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PRODUCER/CONSUMER RELATIONSHIP  
IN SOVIET ECONOMY

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## PREFACE

With the growth of Soviet economy, the problems of identifying the needs of individual branches of national economy as well as those of the population and the corresponding demand for goods and services increased in complexity. At the same time it is clear that only when intermediate and final consumption takes place real demands are met. Therefore the designers of management systems on all levels of economy are concentrating on the producer/consumer interface. A hierarchical organizational structure is created which guarantees that short and long term interest of the society are well served. Simultaneously managers strive to create an economic environment that will stimulate cooperative behavior of these two important economic subjects (actors).

In this paper by Professor B.Z. Milner, individual measures taken by the state and the union authorities are described in detail. What is gleaned from the whole paper is the trend to a more precise turning of the distribution system to the growing needs of society at large is obvious. The endeavor to make this process as smooth as possible leads to several schemes of stimulation. Soviet planners are well aware of the fact that only when producer/consumer relations are functioning properly can the reproduction of the national economy be secured efficiently. The paper by Professor B.Z. Milner is proof of this.

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PRODUCER/CONSUMER RELATIONSHIP  
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Prof. B.Z. Milner

Soviet economy is a single interrelated national complex. It is regulated through state plans for social and economic development with due consideration of industrial and regional interests, by using principles of both centralized management and economic autonomy and initiative of enterprises, amalgamations and other organizations. The producer/consumer relationship in Soviet economy is governed by the economic laws of socialism, the nature of commodity/money and commodity/value relations determined by the socialist mode of production. Organization and optimization of these relations provide a stable basis for the development of material production and contribute to the growth of the country's economic, scientific and technical potential.

Modern Soviet economy is characterized by profound qualitative transformations connected with the advance of technological progress, with a new step of socialization of production, transition to the intensive extended reproduction, an increase in and more complex economic links. The effort is aimed at growth of end results due to intensification of all spheres of economy, higher effectiveness of public production.

In Soviet economy the producer/consumer relationship system is oriented at the harmonization of their interests and, ultimately, the interests of specific production units and the national economy, i.e., society at large.

For the last few years the consistent development and optimization of national economic management resulted in a sufficiently effective and flexible

mechanism of the relationship between the dynamic development of consumer demand, its structure and volume on the one hand, and increased capacities and dimension of the means of production as well as instruments of labour, on the other. This mechanism is called to guarantee the dynamic correspondence between the structure of the end product and its components, maintenance in the national economy of the progressive proportions with respect to the traditional organization of industry, introduction of the technological change in the division of labor processes. Hence the main features of the producer/consumer relationship that are characteristic for Soviet economy:

- planned character of establishment, maintenance and development of these relations. The socialist economic mechanism includes as its main instrument, the unified state plan whose implementation implies a wide system of economic levers and incentives. Due to this the production and consumption are planned as a single whole. The producer's plan is a factor in the implementation by the consumer of his products of his own plan. Thus, satisfaction of industry's needs, the producer's needs is realized simultaneously with the satisfaction of the needs of the national economy as a whole and, consequently, of the consumer's ones--as part of that whole. Therefore the producer/consumer relations in Soviet economy are free from antagonistic contradictions and are built on the assumption of the closest connection between planning of production and distribution of products;
- centralized organization of the structural and functional links in the producer/consumer relationship. In the conditions of developed socialism and supremacy of public ownership of the basic means of production, satisfaction of priorities indicated by the requirements of the single national economic policy is possible only with centrally designed economic links in the entire sphere of material production. Centralized management, however, does not imply all decision-making concentrated on the top level of the hierarchy. It only means absolute observance of the national interests in the decisions taken by different levels of the national economic management system;
- demand/supply balance in the producer/consumer relationship. The planned and centralized nature of this relationship helps organize it in such a way that the planning of the enterprise production is

the competence of a higher management body, while the planning of products distribution is in the competence of the national system of material and technical supply. Therefore the planned deliveries of the products by their producers to their consumers are fully determined by the appropriate plans of their production which, in their turn, stem from the strategic and long-term (five-year) plans of economic growth and higher effectiveness of public production.

The above mentioned basic features of the Soviet producer/consumer relationship shape up the requirements to its organization mode.

1. Reliability (legal guarantee)
2. Order (stability, coordination, rhythm)
3. Rationality (economies, specialization, cooperation)
4. Mutuality (producer's interest in the consumer and the latter's ability to influence the producer)

The above requirements underly the system of state control of the producer/consumer relationship. In the USSR a single consistent system of material and technical supply has been developed which is headed by the State Committee for Material and Technical Supply (GOSSNAB) of the USSR--a central body of special competence. It secures connection, coordination and unity among all the branches of material production with respect to distribution and exploitation of material resources as well as means of production. It is empowered to issue instructions, mandatory for all ministries, agencies and organizations in the USSR, concerning the aforementioned matters. This central body defines the national economic need for materials and equipment, places orders, forms the producer/consumer tandems and exercises control over the fulfilment of the delivery plans.

GOSSNAB is composed of main departments of supply and marketing of certain types of products (for example, metals, instruments, etc.) and main departments concerned with completeness of the equipment. They are responsible for organization of supply, with respect to the type of product in their competence, for the entire national economy, establishment of balance and formulation of distribution plans as well as implementation of the plan of supply and schedules of delivery of the completing (purchased) items.

All the Union Republics have territorial (regional) bodies--central administration of material and technical supply, a body of dual reporting (except the Russian Federation): to the Council of Ministers of the Union Republics

and to GOSSNAB of the USSR. They execute the plans of material and technical supply in keeping with the distribution plans, exercise control over fulfillment of the plans of inter-industry cooperative and interregional deliveries. They also keep account of the material resources allocated to the economic organizations in accordance with the distribution plans, and harmonize these plans with the plans for production, maneuver with the material resources allocated to the enterprises in their region, distribute by the consumer requirement the material resources by the nomenclature appropriate for them.

Subordinated to the central territorial administrative bodies of material and technical supply are bureaus, bases and warehouses participating in the commodity chain. Their functions include identification of the need for material resources, conclusion of contracts for material and technical supply, establishment of rational producer/consumer relationships.

In addition to the all-Union system of supplies, some ministries and agencies, due to their specific character, are entitled to their own ministerial system of supplies. It is intended for enterprises of railway and air transport, sea and river fleet, communication, energetics, transport construction, gas industry, agriculture, the executive committees of the local councils of people's deputies, etc. They arrange supplies through the network of their bureaus, bases and stores out of their planned share of material resources.

At the same time each industrial ministry incorporates a special unit of supply that identifies the resource needs of its enterprises, distributes and redistributes finances for material resources and means of production allocated by another body of state administration--the State Planning Committee of the USSR (GOSPLAN) in conformity with the branch of industry's economic development plan. GOSPLAN together with the ministries and agencies elaborates a system of material resource balances and plans of their distribution: 10 year plans for basic products, 5 year plans for types of products, current plans for detailed range of products. The ministry charged with producing some or other items for the national economy bears full responsibility for meeting all the consumers' needs for this type of product of the appropriate assortment and quality. But it is not the ministry itself that keeps the total volume of its production. It is done by the specialized bodies of state administration--GOSPLAN and GOSSNAB of the USSR. They distribute these assets and form the producer/consumer tandems.

Within this system of centralized management of the means of production and material resources the producer/consumer relationship is formed. These



relations may be established either directly between the parties or indirectly, through the organizations of material and technical supply, conclude contracts with producers of some or other products as if they were the buyers.

Enhanced division of social labour leads to larger scale of high-run and quantity production. At the same time the technological progress generates need for more complex and specific products. It more often necessitates direct contacts of producers and consumers. These links are established as a rule between production organizations turning out a certain end product of consumption, whereas the services of supplying and marketing organizations are engaged if some resources or completing (purchased) parts are needed (for instance, metal and metal constructions, cableware, instruments and equipment, tools, etc.). In this setup the consumer's influence on the producer increases. Consumption increasingly acts as control over the balance of public production, which represents the major direction of development of the producer/consumer relationship in modern Soviet economy. Karl Marx pointed out that the product acquires a real nature only through consumption.

The producers and consumers of Soviet economy are guided by the same principle in the relationship with their partners in the international division of labour within the framework of cooperation with the CMEA (Council for Mutual Economic Assistance) countries, as well as in the relations with the partners from capitalist countries.

In recent years the USSR has adopted a number of important decisions aimed at the adaptation of the entire economic mechanism to the requirements of the present stage in the development of Soviet economy, with due account of the results of large-scale experimenting with improvement of planning and economic incentives. These decisions were also related to the producer/consumer relationship. The emphasis was made on the further development of the structure of their linkage, full satisfaction of the consumers' requirements that can be achieved by establishment of long-standing direct production and business connections. The stability of the direct business connections provides a basis for technical cooperation between producers and consumers aimed at higher quality, better assortment of current products and development of new ones. The effectiveness of the national economy to a large degree is determined by the mutually beneficial relations that are formed in the process of marketing the products between the producer and the consumer within the framework of long-standing relations.

From 1 July 1981 the new regulations on the delivery of products to meet the needs of both producers and consumers became operative. They imply the

measures aimed at more serious responsibility of producers-suppliers to the consumers for delayed delivery or short delivery of products. From 1 January 1982 a different approach to evaluation of the producer's activity and economic incentives is employed. The evaluation is directly dependent on the fulfilment of the producer's commitments as to the delivery of products to their consumers. Now the fulfilment of the delivery plans is connected with the material reward for the operating personnel as well as their management: it increases with higher productivity and better quality of products according to an earlier adopted procedure. Certification of products for highest quality brand should also take into account the comparative effectiveness of the present and earlier produced products. The indicator of the marketed product essential for evaluation of the performance of every enterprise, amalgamation, ministry as a whole, is calculated from the quantity of products delivered to its concrete consumers and, consequently, included in the process of expanded reproduction, and not from the volume output as such. Thus the entire organizational and economic mechanism urges that the producers' and consumers' participation in the economic turnover should result in the most effective end result. It is also the end result that guides the legal regulation mechanism in the management organization of the interaction between the parties in the sphere of material production and consumption.

Soviet economy features a system of economic agreements covering the producer/consumer relationship in various spheres of the national economy: delivery agreement, subcontracting agreement, the main contract transportation service agreement, etc. An economic agreement provides a basis for a joint plan underlying the enterprise's manufacturing program, as it is the plan targets that form the basis of an agreement. It provides a framework for direct business relations between the producers of commodities and their consumers. These contacts make it easier to monitor the dynamics in the material and raw material requirement and in the range of purchased items, to achieve the regular pace of production, improve the turnover of the capital.

The producer/consumer agreement-based relations imply through studies of the national economic needs for the manufactured products, formation of a market-oriented portfolio of orders. Simultaneously there are studies of industry's needs for various raw materials, equipment and processes. An order for delivery of a specific product is a powerful instrument of the consumer's influence on the producer, as it contains all the requisite conditions and data concerning the quantity assortment and quality of the product delivered by the producer. The consumer's interests are protected by the agreement in

that the producer has no right to divestment of the product or reduction in its output without the consumer's consent. Without the consent of the bodies responsible for the distribution of the products, the producer cannot introduce any changes in the manufacture programs as to the quantity, time limits or assortment of the products. Besides, the consumer has the right to reject the product, should it not correspond with the terms and conditions specified in the agreement or should any quality defects be detected.

In a contracting agreement, conversely, the priority is given to the producer. This agreement is a special form of giving a legal status to the state purchase relationship between the economic organizations and the state purchasing agencies. It is based on the two basic forms of property essential for the USSR: state property and cooperative property, as well as the economic status of collective and state-owned farms. The contracting agreement is the only organizational and legal form of state purchase of agricultural produce. On the one hand, it creates most favorable conditions for manufacturing the needed product; on the other, it guarantees to the collective farms, state-owned farms and agro-industrial enterprises a well-organized and profitable marketing of the manufactured commodities. By this agreement the consumer shall render assistance to the collective and state-owned farms in industrial engineering, transportation and storage of the product.

Supply agreements concluded by the enterprises and the regional bodies of state supply provide for centralized delivery of products by the adopted schedules, guarantee the delivery terms and the required quantities, secure the appropriate preparation of the products for industrial consumption. To enhance the guarantees of supply, a new form of agreement on comprehensive supply has been introduced lately. Now there is an opportunity for optimal use of various means: the constant economic relations, wholesale trade, hire of instruments and other technical tools, complete deliveries. This provides for a favorable ratio between the two channels of transferring the products from the producer to the consumer: through the centralized stores and through GOSSNAB organizations. Concluding an agreement on a complete supply, an enterprise, organization or amalgamation transfers part of its material resource funds to the regional supply agencies. This organizational form of the producer/consumer relationship becomes a factor in the redistribution of material inventory towards larger share of commodity inventories.

Despite the common basis--the national plan of the producer/consumer relationship, there may occur (and often do) differences between them. The

majority of them are worked out at the pre-agreement stage by the parties direct. If they fail to find agreement, the matter is referred to the state arbitration commission for consideration. The latter's main function, however, is preventive activity aimed at detection of inconsistencies in the economic activities and management. The materials of arbitration commission's hearings provide a basis for elaboration of measures directed at elimination or prevention of infringement of the lawful interests of both producers and consumers. The state arbitration bodies take the necessary measures to maintain the appropriate organization of production and economic relationship between producers and consumers.

The production and economic producer/consumer relationship in the USSR are mainly project-based, which stems from the high level of production concentration. However, intensified development of productive forces urges the formation of integral region-based production and economic systems, the so-called TPC (territorial production complexes). The Soviet theory of TPC proceeds from the potentials and advantages of the socialist state developing by a single plan and concentrating in its hands all the basic resources for achieving the single national goal. In these conditions the basis of formation and main objective of TPC functioning is rational (from national standpoint) utilization of all resources, specialization, integrated manufacture of product ready for use in national economy. Then within a region there are formed communities of producers, as well as communities of consumers of some or other products.

For such consumers consumption of resources or products is not simultaneous (at least by reason of different technological pattern of consumption characteristic for a certain branch of industry). One can satisfy the industry's needs in a region by maneuvering the resources, concentrating them where they are more mobile. Thus one can involve in the economic turnover the temporarily available material resources, raise the level of providing the consumer. Simultaneously it intensifies the plan- and agreement-based discipline of deliveries, simplifies the structure of constant long-range economic relations, optimizes the combination of centralized planwise management with economic autonomy of individual enterprises and amalgamations.

The basic directions of USSR's economic and social development for 1981-1985 and for the period up to 1990 envisage the formation and development of a number of large territorial production complexes.

Constant improvement of the entire sphere of reproduction is not a one-time effort but a dynamic process of solving its growth problems. A most

important criterion for evaluation of the economic mechanism's strengths is its adequacy to the challenges faced by economy. And, conversely, the restructuring of the economic mechanism is oriented at resolving the objective difficulties and contradictions existing in the challenges for future development of production relations. The main issues are:

- (1) Level of development of socialist society's productive forces makes it possible to plan the scientific and industrial potential in order to achieve the goals requiring 10, 15 or more years. In this connection there arises the need for planning the long-standing economic relations between the producing and consuming subsystems of the national economy. These relations can provide for implementation of the associated objective--enhancement of the consumer's influence on the planning of the producer's production and economic activities, consumers' participation in the elaboration and implementation of the measures aimed at a faster technological change at the producer's enterprises. This sophisticated interrelationship is based on factors of long-term and immediate effect, and needs a lot of coordination and harmonization to make it consistent, valid and smooth-running.
- (2) Division of labour within a branch of industry increasingly requires extended inter-industry relations and, as a consequence, inter-industry integration of producers and consumers. In these conditions the roles of the producer and consumer become interchangeable, reversible, therefore their relationship should be that of cooperation of members of one association. That also requires the reconciliation of possible conflicting interests.
- (3) Specialization and concentration of production insistently dictate a transition to consumption of complete products. It requires from the producers extension of intra-industry and inter-industry cooperation. From the organizational point of view it is an extension of the manufacture of general purpose products and completing items within the framework of specialized groupings of two, three or more branches of the national economy, which also involves the procedures mentioned in 1 and 2.
- (4) Extending economy means the ever increasing number of consumers. At the same time there is a more acute problem of greater responsibility for observance of commitments in the producer/consumer relationship, more effective economic incentives to secure fulfilment of the consumer's orders.

- (5) Management of the circulation of the means of production and material resources poses a problem of operational use of the reserves kept by the holders of the funds for national economic purposes, shift of the center of gravity to the medium level of the economic system.
- (6) Further coordination of the commodity production and consumption spheres with international division of labour in full correspondence with the progressive trends--both in the cooperation with CMEA countries and with all other economic systems.

Search for possible solutions to the above problems urges that we seek and adopt new forms of management organization of all the spheres of national economy, strive for taking the economic mechanism to a new level of development. For the sake of coordination the work effected by the ministries and departments of the USSR and union republic councils of ministers to achieve a better use of material resources, a timely assembly of equipment and faster turnover of the working capital as well as exercise of operational control over implementation of the corresponding measures stemming from the decisions of the Communist Party and Government a special inter-departmental commission is set up on economizing and rational use of material resources. These organizational measures are complemented with active introduction and employment of new forms of management organization (goal-oriented programming included) of circulation.

In Soviet economy goal-oriented programming is employed as a progressive form and method of elimination of objective contradictions between the specialization of material production and its concentration, between division and cooperation of labour, administrative autonomy of management bodies and coordination of their efforts. The advantages of goal-oriented approach to shaping the producer/consumer relationship consist in its multi-faceted and comprehensive nature, its detachment from a specific producer of commodity. This approach is defined by a supra-department character and possesses a system of priorities which contributes to the establishment of very precise long-standing relations between the parties, stability of their relationship and high degree of the consumer's influence on the producer not by administrative and economic levers but by reproachment of their interests in the attainment of their common goal-oriented national program.