."

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C.P. Spokesman in ILWU Retires

San Francisco—Archie Brown, prominent Communist (CP) trade-union supporter and Bay Area longshoreman for about 40 years, retired last week from the ILWU. At the December meeting of International Longshoremen's and Warehousemen's Union (ILWU), Brown rambled on about younger workers picking up the banner and similar platitudes. He carefully steered clear of any comment on the present abysmal state of the union except for remarking vaguely, “we’re in a tough spot.”

A long-time militant in this hard-hit industry should have no difficulty picking up the reins to lead into the ILWU membership. Conditions for longshoremen have deteriorated badly over the last decade and a half: available jobs have been slashed by nearly one-third, and wages and benefits cut by about one-third to one-half through disastrous “mechanization and modernization” (M&M) contracts. Thenfour-foot “Pennsy” crane has driven out of the union; garge sizes and “guaranteed pay” are being cut; the union hiring hall has been weakened by the introduction of “steady men,” and the very existence of the ILWU is threatened by rumored merger deals with the Teamsters.

However, in order to address these issues, a fighter for class-struggle unionism would have to come up against ILWU president Harry Bridges. This Aryan immigrant and ex-CP organizer, still powerful and a fine speaker, has faced the Teamsters and others. Brown has nothing but praise for his loyal Stalinist boss.

For years the Communist Party has been the chief propagator of the myth that Harry Bridges is a militant defender of the working class. Bridges ran for U.S. Congress from San Francisco in 1934. In 1942 he ran for U.S. Congress from San Francisco.

At that time the Communist Party—along with Bridges—was vigorously supporting FDR and the American Enterprise investment was partially nationalized. Bridges became a well-known labor leader and was an influential figure in the ILWU. However, his influence waned as the Teamsters gained power and influence in the ILWU.

Archie Brown can be described as a bourgeois in the imperialist World War II. Brown vociferously supported Bridges’ wartime no-strike pledge. In Local 10, the 16 September 1942 “Longshoremen’s Bulletin” (edited by a Stalinist hack) warned that if dock workers did not accept the pledge they wouldn’t be long until we’d be eating sauerkraut with chopsticks...” quoted in “in Search of the ‘Blue Water’” (‘Bridges Plan’), Fourth International, December 1942.

After the war the CP Bridges bloc continued and Brown argued for extending the no-strike pledge. The ILUW president had to appease his critics in the ranks, while the C.P. maintained that the Communist American labor bureaucracy, while it was not completely pro-capitalist, was not weak, as had been claimed by the ILUW’s conservative leadership. The ILUW’s conservatives in the union had been replaced by the enterprise directors for economic reasons are strictly against Soviet law, as embodied in the Constitution of 1936, the Stalin Constitution.”

Before dealing with unemployment in presidential proposals, we wish to debunk the myth of Stalin’s “workers paradise.” As we have seen, during the 1930's there were widespread layoffs and dismissals for breaches of work discipline, and mass disguised unemployment in the collective farms. Despite the “right to work” in the Stalin constitution, a Soviet employee never had the right to strike.

Because the planning system encouraged managers to hoard labor, because management expropriated the surplus working-class, both systematic (disciplinary) dismissals were generally regarded as anti-socialist, layoffs were and are sanctioned by state and managerial rights, the 1970 Principles of Labor Legislation perpetuate Stalin’s provisions for widespread layoffs and mass disguised unemployment.

Anyone with the slightest knowledge of Soviet society today knows that there is an acute labor shortage, which greatly worries the bureaucracy. In 1960, 78 percent of the working-age population was employed; by 1970 it had jumped to 87 percent, and by 1970 it had increased to 91 percent (V. Kontsa, translated in Problems of Economics, November 1974). By way of comparison, in the United States only 61.8 percent (58 percent of the non-institutional population, age 16 and over, is employed (Monthly Labor Review, November 1974).

The problems which the extremely high level of labor force participation in the USSR poses for the bureaucratic alienation, have been clearly stated by the Soviet economist expert E. Manevich:

“The economic consequences of the manpower shortage are very great: in a number of cases there arise serious difficulties, and in some cases new difficulties, in the work of newly activated enterprises; it is difficult to supply the new workers and enterprises in two shifts... manpower turnover increases as the number of vacancies hinders the collective... The growing unemployment... labor discipline and is one of the reasons for the higher turnover.... The problem is alleviated by clearly specified workers and employment regulations, which not only aggravates the general manpower shortage... in the collective farms.”

Ways of Improving the Unemployment Situation.

Nicolau can nonetheless find in Soviet economic literature references to people who are not employed and are looking for work. As Manevich points out, labor shortage encourages high labor turnover. Since strikes and other forms of class struggle are suppressed by state terror, Soviet workers seek to improve their circum­ stances through individual initiative. Increasingly, workers take advantage of the tight labor market and change jobs frequently. In a formal, statistical sense this is a more unemployed at any given time.

We are obliged to explain to Dr. Nicolau the difference between being the victim of a mass layoff and quitting one’s job in order to find another. After all, the Soviet economist does not understand this difference, every worker in the world does. The difference between genuine labor turnover and unemployment can be measured statistically. The figure for the unemployed is commonly given in Soviet literature is about three weeks. At present in the U.S., the average duration of unemployment is about 15.5 weeks (Monthly Labor Review, November 1976).

Unemployment is not primarily caused by technological progress, by machines replacing men. Rather, the absence of mass unemployment results from a contraction of production, recessions, depressions, stagnation. Even a charia
Despite "radical" Maoist ideology, the Chinese economy is characterized by significantly greater market orientation than earlier phases of the Soviet economy. (We have already pointed out the substantial regional decentralization of the Chinese economy, another source for inequalitarian social relations, and we turn now to the case of Yugoslavia.) Lloyd G. Reynolds, who visited China in 1973, observed: "As in most capitalist societies, workers receive an average monthly wage of 72 yuan, which is a high income for a rural area. Their salaries are at least partially the result of the method used to set factory prices. In general, various commodities receive prices either through formal agreements or through negotiations between the foreign trade branches of the state and the enterprise. Factory prices are priced so that the purchasing power of these enterprises is linked to the national market. The state, of course, being the only other consumer of these products, is in a unique position to influence their price fluctuations in the world market."

In any case, whether a Soviet, Hungarian, or Chinese manager orders more cups produced because it is more profitable or if he can purchase a new kiln on his own initiative has no bearing on whether the economy is capitalist. Such practices merely indicate the degree of centralization within a collectivized economy.

What distinguishes the capitalist mode of production is that the means of production are commodities, a phenomenon lying at the highest extent of economic relations in the stock market. While there is a limited market in producer goods in various of the degenerated worker states, in none of them are the basic units of production—the enterprises—commodities. In Yugoslavia, between 1965 and 1971 (the period of maximum enterprise autonomy and market linkage), enterprises could not be bought and sold. Investment by one Yugoslav enterprise in another was treated like a loan that had to be repaid over time. The non-commodity character of the socialist economy in Europe is not a mere juridical principle which could be changed overnight into the commodity character of collectivized property, Enterprises, however autonomous their operations, are owned and controlled by their management, so that the sub-units of a single collective. Commodities can only be exchanged between two enterprises at arm's length independent of market. That is why Mao wrote, "Capital exists and can only exist as many capitals" (Grundrisse, 1859, p. 141).

The prerogatives and very existence of enterprises in the deformed workers states are deriving by governmental authorities. In 1973 the Brezhnev-Khrushchev regime downgraded the enterprise (usovnitsa) to the rank of the production unit and replaced it with the association (obyedinstvom) as the basic unit of management and accountability. In 1971 the Tito regime in Yugoslavia sharply curtailed enterprise autonomy and reversed the trend toward greater market orientation. This "conservative" turn refuted those impressionistic leftists like Paul Sweezy who saw in Yugoslavia a gradual, organic and peaceful return to capitalism.

But to assert that neither in the Soviet Union nor in any of the bureaucratically controlled workers states that have emerged since World War II has capitalism been restored is not to imply that such a development is impossible. The bureaucracy's attempts to sideline socialization and economization could well emerge. But this would not be a conspiracy striving for a palace coup, but a visible, aggressive movement in the same manner; thereupon another Khrushchev could appear on the scene, and so on indefinitely.

As against this idealist/conspiratorial view of history, Trotsky provided a realistic appraisal of the development of the Russian revolution under Stalinism. "The October revolution has been handed over to the bureaucratic machine, which wrote in 1936, "but not yet overtaken." He briefly summarized the nature of the Stalinist revolution in an analysis that remains valid today: "The Soviet Union is a contradictory mass of changes and counterchanges, of Stalinist democracy and centralization, of peaceful restoration and violent reaction, of socialist reform and capitalist reaction, of peaceful Sovietization and violent counterrevolution. This leads to a significant Maoist illusion of a peaceful return to capitalism which, if carried out, could well emerge. But this would not be a conspiracy striving for a palace coup in the manner of the Maoist fiction of a "Khrushchev revolution." It would be a visible, aggressive movement challenging the regime and polarizing society. Such a movement would require an ideology organization capable of enlisting masses of adherents, such as the Catholic Church in Poland.

The emergence of powerful capitalist-restorationist forces would produce a "radical" reflex among Stalinist officialdom, and give birth to a directly capitalist position. In such a case, the counterrevolution (what Trotsky called the "Bukharin faction"). However, the Stalinist bureaucracy would defend their interests from the growing threat of reaction. Capitalist restoration would emerge in the form of a new society (in which the class-conscious elements of the proletariat were annihilated in the course of their historic struggle) with a collectivized property as the economic basis for the transition to socialism.

Defend the Gains of October Against Political Reaction!

The Mao-Stalinists go from hailing the October revolution as the creation in the USSR with the 1936 constitution to discovering a peaceful counterrevolution secretly carried out by Stalin's heirs. Not only did such a momentous event go unnoticed at the time, but Peking has never published an analysis of how or why this occurred and Maoists in the West cannot even agree on whether the economy is capitalist. As against this idealist/conspiratorial view of history, Trotsky provided a realistic appraisal of the development of the Russian revolution under Stalinism. "The October revolution has been handed over to the bureaucratic machine, which wrote in 1936, "but not yet overtaken." He briefly summarized the nature of the Stalinist revolution in an analysis that remains valid today: "The Soviet Union is a contradictory mass of changes and counterchanges, of Stalinist democracy and centralization, of peaceful restoration and violent reaction, of socialist reform and capitalist reaction, of peaceful Sovietization and violent counterrevolution. This leads to a significant Maoist illusion of a peaceful return to capitalism which, if carried out, could well emerge. But this would not be a conspiracy striving for a palace coup in the manner of the Maoist fiction of a "Khrushchev revolution." It would be a visible, aggressive movement challenging the regime and polarizing society. Such a movement would require an ideology organization capable of enlisting masses of adherents, such as the Catholic Church in Poland.

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