

UNITED ARAB REPUBLIC

THE INSTITUTE OF NATIONAL PLANNING



Memo. No. 495

Basic Principles of the New Economic
System of Planning and Managing of
National Economy in Socialist
Countries.

by

Dr. Kurt Sack

Dr. Hermann Linsel

October 1964.

Basic Principles of the New Economic System of Planning and Managing of National Economy in Socialist Countries¹⁾

Contents

- 0 Introduction
- 1. Main points of the New Economic System of Planning and Managing of National Economy
 - 1.1 Scientifically-based managerial activity in the economy of socialist countries
 - 1.2 Scientifically-based centralized state perspective planning
 - 1.3 Comprehensive application of material incentives
- 2. Concluding Remarks

1) This Memo. is elaborated on basis of lectures given at the Economic University in Berlin, GDR.

Introduction

Before starting with explanation of special problems of industrial planning in socialist countries, this Memo. deals with the basic principles of the economic system of planning and managing the national economy in socialist countries. Special references will be made to experiences of planning and managing of industry of the German Democratic Republic, one of the most highly industrialized countries of the socialist camp. We can do so, because in the GDR a lot of work was especially done in this direction last time which in our opinion represents an example not only for socialist countries but also for emerging countries engaged in building up and managing their industry with high efficiency.

The following mainly deals with the application of the basic principles in the field of industrial planning. The ideas given will be important for managing and planning other branches of national economy, too. This, however, cannot be done by transferring the explained system suitable for industrial planning but must be used by taking into consideration the special conditions of these branches.

1. Main points of the New Economic System of Planning and Managing of National Economy:

The economic development of socialist countries aims at bringing into the existence the material foundations for making the working people's life pleasant and delightful. It aims furthermore at meeting their growing needs and enabling them to take possession of education and culture. It is therefore of great importance to utilize the potentials inherent in socialist economy. That means for instance:

Labour as a decisive source of social wealth is to be employed with highest efficiency ; development and implementation of scientific-technical progress in all spheres of industry; high level of managing and planning the national economy etc.

The speed of economic growth and the time it takes until economic success is achieved depends exactly on the extent to which socialist society masters the various and complicated relations within the national economy.

The authorities charged with managing and planning the national economy have to study the objective economic laws of socialism , perfect the forms and methods of managing and planning in accordance to this and to enable the working people to employ their creative faculties and talents for the benefit of the economic development.

But these problems far surpass the sphere of the national economy of socialist countries. They are of significant importance in view of the growing influence of socialism affecting the development in capitalist countries and the young national states . Above all, this influences results , from the continuously rising economic , political , and cultural levels achieved by the socialist countries. The socialist countries, therefore, pay particular attention to the questions of planning and managing the national economy. They control the efficiency of the forms and methods applied to managing the economy and they improve or change the system of planning and managing if in part or as a whole it is not corresponding to the requirements of economic progress.

Such a change is just taking place in the German Democratic Republic in order to bring in line the system of managing and planning and the new economic conditions that have grown up in the GDR during the past few years. By developing these new methods rapid scientific technical progress will be guaranteed, resulting in high efficiency of social labour.

When speaking of new conditions we have in mind those which are connected with the complete transition to socialist relations of production in the German Democratic Republic between 1960 and 1962. The socialist relations of production, based on social ownership of the means of production dominate. Private enterprises still existing have their firm place in socialist society and have their tasks assigned to them within the system of our socialist national economy. The prevalence of the socialist relations of production in all branches and spheres of the national economy opens up completely new opportunities of central management the process of production and developing every section of socialist economy according to the interests of community. Therefore, there is no longer any objective basis for conflicts between the interest of society on the one hand and the interest of individual on the other.

At the same time the new basis allows scientific-technical progress to be intensified and applied more rapidly into production. Furthermore, it permits production to be organized efficiently within our national economy as a whole. It represents, furthermore, the principal foundation for operating modern technique to the best advantage in every branch of the economy. These new relations of production allow the enormous resources and energies - from research work and projection to production - to be concentrated on the decisive economic tasks and utilized to a high degree ; the close interplay of science and production resulting from technical progress can be used to the best economic effect.

It is exactly this problem connected with technical progress that assumes extraordinary world-wide importance in the face of the technical development just taking place. We are witnessing rapid changes in technical procedures. Newly developed chemical processes are practically outdated within 6 or 8 years, and we observe the high speed of converting scientific discoveries into practical, applicable technical processes reducing the length of time between discovery and application. For the sake of comparison I would like to draw your attention to the discovery of the telephone or of the X-rays and their comprehensive utilization on the one hand and the discovery of LASER and its practical application on the other. We notice a growing tendency to switch from the production of single components and gears to the construction of complex and highly productive units, e.g. the development of automatically operating machines in metal-processing industry, computers, etc.

These and other phenomena and results of scientific-technical progress force us to develop methods of managing the economy in order to meet these new requirements if high benefit, especially growth of labour production, is to be achieved. This must be stressed because the triumph in the economic competition between capitalism and socialism depends largely on the speed of ~~scientific-technical~~ progress and the use it is put to.

Therefore, the essential problem in changing the system of planning and managing the national economy consists in the comprehensive utilization of potentials which result from the prevalence of the socialist

relations of production for the efficient employment of social labour on a high scientific and technical level.

For this reason it is imperative to assess critically the forms and methods of managing the economy used hitherto each time, mainly with respect to their effects on the implementation of scientific-technical progress. It is necessary to take into consideration the positive and valuable elements of planning and managing and to use them comprehensively within the new system.

The changing in the system of planning and managing the national economy according to the new conditions reached are often used by publications of Western Germany to slander the socialist countries that they are unable to direct their economy efficiently. But they give the lie to those who have been compelled to acknowledge by the very facts that the real economic miracle has been accomplished by these former "unsuitable means", as, among others, stated by Prof. Dr. Baade, Kiel. Let us add here in passing that there is no lack of variations in the methods of managing capitalist enterprises aiming at increasing exploitation, and capitalists regard such changes as wholly normal procedure. In the same way the forms and methods of managing the national economy as a whole or its special parts cannot remain fixed and invariable but have to be perfected, improved and if necessary be replaced by new forms and methods in accordance with the economic problems arising and the economic level reached.

It has to be kept in mind that this is a continuous process, i.e., it would be silly to suppose that such a new system of managing and planning would come into existence in consequence of sudden inspiration and can be put into practice from one day to the next.

To what direction do the changes in socialist management of the economy point? What is the essence of New Economic System of Planning and Managing?

We can define it - quoted literally from the directive - as the coherent combination

- a) of scientifically-based managerial activity in our economy, and
- b) scientifically-based centralized state planning, oriented on valid perspective, with
- c) the comprehensive application of material incentives in the form of the system of economic levers²⁾

This is an indication that the New Economic System of Planning and Managing of National Economy is not aimed at undermining or even abolishing centralized planning affecting society as a whole. On the contrary, the point in question is to improve substantially the effectiveness of centralized planning, mainly by improving the perspective planning and increasing its significance. Scientific leadership on all managerial levels and the application of material incentives by means of a comprehensive system of economic levers are directed at securing the economic advance of socialism. Against speculations upon possible liberization of the economy in the GDR in connection with the changes in economic life we don't intend to release such decisive advantages of socialist economy as centralized state planning represented.

1.1 Scientifically-based managerial activity in the economy of socialist Countries:

Starting to discuss some fundamental problems, we will begin by explaining some ideas of scientific managerial activity in our national economy. Scientific managerial activity is essentially characterized by planning and managing the economy on the production principle. This principle is based on the social division of labour existing within our national economy, in consequence of which industrial branches and enterprises differ distinctly in technical and economical characteristics according to the role they play in the reproduction process of the national economy. Proceeding from these objectively existing characteristics, we group industries and enterprises accordingly and lead them coherently. That will enable us to attain expert technico-economic managing from top to bottom and allow us to decide as well as to direct where this can be done most advantageously.

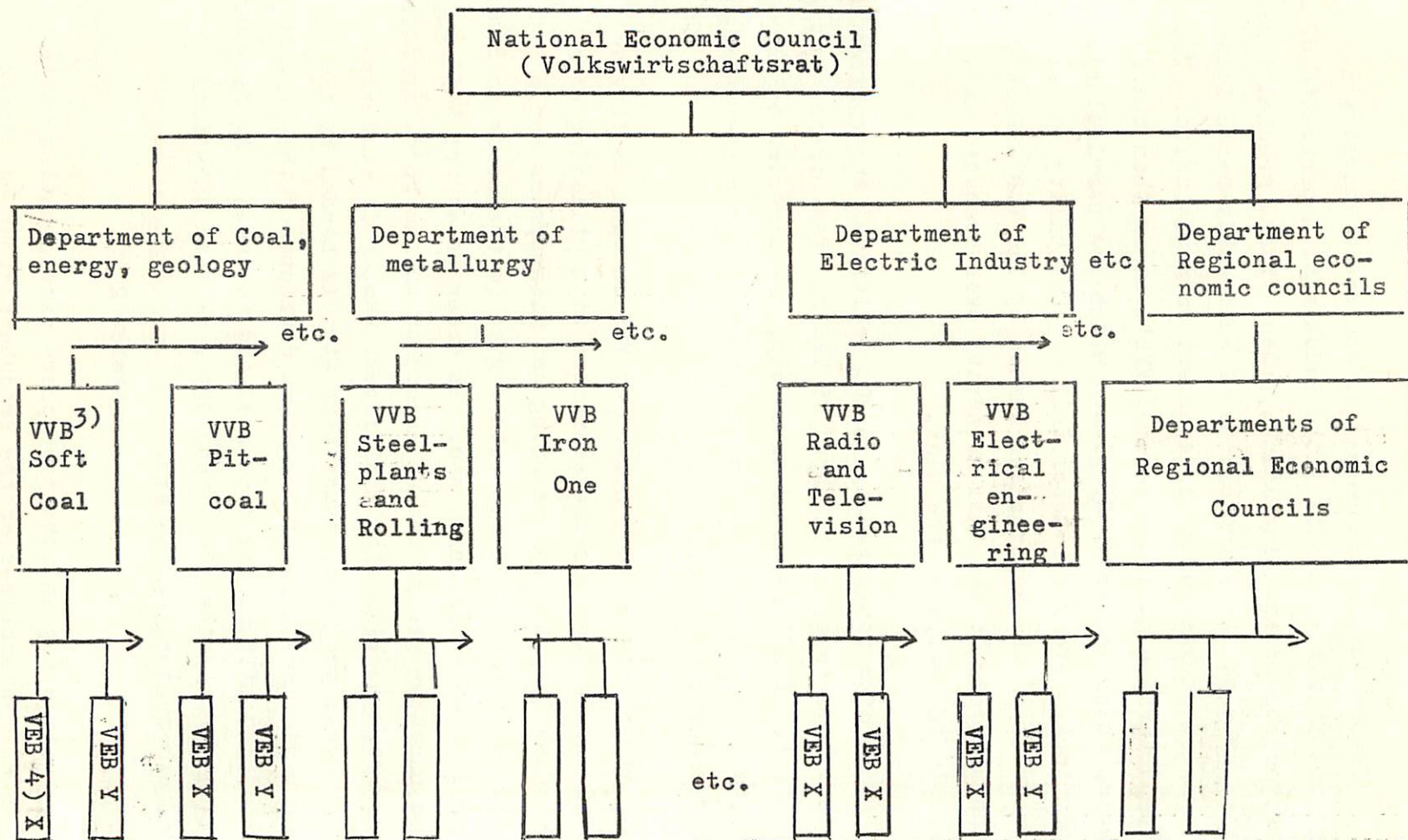
We would like to illustrate the main ideas of this managerial principle in a sketch, which is, of course, rather simplified.

(Sketch 1)

- 2) Directive : The New Economic System ..., Dietz Verlag, Berlin 1963, P. 10. Point c) includes the creative participation of the workers in planning and managing the national economy.

(Sketch 1)

Managing according to the Production Principle



(7)

All VEB are combined on the basis of products of the same kind directed by the VVB. (Cf. Sketch 2)

3) VVB (Verleiningung Volkseigener Betriebe) i.e. Association of Nationally-owned Enterprises

4) VEB (Volkseigener Betrieb) i.e. Nationally-owned Enterprise .

Comprehensive management of the whole industry is in the hand of the National Economic Council ; the industrial departments of which ensure expert direction of individual industries. These special industrial departments take care of the Associations of Nationally-owned Enterprises (VVB) , which function themselves as independent economic units. The electrical industry department e.g. leads several VVB's among them the VVB Electric Utensils, which comprises about 25 plants which are particularly the most economically important. Every VVB bears full responsibility for efficiency and technical progress of the enterprises headed by the VVB directly or indirectly. As a managing body it has full authority over adequate material and financial means within the scope of the plan.

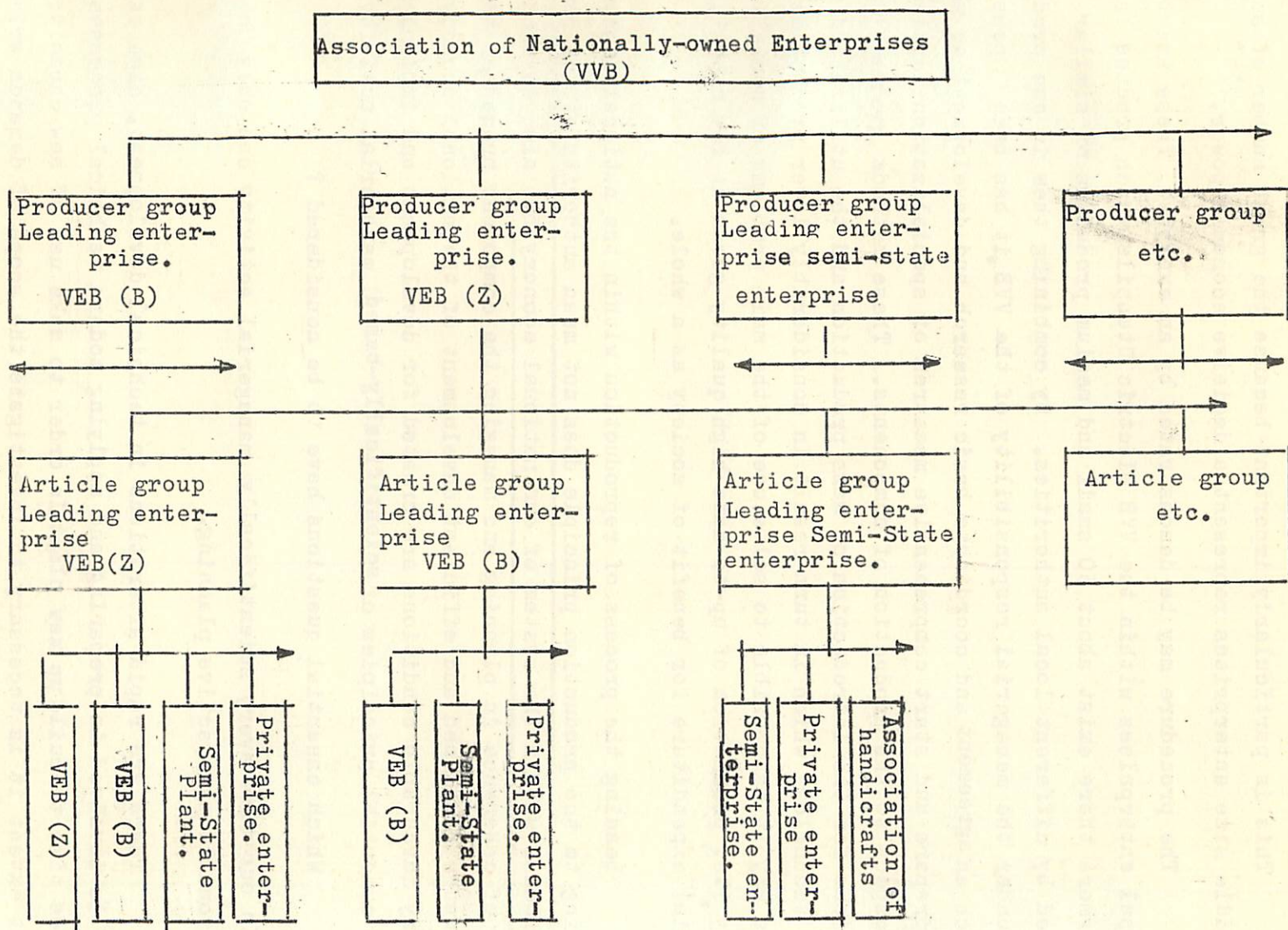
of

Out of a total nearly 15,200 individual enterprises in the GDR about 1,750 plants are combined in about 80 VVB's. The others, usually small and medium plants of all forms of ownership, are directed by the industrial departments of local (regional or district) state authorities, mainly by the Regional Economic Councils.

All plants - those headed by VVB as well as those headed by the Regional Economic Councils - are entrusted with utilizing every potential of the particular industry for reaching and maintaining world top level in the scientific and technical field with regard to the goods produced, for organizing production efficiency, etc. In order to ensure this, all enterprises belong to producer groups set up according to the goods produced. Every producer group you will find a different number in each VVB depending on the kind of products produced, assortment etc. is headed by the VVB , and within the group basic questions of long-term development this branch concerning as well as current affairs are discussed and decided, i.e. development of products, long-term trends in technology , related questions of further specialization, of standardization etc.

(Sketch 2)

In this way we obtain complete participation in the long-term development by all enterprises of the producers group concerned, and we aim at the full utilization of all potentials for an efficient organization of production within our national economy .



(9)

Sketch 2

This is particularly important because the great number of small and middle size enterprises represent a decisive economic power.⁵⁾

The procedure may be demonstrated by an example. These are two principal enterprises within the VVB Electric Utensils which produce lamps. Furthermore there exist about 50 small and medium producers of similar goods, directed by different local authorities. By combining them in one producer group under the managerial responsibility of the VVB, it has been possible to reach an agreement and coordinate basic research and development as well as to prepare and start comprehensive measures of specialization particularly with respect to the production of components. These methods create favourable conditions for the introduction of mass production and the utilization of modern technology which in turn result in considerably lower production cost. In this way it is possible to solve one of the main problems of socialist economy, i.e., production of up-to-date high quality goods at low material and financial expenditure for benefit of society as a whole.

Leading the process of reproduction within the national economy according to the production principle does not mean authority of the component process within the system of our national economy but aims at such a degree of coherence in planning and managing the component processes that will ensure a planned and efficient development of the national economy. In this way favourable conditions are created for development and implementation of the essential principles of scientifically-based managerial activity.

Which essential questions have to be considered ?

In our time every scientifically managerial activity can only be based on reasonable perspective planning.

There are rapid alterations in technical development, high expenditure is involved in preparing and applying modern technical processes, and it takes time to build up new plant. In order to make use of new capacity to a great extent it is necessary to investigate the scope of demands arising for new products. It is quite obvious, however, that scientific analyses for perspective planning will only give satisfaction when relevant facts are taken into consideration. These facts are :

5) cf. Memo. No. 494 The Role of Semi-State Enterprises in Economic Development.

1. the product in question,
2. its future development,
3. foreseeable expenditure involved in technological procedure and probable changes, for example in raw material expenditure,
4. the changes of selling the product on the home market or exporting it,
5. comparison of prices and cost.

It is quite clear that reasonable perspective planning which makes scientific managerial activity possible and represents a decisive link in the system of planning and managing calls for expert work of the highest standard, which can only be reached in accordance with the production principle mentioned above. For this reason we develop perspective planning based on programmes for groups of products, too.

There are several more principles for scientific managerial activity-planning included-within the entire national economy and at all levels, e.g.

1. complex direction of all economic processes, starting with research and development and ending with the sale of products,
2. concentration of decisive tasks, e.g. concentration of investments.
3. establishment and application of an effective system of information, analysis, planning, organization, coordination and control, based to a large extent on the use of modern mathematical processes and computers. Here you can find connections to Operation Research ; and last not least
4. developing and directing the creative faculties of the working people towards the realization of the various economic tasks.

This is only for your first information. We will show their application in connection with explaining the special tasks of industrial planning.

In order to make principles effective a high level of managerial personnel is needed especially of working on the basis of scientifically perspective planning.

1.2. Scientifically-based centralized state perspective planning

The perspective plan is the decisive instrument of socialist society for mastering and controlling the process of reproduction, its movement and growth.

It had been said earlier that we can make efficient use of the level of scientific and technical know-how only when our ideas of the perspective development of the national economy are based on scientific knowledge. Perspective plan is not intended for simply reflecting long-term development of the respective national economy. On the contrary it has to serve as an essential instrument in implementation of scientific-technical progress with all its consequences. In order to realize this, it is necessary to make scientific-technical progress itself the hub of the perspective plan. If, therefore, we want to develop remarkable ideas on such economic problems as the growth of investments, of labour productivity, of future proportions of national economy, the social division of labour and matter of cooperation, the organization of production, the skill of working people, etc., it is above all necessary to ascertain the basic trends of scientific-technical progress as well as the scientific-technical result that will determine the future profile of the national economy. This will serve as a basis for determining the main essentials of the national economy and for selecting those industries they are called principal or leading industries usually that will decide the speed of scientific-technical progress in national economy as a whole and determine its structure. That is to say that nothing but the rate of scientific-technical progress can serve as the yardstick for deciding the development of the production within the national economy and the essential economic proportions.

"Giving priority to the development of principal industries is therefore the key problem in application of scientific-technical progress in production in order to arrive at and influence scientific-technical top level, and for the speed of economic advance of our national economy. In view of the latest scientific discoveries and their application in the production process, it is necessary to continue examining the development of industrial branches... to redefine their position and to allow for the conclusions which are to be

taken into account in planning economic development" Dr. E. Apel, Chairman of the State Planning Commission of the GDR said in this connection—quoted literally.⁶⁾

In so far scientific-technical progress becomes significant to achieve the highest level of efficiency of social labour. Every care has to be taken in investigating and considering that matter.

Perspective planning is done in two stages.

The first stage consists essentially in giving a complex prognostic estimation of development of productive forces and the trends of scientific-technical development in the next 15 or 20 years. The first stage chiefly serves for ascertaining forces and potentials according to these trends, making sure that discoveries and results can in future be utilized without any time lag.

In the second stage of perspective planning the knowledge gained must be taken into consideration and the tasks that have to be tackled during the next five or seven years have to be developed comprehensively and precisely.

In the GDR as well as in other socialist countries we have already planned advance of production based on perspective plans. In recent years these plans, however, had the defect that planning did not proceed from scientific-technical progress and its requirements in any cases. This in principle led to projecting present-day empiric values and average quantities into the future. Among other consequences it caused certain miscalculation and restrictions in utilizing the latest scientific knowledge.

This former way of planning would have had future consequences which may be demonstrated on some aspects of the advance of chemical industry.

First, there are the problems connected with construction of new chemical plants, the exploitation of new raw material deposits, etc. Development in chemical industry and its branches results in significant changes

Dr. E. Apel : Current Problems of Economic Research. Dietz Verlag, Berlin 1964, p. 44.

in extractive and engineering industries, which cannot be measured by traditional empiric values. Therefore, it was necessary to define the consequences of the future development of chemical industry with respect to branches of supplying industries.

At the same time substantial changes which decisively affect the expenditure of materials and energy and employment as well as skill of labour are caused by technical advance inside the chemical industry. The transition from lignite to petroleum in production of ethylene causes substantial changes in the relation between the extractive and the chemical industries and leads to considerable savings of energy-about 40% - per ton of the final product.

Finally we want to point out the consequences which the increasing use of chemical products in all branches of national economy has to the amount of materials consumed, the effects on technology, and the resulting demands on the engineering industry as well as the skill of workers in consuming industries. It is obvious that scientific-technical advance results in principal changes in the reproduction process. To neglect these changes will inevitably lead to disorder, i.e. technical progress in the chemical industry will be hindered or results of its growth will be insufficiently effective in the consuming industries.

We are, therefore, forced to take into consideration the technico-economic level to be reached in future and its consequences, and to fix those tasks and steps in the perspective plan that enable us to obtain the aims set.

Stressing the demand that perspective planning must proceed from the basic trends in the scientific-technical development does not mean that economic science is driven into the background. Quite on the contrary. Economic science is faced with problems that have to be solved during the next years simultaneously.

The implementation of scientific-technical progress is no end in itself, but is intended for assisting in realizing the highest possible economic benefit. Economic science, therefore, is assigned the task to fix the aims of economic development for the next years by taking into consideration

the foreseen development of increasing of living standard, the scientific-technical level reached, and the possible utilization of forthcoming results of science.

Furthermore, economic science has to work out economic criteria for the variants of technical progress that have to be considered, of calculating the variants and finding the solutions that are most favourable from the economic point of view. Nevertheless, economic science can only fulfil its prominent role in socialist economy if it proceeds from the development of the productive forces, i.e. from scientific-technical progress, too.

In order to secure a high level of perspective planning two problems must be taken into consideration:

1. Working out the perspective plan must become a steady, uninterrupted process, and
2. perspective planning based on orientation by quantities drawn up by central state authorities has to be made an efficient instrument of managing at all levels and in all branches and enterprises of industry.

The first task results from the knowledge that only continuous perfection of perspective plan in accordance with latest development and experiences, taking into account the results achieved, will suit its dominant position in the system of planning and managing, and will ensure connection with short-term planning, i.e., annual plans. Only in this way can annual plans incorporate the perspective. Seasonable campaigns of perspective planning on the contrary reduce the significance of these plans and their role as instruments of scientific^{by}-based managerial activity. Proceeding from these considerations groups for perspective planning were set up in the VVB's.

The second task results from the fact that without perspective planning skillful direction is impossible at any level. Perspective planning is by no means a matter only for central state authorities, though, of course, they bear substantial responsibility for coherent economic progress and have to decide questions on the long-term development of the national economy.

Scientific managing, however, based on the production principle means deciding the questions of perspective development where the experts can take a hand. Perspective decisions (with regard to our former example) on details of lamp production are certainly not a matter for the National Economic Council but for the VVB's and the enterprises in questions.

This will be enough to inform you about the inseparable connection between scientific leadership and perspective planning based on science. We should like now to turn to the very important subject of the application of material incentives and the system of economic levers that play an important role to carry through the tasks mentioned above.

1.3: Comprehensive application of material incentives

It has been mentioned before that contrariety of interests between society and groups or individual members of society will disappear with the growth of socialist relations. In the economic sphere this means that we serve the interests of working people when we systematically create foundations which will enable us to satisfy their growing needs. On the other hand, there exists the interest of the individual to improve his living conditions steadily. This interest is stimulated by the economic situation, by economic incentives⁷⁾ and can be satisfied by nothing else than by the growth of the socialist economy, i.e. by means of social and collective production. This basic harmony of social needs with the collective and individual interest is a very important stimulus in favour of the development of socialist society. Therefore, it is a decisive problem facing socialist state authorities and managing personnel at all levels how to utilize this stimulus for the benefit of society as a whole as well as for every one of its members.

The principle of material interest which is effective in socialist society serves as a starting point to discuss these problems in more detail.

We have to interest groups or individual workers materially in the fruits of their labour and to show them practically that every effort benefits

7) We distinguish between material incentives and material interests in this direction that material incentives are given by state authorities to awake material interests of enterprises, groups of workers or individuals.

not only society but also themselves. Since commodity production is still in existence in socialism, it is possible to realize the principle by means of the categories of commodity production, i.e. price, credit, etc. The point in question is how to use the different forms of material incentives in such a way that industrial enterprises, groups and individual workers are induced (interested) to an economic attitude which benefits society as well as the individual. Applying the principle of material incentives and interests in socialist society is by no means new. When, however, socialist production was perfected some problems arising out of the traditional way of applying these principles would be noted. Different methods of applying material incentives had not been sufficiently harmonized. In some cases they were even directed against each other and had a contrary effect. These methods did not always result in harmony of social needs and individual interest. They had begun to block scientific-technical progress to some extent. We will explain this by an example.

In recent years material incentives were directed towards surpassing the goals of the plan, particularly of the plan of gross production. This was quite correct in the face of the problems confronting our economy in the postwar period. When our socialist economy had progressed, however, this way of applying material incentives contradicted its purpose. It encouraged the ambition of enterprises to draw up so-called "soft plans", the goals of which could then easily be surpassed. It goes without saying that in order to make planned use of socialist economy it is indispensable for the plan to stimulate every chance of developing social production. It is not difficult to understand the extremely negative consequences for perspective planning that would follow the practice of drawing up low level plans.

The formerly prevailing methods of measuring plan fulfilment mainly or exclusively by material production results led to the underrating of the efficient expenditure of socially necessary labour and of costs and returns. It separated the objective existing connection between production and circulation, in consequence of this, some enterprises felt little responsibility for the sale of their products. These phenomena finally tended to hinder scientific-technical progress and led to underrating the production of high quality goods. Moreover the phenomena gave rise to certain contradictions

between the interests of society as a whole and the interests of some individual plants, which frequently had to be solved by administrative instead of economic means. It is obvious that the principles of scientifically-based leadership cannot be realized, and that it is not possible to draw up a scientific perspective plan for sensibly organizing the production process and ensuring economic progress in the shortest time possible as long as the effects of applying material incentives was not changed. This is another way of proving that comprehensive application of material incentives must be regarded as an inseparable component of the economic system of planning and managing of national economy as a whole.

The ideas presented so far facilitate the derivation of some principles, which will determine the application of the principle of material incentives. All forms of material incentives have to be applied according to the fundamental truth, "what is in the interest of society must be in the interest of the individual, too".

That means that the conformity of interests determines the fashion and the forms of applying material incentives. It is, furthermore, necessary to find forms which allow for close association of the plan and of material incentives, i.e. material incentives have to favour realistic, high-level plans.

This shows that application of material incentives by no means aims at undermining coherent central planning but intended to contribute to an active and mobilizing role of the plan.

The next point in question is how to stimulate by means of applying material incentives the efficient expenditure of socially necessary labour and the comprehensive implementation of scientific-technical progress. It is necessary to combine all forms of applying material incentives in a way that they promote solution of the problems without contradicting themselves; i.e. how to combine and interlace these forms in a comprehensive system? This system of material incentives is also known as the system of economic levers.

"Economic levers are regular relations between the objective social needs and the material interests of people. They are

directly or indirectly effective, and by their application working people are stimulated to a certain reaction. The problem of ~~is~~ ^{is} how to combine the economic levers of economic accountability⁸⁾, which are already in existence, with the forms of applying material incentives individually into a highly efficient mechanism. Only by the effect of joint application will these economic levers correctly influence people's mind and actions.⁹⁾

Permit us a slight digression at this point. It is not unusual in capitalist countries to encounter the idea that socialism stifles the people's initiative and hinders advance of economy because of the lack of such stimuli as competition in the free market etc. It can be said generally that far more - and essentially more decisive - potentials of economic growth arise of the community, the mutual assistance and the exchange of experiences etc. This general knowledge is confirmed in connection with the application of this system of economic levers. Everybody who produces for the highest benefit of society and implicitly for himself or herself taking into consideration high quality goods at low cost as well as promotion and implementation of technical progress - will at the same time have the greatest individual benefit. If we succeed in using economic levers in this way we shall be able to utilize the power inherent in the socialist community to full extent. By making these motive powers economically effective we create the conditions for deciding peaceful economic competition in favour of socialism.

Which economic levers are to be used?

We distinguish two closely connected levels at which the application of material incentives is to be practiced.

At first there are forms which are intended to direct the activity of whole groups of workers towards high economic benefit. These forms are to determine economic managing of the VVB's as well as individual socialist plants, i.e. cost, price, turnover, returns, credit, and interest. It is a peculiar problem of efficient economic leadership how to force VVB's and

8) In German: Wirtschaftliche Rechnungsführung, i.e. economic self-support of enterprises.

9) cf.: The Economic System of Planning and Managing, Directive, Dietz Verlag, Berlin 1963., p. 49

individual plants in optimizing the material funds of the means of production, i.e. plants, machines, materials, stocks of unfinished products as well as investments, and to use them as economically as possible. Attempts are made to stimulate the efficient and optimum employment of funds by means of so-called production fund levy which shall be effective in proportion to funds employed.

Because in future returns will be the decisive though by no means the only measure for rating the performance of VVB's and plants as well as main financial source of various funds for the extension of production workers and labour teams will be interested in measures that will lead to an increase of returns. Setting up bonus^{fund} will at the same time establish closed connections with the second level of material incentives, i.e. workers will be materially interested in tackling the problems concerned.

The different forms of wages as well as the bonuses which are awarded out of the bonus fund constitute the decisive levers concerning individuals. Additional leave and various other incentives according to the special conditions of the VVB enterprises etc. may be used as well.

We should like to add a few words about the position and the role of returns within the system of economic levers in socialist countries since a lot of obscurities exist in this direction.

In socialist society returns express significantly to what degree VVB's and enterprises contribute to an efficient socialist economy in the interest of society as a whole. High returns are regarded as an indication of the extent in which VVB's and enterprises as well as every individual worker assist in creating the conditions for extended reproduction and extension and development of social consumption. Producing high returns is, therefore, no end in itself but serves to realize the common interests and aims of socialist society. The function and efficiency of returns in this way is, however, closely^{connected} with the level of costs and prices. With regard to the level of costs and prices we have in mind, among others, the following facts:

1. It has to be ensured that prices bear the same ratio of socially necessary expenditure of labour for the production of goods.

2. Prices have to take into account the quality of products, i.e. there must be different prices and price levels corresponding to different levels of quality in order to stimulate production of high quality goods in enterprises.
3. Price levels have to be sufficient flexible in order to stimulate production of new goods and to prevent the enterprises from producing out-dated products, which they may be tempted to produce because routine production is favoured by low costs.
4. Fixing and calculating prices must be efficiently controlled by state authorities and based on uniform principles in order to exclude price manipulation, which would lead to unjust, higher returns.

At the same time these are the essential prerequisites for advising enterprises on ways of increasing returns which are connected with saving of socially necessary labour, reduction of cost and economical employment of funds. These ways are mainly based on introducing new technical and technological processes in production.

The point in question is how to stimulate efficiency of labour and how to implement technical progress by means of returns as one of the economic levers. This can be done, e.g., by granting higher prices for new, top level products or by granting of bonuses from VVB's which are in possession of special funds to stimulate development of such products.

Increasing returns-based on the growth of the surplus product-means, therefore, creating the foundations of the rapid advance and a high level of social, especially economic progress in socialism.

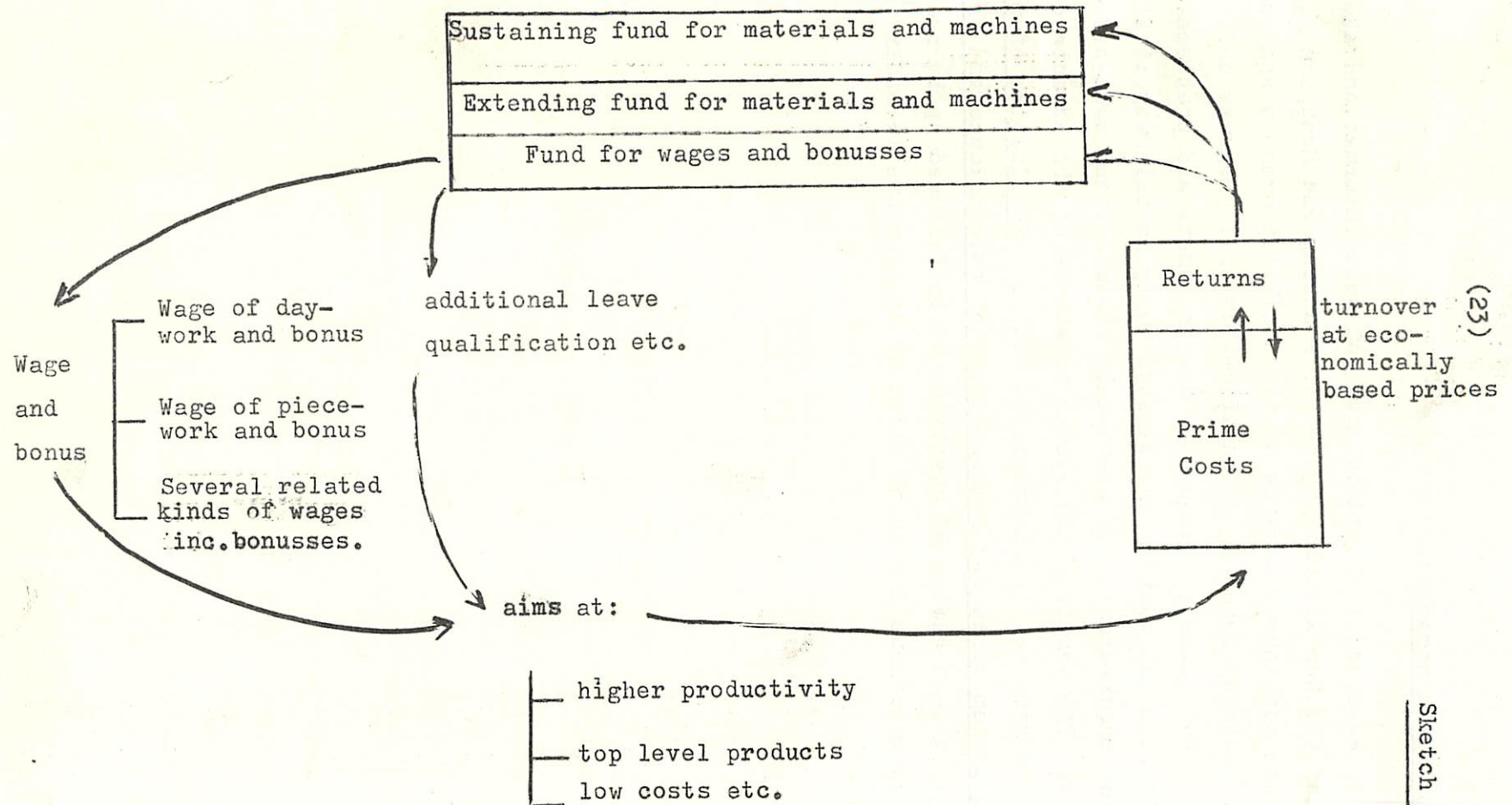
Using formal identity of capitalist profits and of returns in socialist society economists in capitalist countries try to convince the naive readers that economic leadership in socialist countries is impossible without application of capitalist methods. So a certain Herr Triebisch wrote in the West German periodical "Der Arbeitgeber" (The employer) of March 5, 1963-quoted literally - "... The otherwise devilish capitalist profit .. is to be the measure of success of socialist economic in future ...". The author seeks

to provide a foundation for the inversion of facts by maintaining complete silence on the principal differences in the role of profits and returns. Capitalist profit is an expression of private appropriation of the surplus product-produced by the working class and other working people in favour of the capitalist employers. Socialist returns are the expression of appropriation of the surplus product by and in favour of the socialist^{society} as a whole. We have not taken every pains with socialist construction in order to let in capitalist profitmaking by the back door again. What we want to do is to utilize the returns arising out of the collective effort of the working people for planned and efficient economic activity in interest of all members of socialist society.

Coming to the end of our explanation of the problems of material incentives we should like to stress once more that the application of the system of material incentives and economic levers is intended to improve the planning and implementation of the social reproduction process. It is now our task in the GDR to combine coherent planning^{by} central state authorities, especially perspective planning, with the system of economic levers. We have still do a lot of research work in this direction since no experiences exist in this field. The close interdependence of the two aspects^{and} the importance to solve these problems can be seen not only in the positive influence of economic levers of planning but also in the fact that the perspective plan is a substantial basis for the effectiveness of economic levers. Consequent and comprehensive application of the system of material incentives is only possible if VVB and individual enterprise know the aims and the direction of long-term planning and concentrate their economic power and means on realizing them as efficiently as possible. Lack of aims and direction together with continuous changes in production, would not allow economic levers like e.g. the returns to be applied with lasting effect. We should like to illustrate the main connections of the system of economic levers in a sketch.

(Sketch 3)

Scientifically-based managerial activity
(Setting-up task)



2. Concluding Remarks:

We have attempted to give you some informations about basic principles of the New Economic System of Planning and Managing of National Economy. The continuous advance of the socialist economy and the continuous economic changes based on scientific-technical progress call for paying attention to economic processes. New phenomena and problems must be recognized in time and tackled creatively. Only in this way it will be possible to meet the requirements of up-to-date efficient and successful managerial activity. The New Economic System shows one of the advantages of socialist economy to meet new requirements in time . Realization of basic principles of this system calls for highest level of both science and practice because there is quite a number of questions to be followed up by research and practice, and solutions are to be found by experiments in order to get efficient results .