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

by

Dr. Kurt Sack

Dr. Hermann Linsel

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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.

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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:

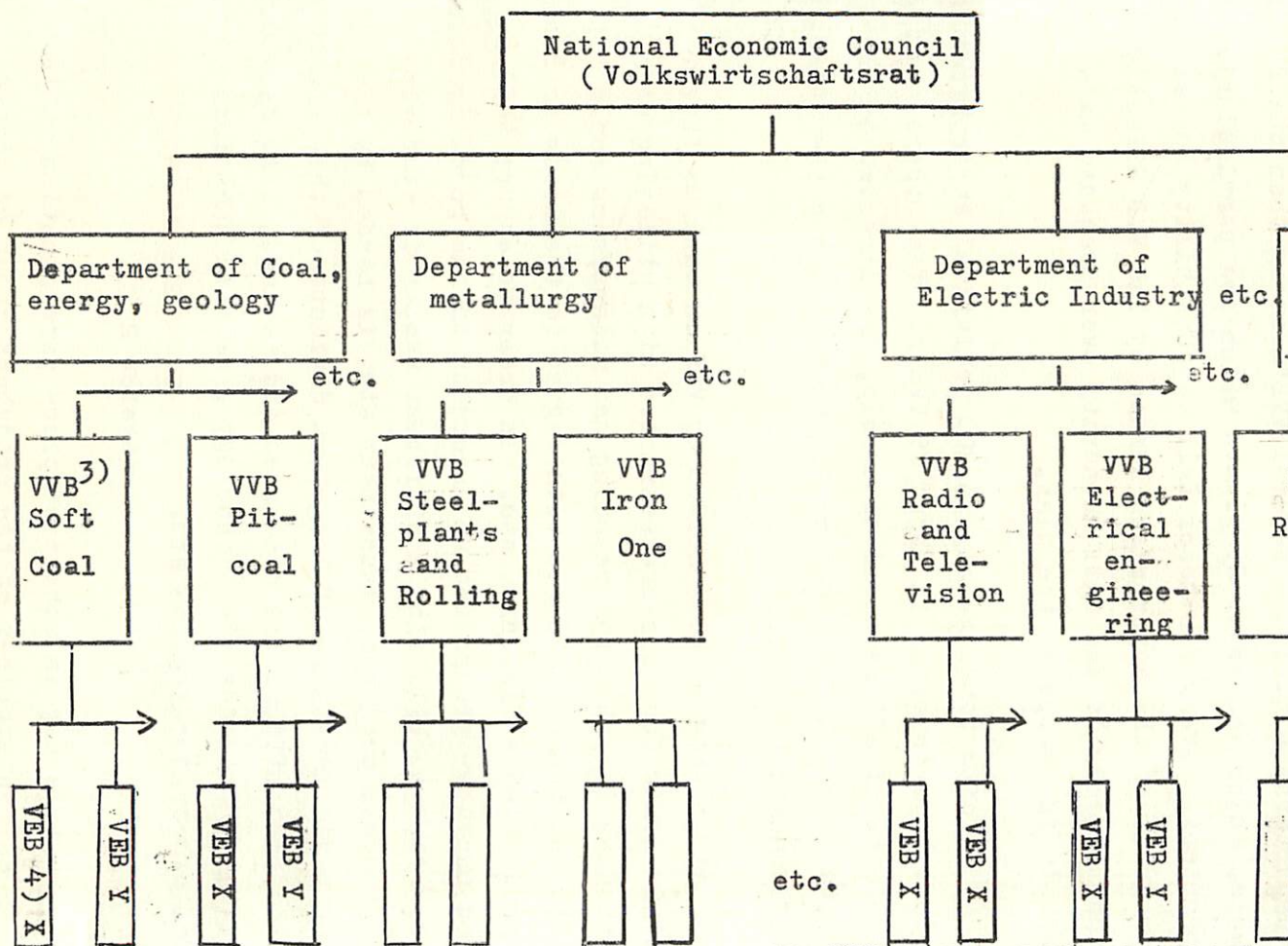
Starting to discuss some fundamental problems, we will begin by explaining some ideas of scientific managerial activity in our national economy. Scientific managerial activity is essentially characterized by planning and managing the economy on the production principle. This principle is based on the 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



All VEB are combined on the basis of the same kind directed by the V

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.

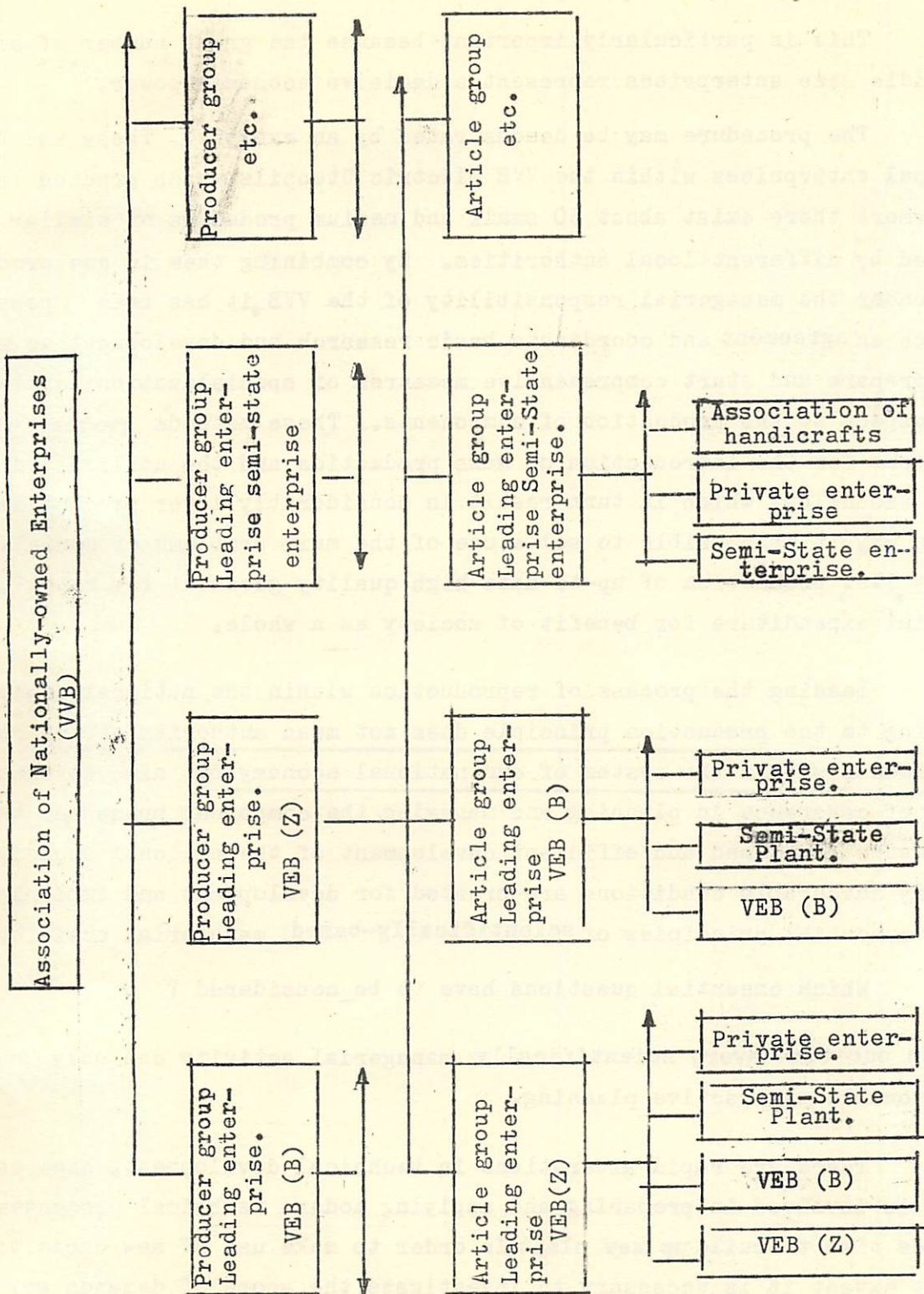
All plants - those headed by VVB as well as those headed by the Regional Economic Councils - are entrusted with utilizing every potential of the particular industry for reaching and maintaining world top level in the scientific and technical field with regard to the goods produced, for organizing production 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.