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THE PARTY AS MANAGER AND ENTREPRENEUR

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"Entrepreneurial Response and Economic Innovation
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The Party as Manager and Entrepreneur^{1/}

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"The Party has always regarded and continues to regard accomplishments in economic development as the main pay-off of the organizational and political work of all its bodies and organizations."

M. Voropaev, first secretary of the Cheliabinsk oblast' committee of the CPSU, in Kommunist, 1974, No. 11, p. 64. Our translation.

I.

Jerry Hough's masterful study of the "Soviet prefects"^{2/} drove home to sovietologists the realization that - the vaunted principle of edinonachalie notwithstanding - the Soviet economy is in fact managed simultaneously by two parallel hierarchies, the economic-administrative hierarchy and that of the Party. In his own analysis, Hough drew heavily on the prior work of economists, particularly the classic studies by Granick^{3/} and Berliner.^{4/} These and the other economists who have addressed themselves to problems of Soviet management (management in the usual sense of the word, which will be the one employed hereinafter) have been primarily concerned with the way the Party affects managerial behavior and success. Political scientists, such as Hough, on the other hand, quite naturally have tended to look at the problem of Party-management relations from the standpoint of the Party's role in society and of the historical evolution of that role. The relevant political-science literature is quite large.^{5/}

The present exercise, therefore, requires an excuse for its existence as well as a specification of its limited scope. We shall take account of the prior work of both economists and political scientists. Our approach will not be historical; rather, it will focus primarily on the post-sovmarkhoz (i.e., post-Khrushchev) period, though some of our evidence necessarily comes from before 1965. We shall try to distinguish between the managerial and the more strictly entrepreneurial functions of the Party. For the sake of convenience and in deference to venerable precedent, when we refer to economic activity we shall think primarily of the industrial firm (association) and its superordinate planning and administration entities up to the industrial ministry and the high-level planning commission. Last and perhaps not least, we shall attempt to invoke certain concepts that have lately enjoyed increased currency in economic analysis, such as "externality" and "social responsibility of business", in order to better understand the role of the Party as manager and entrepreneur.

But what exactly is the Party in our instance? We ought not define it too broadly. We certainly do not mean the totality of sixteen million members of the Communist Party of the Soviet Union (CPSU), a category so broad as to be largely meaningless for our purpose, if only because it encompasses nearly all the managerial personnel with which the "Party" has to deal. What is the significance of mere membership in the "vanguard of the proletariat" if, according to Hough's calculation, at least 50 percent of all males with completed higher education can claim it?^{6/} Rather, for our purpose the relevant category is that of the professional Party functionaries - the first secretaries, other secretaries, their full-time lieutenants, and other responsible officials of the Party organizations. Kak izvestno, taken all together the Party organizations form a clear hierarchy or

pyramid that takes in the whole society and is (especially in its intermediate levels) territorially structured. Each Party organization has at least one professional functionary, and the more important ones have many more than one.

However, what we have in mind is not the whole pyramid of Party organizations. We discard the Party leaders and functionaries above the republic level, not because they are unimportant but because they are too important. At this high level - which means primarily the Politburo, the other secretaries of the CPSU, and the apparat of the Central Committee - the crucial entrepreneurial and managerial decisions are continually made for what Alfred G. Meyer has called USSR, Inc. The consequences of these decisions are for us to see. But we know too little of the process by which they are reached and of the relations between the top of the Party and the top of the governmental planning and administrative hierarchy (insofar as the two are not fused, as they are at the very peak), to bring this level into our analysis.

The bottom tier of the Party pyramid - the "primary Party organizations", those at the level of the firm itself - is also of limited interest for our purpose. Its members are employees and workers of the firm, almost always including the director himself and other top management. While the relationship between the firm's Party secretary and the director is ill-defined and complex, as well as a matter of the interaction of two personalities, there is as a rule sufficient coincidence of the interests and points of view of the two to consider the Party secretary as virtually part of the firm's management, at least by way of first approximation.^{7/} To be sure, in part this coincidence must be a consequence of the pre-selection of managerial personnel by the Party thanks to the Party's control

(exercised at supra-firm levels) of managerial appointments and promotions in the first place. As a Pravda correspondent put it in describing a specific instance of secretary-director conflict (by quoting approvingly from a letter to the editor): "It is odd that the secretary of a [primary] Party organization could not arrive at a harmonious working relationship (ne mog srabotat'sia) with an experienced and knowledgeable director of an enterprise".^{8/} The "harmonious relationship" may, however, also take legally questionable turns, such as a secretary's connivance with - if not outright involvement in - a director's illicit machinations, whether for the good of the enterprise as such (and indirectly for the benefit of the director's and secretary's careers) or for sheer personal speculation.^{9/}

In what follows we shall, therefore, focus on levels above that of the firm, i.e. on the so-called local (mestnye) Party committees: the district committee (raikom), both rural and urban; the city committee (gorkom); the provincial and territorial committees (obkom, kraikom) and those of the autonomous republics, there being little difference between the three for our purpose; and the republican committees in the case of the smaller union republics. For an extensive account of the structure of the local Party organs the reader is referred to Chapter 2 in Hough: 1969.

Lastly, we are not here concerned with the place of managers in Soviet society, except incidentally in a few respects, or with their past, present, or potential political roles in the system.^{10/}

II.

The Soviet firm has many bosses in addition to its direct hierarchical superiors. There is, first, the Party. Further, innumerable planning bureaus can wreak havoc with its production program and its supply flows. The State Price Board can make or break its profits and therefore the bonuses and premia for managerial and other personnel. Financial organs have their own kind of power of the firm. And so forth. (Nor are such bureaucratic bene- and malefactors unknown to the Western enterprise.) As a rule, none of them bears any legal or moral responsibility for the damage it may inflict by dint of its "planning acts" on the enterprise as such, its management, its other workers and employees, and on various third parties. Bureaucratic conscience apart, there are only two kinds of constraints on the arbitrary actions of the many administrative, planning, and Party entities: the entity's self-interest, which may obtain when its own success indicators are some function of the firm's success indicators, and secondly, yet superior authority to which the damaged party (with a small "p") may appeal.

Why then single out the Party for our exercise? The answers should not surprise the participants at this conference. (1) The Party is, after all, prior to all the other entities in the Soviet system as the seat of power, authority, and policy-making. Taken as a whole, it is the last - and frequently the first - instance of appeal. Of the Party as such it can be truly said "Roma locuta est, causa finita est" - though, as we know, no more than Rome is the CPSU internally a political monolith or externally an infallible master of its own will in the society. This in itself places the Party in a class by itself among all the bosses that stand over the Soviet firm. (2) Formally, the Party's power and authority extend

into every fold and seam of the social fabric. Thus, ideally, it looms before the firm and its management as the enforcer and guardian of all of organized society's values and priorities, extra-economic as well as economic. To anticipate our argument, it is the monitor and enforcer of the firm's social responsibility in the broadest sense. No other element of the Soviet power structure (except possibly the secret police in certain periods of Soviet history, if not still) has so broad a concern backed up with legitimate authority and means of enforcement. (3) Because of its territorial organizational structure, the Party performs the important function of intraregional coordination of economic activity. To be sure, the local government (the ispolkom) and local planning bureaus, in its day the local sovnarkhoz, and other regional bodies may and do play the same role. Yet the fact is that the other bodies do not begin to compare with the local Party committee - and particularly the heads of these bodies with the Party committee's first secretary - in the power and authority at their command and in the respect (or fear) accorded to them. Indeed nowhere is the first secretary's power as many-sided (to use a favorite Soviet term) as vis-à-vis the other organs of local political administration, such as the ispolkom, and firms subordinated to it. Not unexpectedly, both Taubman and Stewart found this to be the case in their studies of Soviet local government.^{11/} The Soviet press is replete with confirming information. So is Soviet fiction: For example, Denisov, Kochetov's positive hero of an obkom first secretary says with transparent false modesty (somewhat reminiscent of Khrushchey in his public appearances) that he is quite sure that the city soviet will respond favorably to a suggestion of his.^{12/}

In regard to firms subordinated to their respective administrative

pyramids, whose apexes often reach all the way to Moscow, the local Party committee's and the local Party secretary's authority and power are still great but cannot be exercised on quite so broad a front as in the case of local government bodies and their production enterprises. And yet, because the first secretary holds in his hands enough cards to be of crucial importance even for a large and high-priority enterprise on his territory, such as coming to the rescue in a supply emergency, his position as the true boss of the given region or district is not in doubt even in the eyes of big business.^{13/} Power begets, attracts, and perpetuates power, and the first secretary remains the local boss so long as he stays in the good graces of his superiors.

The power of the local Party committees of course derives in the first instance from the national monopoly of political power of the Party as a whole. But more concretely, it is the nomenklatura system that in large measure places the local Party in its strong position, and which in turn, in the aggregate, helps guarantee the national political monopoly of the CPSU. The nomenklatura is of course the list of positions for which the consent of a given Party committee is required for appointment, promotion, demotion, or dismissal. Nearly all managerial positions of significance are within the nomenklatura of some level in the Party hierarchy. In addition, nearly all managerial positions of importance are held by Party members - a result that is itself the product of the nomenklatura system - placing the incumbents in these positions, as individuals, under Party discipline. The extreme form of intra-Party disciplinary sanction is expulsion from the Party, which is usually tantamount to the termination of one's managerial career. Less extreme forms, e.g. reprimands (especially when repeated), can also be very harmful to the manager's future. Consequently,

almost everyone of any importance in management knows that his tenure in office, his future promotions, and his whole career are at the mercy of the Party's professional apparat. (Once again, however, we must be careful not to think of the apparat as a monolith.) Hence, the Party's power in the economy on the local level.^{14/}

To be sure, this power can be abused. It can be abused by the moral corruption that the very existence of power may engender, or by the individual's tendencies for self-protection (as in the questionable acquisition of scientific degrees by apparatchiki) and for self-enrichment (abetted by the corrupting advances of local clients). The abuses may be further protected by the indifference of the higher leaders so long as the Party official "delivers the goods". But, abuse and corruption or no, the mere fact of the presence of power in the hands of the local Party secretaries and other functionaries can hardly be denied.

III.

Given the power, what functions do the local Party authorities exercise in the economy?^{15/} Perhaps the first answer that comes to mind is that it is a partial substitute for the missing market mechanism. In this respect the Party is not alone; the whole elaborate structure of Soviet planning and economic-administrative bodies is a substitute for the market mechanism in bringing about - what perforce must happen - the allocation of the economy's scarce resources and effecting a certain distribution of income (and even wealth). But the Party does more than that in the economy, as we shall presently see. Among other things, it undertakes certain functions which the market mechanism frequently fails to perform in a market economy; in other words, in the Soviet economy the Party also in effect corrects for what in a different context would most likely be "market failures". Even more often it undertakes functions which the market mechanism performs tolerably well, but which in the Soviet non-market economy tend to suffer conspicuously. We might call them whimsically "non-market failures". And not least, it does all this as a "generalist", as a guardian of the official set of values and preferences.

The economist's concept of "externalities" is germane to the issue. One kind of externality - an external economy - is something of social value that does not pay doing by a given decision unit, such as a firm. For example, in a market economy it frequently does not pay to employ and train unskilled youths because their productivity does not compensate for their wages, and once trained there is no assurance that they will remain in the same firm's employ (worse still, transfer to the firm's competitor). Another kind of externality - an external diseconomy - is

something of social harm that does not pay not doing by a given decision unit. In this case the examples are even more familiar: polluting the environment, congesting traffic, and the like. The economist says that in the first case the decision unit for some reason cannot "internalize" the benefits -- these redound to the community or society at large -- and therefore it will not, if strictly rational, incur the expense to bring the benefits about. In the second case the decision unit does not internalize the costs of what society would prefer it to do -- such as abate pollution when the discharge of pollutants into the environment is costless or nearly so; hence, it will not, if strictly rational, incur the expense necessary to avoid inflicting social harm. To repeat, these are the kinds of externalities that are familiar to us in our own market-economy setting, where supply and demand are roughly at equilibrium at the actual prices. Let us designate them with the symbol "Ex1". As we know, Ex1 exist as well in the Soviet Union and other Soviet-type economies. We now know of the widespread presence of environmental disruption there despite both state ownership and planning (contrary to earlier claims in the USSR and considerable acceptance of such claims in the West); and we also know, for example, that many Soviet firms if left to their preferences would rather not hire unskilled youths even in the face of general "labor shortage".

The Soviet economy is not a market economy, and prices are often too low in the sense that demand at these prices exceeds the supply. Reference here is to both retail and wholesale prices. The well-known consequences -- which are not uniquely Soviet but appear wherever there is effective price control -- are shortages, formal and informal rationing, the seller's market,

and all the associated phenomena such as reduced variety (actually a kind of shortage), impaired quality, and sluggish innovation. These phenomena impose significant costs on the society, costs that arise because it does not pay the producers (sellers) to do those things which they would do in the absence of the indicated circumstances. In other words, they are external diseconomies of a particular type, which we designate "Ex2".^{16/}

The amount of damage inflicted upon society by Ex1 and Ex2 depends on one's appreciation of the damage, i.e. on one's set of ultimate values and the corresponding set of preferences, or, in the economist's jargon, on the particular social welfare function (SWF). There are very many distinct sets of preferences held by members of any society at any one time; moreover, each member's set of preferences can change over time, if only for demographic reasons. But one set of preferences is more than of ordinary importance in an authoritarian society. This is obviously that set which is held at any one time by the dictatorial leader, if there is one, or collectively by the ruling leadership group. (If a leader seriously disagrees with the rest of the group in this regard, either he or his fellow leaders will not stay at the top for long, as Soviet history bears witness.) However, we ought also to distinguish between the leaders' "effective" preferences, those that are actually being pursued at the given time, from their "ideal" preferences in regard to some area of social concern (say, environmental disruption), which the leaders may hold in the abstract and which they may wish the world to believe they hold.^{17/} Effective preferences reveal themselves in deeds and

are subject to all the difficulties of policy-making and policy-enforcement in the real world; ideal preferences are spelled out in May Day slogans and speeches on Red Square. Our concern here is with effective preferences, for it is these that the Party at all its levels presumably safeguards and attempts to enforce.

In the normal course of their daily activity Soviet enterprises and industries generate both Ex1 and Ex2. Some of the externalities may be of little import from the standpoint of the official SWF, even if they occasion inconvenience and displeasure on the part of the ordinary consumer, worker, and citizen. Other externalities do tend to weigh heavily with the official set of preferences, and traditionally in the USSR they have tended to be more of the Ex2 than the Ex1 kind. Examples are interruptions in the flow of producer goods, "unplanned" creation of bottlenecks, lower than planned quality of materials and equipment, deviations from the planned assortment of producer goods, delays in innovation, and similar dysfunctional effects of the conscious decisions of enterprises and industries. (Surely the plans can be "bad" to begin with, but we abstract from this cause at the moment.) The conscious decisions in question are presumably suboptimizing decisions with reference to the various enterprise "success indicators" weighted by the positive and negative incentives affecting the decision-makers. The decision-makers -- let us say managers -- are accordingly continuously exhorted and enjoined to keep the social good (i.e. the official SWF) in mind and to forestall the dysfunctional effects of their actions on the rest of the economy. In our view there is little chance that in a regime of repressed inflation in the household sector and of "planners' tension" in the state

sector (in effect also a form of repressed inflation), and with large managerial bonuses, suboptimization and, hence, externalities of the Ex2 variety could be substantially avoided. Nor do we see any chance that the repressed inflationary condition will itself be done away with, short of the most fundamental change in the political values and premises of the ruling group, or that motivation of a non-material kind will soon replace the bonuses. For lack of space we do not expand on these propositions here. Suffice it to note that the party apparat itself is one of the most formidable obstacles in the way of such profound changes. Ex2 is here to stay for some time.

In sum, the Soviet firm is in need of a considerable measure of what has come in the U.S. to be known as "social responsibility of business". A great deal has been written on and around this topic, especially in the sixties and in the first half of the seventies,^{18/} less so since as this country's macroeconomic problems have tended to push other concerns more into the background.^{19/} The concept has been necessarily vague in content and scope, and it has been often understood to encompass not only business responsibility for the externalities (Ex1) generated by its productive activity, but also for the society. This broader understanding of social responsibility would not be out of order in its application to the Soviet setting, at least as it might be perceived by the local Party authorities.

General speaking, capitalist or socialist business can be tamed for grater social responsibility in a variety of ways.^{20/} (a) It can be regulated, i.e. coerced by governmental authority to desist from certain acts and to undertake others, when such action is contrary to the firm's self-interest (in the traditional sense). In the USSR, there is much

regulation of this sort by planning and administrative entities - we leave the Party aside for the moment - in regard to Ex1, though with mixed results (as elsewhere in the world). There is also much regulation in regard to Ex2 - central allocation of materials and equipment, legal specifications in regard to quality, "plans for new technology", etc. - and, as we know, also with mixed results. (b) Public authority can artificially make environmental disruption costly to the offender by imposing effluent charges, taxes, etc., and thereby the externalities (Ex1) may be internalized by the firm. Similarly, fines can be levied on the firm that does not deliver on time, or in the wrong assortment, or otherwise sins with regard to Ex2. (In the West, legal liability often takes care of this.) In the USSR, laws and regulations provide for such internalizing payments of fines, but they seem to do little good, primarily for the reason that with state ownership and in a climate of planners' tension and repressed inflation managers are insufficiently sensitive to monetary sanctions. (c) The commission of external diseconomies can be contained by the offender's liability to injured parties under civil law. In regard to Ex2, it is indeed quite common for Soviet enterprises to file complaints under the system of State Arbitration against offending enterprises, even to the point of excessive litigiousness. And yet, once again, the behavior of producers and sellers does not seem to be much improved thereby. The basic explanations are two: owing to the seller's market the buyer frequently prefers to accept the damages of Ex2 rather than offend the seller, and monetary penalties decreed by State Arbitration have little effect on the losing side for the reason already mentioned.

(d) Then there is the possibility of social responsibility of the decision-maker thanks to a conscious commitment to an ethical code. In our

instance we must distinguish between two kinds of ethical code. There is, first, the generalized code, "the moral code of the communist" who always knows right from wrong. Since nearly all decision-makers of some importance are members of the Party, this would seem to do the trick. Of course, it does not - because membership in the Party is not the same thing as full adherence to the moral code of a communist. The other kind of ethical code, the particularistic one of a given profession - and management can be regarded as a profession for this purpose - can indeed protect the outsider from abuse of its special powers by the profession. Thus much can be beneficial in regard to both Ex1 and Ex2. But a professional code cannot guarantee the safeguarding of general social values, let alone respond to frequent and swift changes in priorities.

We are left with institutional solutions that rely on administrative or political internalization of the externalities. (e) Administrative internalization means both "backward" vertical integration of enterprises and centralization of functions in the supra-enterprise hierarchy. The former is largely the rationale of the "association" (ob"edinenie) campaign now in progress since 1973. On the other hand, the latter helps explain the persistent phenomenon of "creeping recentralization", the slow but steady recentralization of functions in administrative and planning organs following some one-time decentralizing reform. Neither vertical integration of enterprises nor the centralization of functions in the hierarchy can by themselves take care of Ex1 and Ex2. They only shift suboptimization to higher levels of the administrative hierarchy, those of the association or of a branch of the economy (otrasl'); they do not ensure the proper safeguarding and enforcement of the values and priorities of the leadership. Moreover, administrative internalization of externalities engenders its

own costs and rigidities, and, hence, sooner or later leads to calls for new reform.^{21/} (f) Thus, the general values and priorities of the leadership - especially those overriding functional and "branch" interests - can be more effectively safeguarded and enforced by internalizing them into a parallel hierarchy with generalist interests and objectives under maximum control of the top leadership, whose leading functionaries have supposedly internalized the official values as such - in sum, the Party.^{22/} Simultaneously, the Party is also a monitoring hierarchy, represented as it is by means of the primary Party organizations within every other hierarchy in the society, at all levels of the latter.^{23/}

It is not difficult to ascertain that in reality the economic functions of the local Party committees very largely focus on externalities, and especially the Ex2 variety. One need only run one's eye over the captions of articles on Party work in Kommunist and its republican counterparts, Partiinaia zhizn', Pravda and other Party organs, and the titles of chapters in the innumerable analogous books, to establish that a very large proportion of them are concerned with such topics as quality of output, "rhythmic" flow of supply, breaking of bottlenecks, honoring of contracts, intra-regional coordination of economic activity, innovation, and other aspects of Ex2.

The official line is that the local Party organs must, first and foremost, reject narrow departmental or local interests in favor of the overall aims of the Party and the state. They must emphasize social responsibility. To quote from an editorial in Kommunist, one of many such pronouncements:

"A Party-like (partiinoe) attitude toward the leadership (rukovodstvo)

of the economy is a political activity that is inconsistent with narrowly economic, let alone technocratic, approach to management. The development of the economy must be seen as more than just a process of accretion of quantities of production and consumption, structural changes brought about by new scientific and technological possibilities, etc. . . . it must not be forgotten that while automated systems [of data processing] do facilitate the preparation, computation, analysis, and taking of decisions in regard to economic projects, naturally, they cannot perform the basic function of a business leader, the informed making of decisions on the political plane, that is to say, with reference to the over-all objectives of the state and to Party directives in the economic realm.

" . . . Soviet businessmen (khoziaistvenniki) are not just highly competent specialists, but are first and foremost the trusted agents of the Party and the state."^{24/}

Or, for a more recent statement on social responsibility one may quote from a public address by I.V. Kapitonov, a secretary of the CC CPSU, who, citing Brezhnev as his authority, calls for

" . . . a fundamental re-orientation of the thinking of [Party and other] officials, a new approach to the evaluation of the results of business activity. It is no secret that we still frequently judge the performance of enterprises basically in terms of sold output, overlooking indicators of labor productivity, production cost, quality of output, and the adoption of new technology. It is clear that such an approach is now obsolete and is at odds with the Party's policy regarding the enhancement of production efficiency."^{25/}

Nothing said so far, however, is meant to suggest that local Party committees and their responsible functionaries are always effective in bringing about the social responsibility of Soviet business, a question that will yet be taken up herein.

IV.

To shed some light on this question we must, first, take a closer look at what the local committee and its secretaries and other officials do. We have already taken note of one of their most important tasks, nomenklatura work, the selection and confirmation of leading personnel in the economy and all other spheres of society. Much of it apparently takes place relatively high up in Party hierarchy, which may be an indication of the doubts at the top as to the degree of partiinost that lower officials will exercise in personnel matters. Another important activity is "mobilizing the population", which can be translated as making large numbers of people do what they do not want to do. In the economic sphere this pertains to organizing socialist competitions (insofar as they are more than mere sham), mounting various campaigns, such as collecting scrap and economizing energy, organizing subbotniki, and the annual dispatch of millions of people and a great deal of equipment to help bring in the harvest. Last but not least, there is the traditional "mobilizing" of the peasants at crucial times to do what they are expected to do in socialist agriculture, but for which they have limited incentive and enthusiasm.

The mobilizing is supposedly done by educational and indoctrinational means, and while these may indeed be of some importance, say among the young, any acquaintance with Soviet reality quickly convinces the observer

that, in the large, mobilization is achieved primarily through pressure on the individual at places of work, study, and residence. There also seems to be little doubt that the productivity of labor mobilized under pressure is not strikingly high for want of both adequate motivation and proper organization, and economic costs to the country are substantial. Why then are things still being done in this way? Because in the near term there are no alternatives, and no one cares much for the long term? Because of inertia and lack of social imagination? Because, so to say, the medium is the message - revolutionary values are kept (supposedly) alive, while many people in and around the Party can still flex their social muscle? If so, this may be yet another obstacle in the way of the rationalization of the economy by turning more functions over to managerial decision on the basis of meaningful parametric information. In the meantime, the mobilizational work is one of the ways in which the Party substitutes for the market mechanism.

All authorities agree that a very considerable part of the local committees' job is assisting in the procurement of material supplies from outside the given region or district,^{26/} and the redirection materials, labor, and equipment within the given area.^{27/} Much of this work is thrust upon the local Party organs, simply because no one but the Party (of those close enough to production) has the clout to deal with the supply problem.^{28/} Especially important is its role in the many emergencies. Here, again, the Party substitutes for the market mechanism, guided by the officials' perception of national priorities (mixed with parochial zeal and local political considerations). In doing so, however, the first secretaries may well deal in a kind of politico-economic market, the market for the exchange of mutual

favors among themselves.^{29/} This perhaps is yet another Soviet economy, in addition to the "first" and "second" (private and illegal) economies, that might some day attract the researcher's attention.

How much social responsibility does the Party exercise in its arduous task of procuring, trading, and redirecting supplies? To the extent that it does thereby bring the allocation of resources closer to the leaders' wishes, the answer is "some", that is, the outcome may be perceptively different if the Party did not play this role. But more on this later.

Closely related is the local Party's (entrepreneurial?) function of intra-regional coordination, discussed at length by Hough.^{30/} Its importance arises from the conjuncture of two aspects of Soviet reality. First, Soviet planning is notably weak in bringing about intra-regional coordination and balance. It can barely provide for coordination among industries; to do so additionally region by region in an effective manner has so far proved to be beyond the system's capacity. Thus, second, if any body on the local level is to somewhat redress the intra-regional balance on its own, it must have clout both at the national center and within the region. Only the Party qualifies.

Its work is twofold. First, it lobbies for the allocation of additional resources to the region, preferably while the plan (long or short term) is still under preparation. We know little about such lobbying, except that the speeches of the assorted first secretaries at Party Congresses and on some other reported occasions are generally replete with pleas for additional resources to their jurisdictions to meet very specific needs. It would perhaps be odd if this were not so. But we do not know how much effect the pleas produce, let alone the mechanism of "log rolling"

or whatever that brings results. Moreover, local Party authorities can and apparently do reallocate resources and require specific production for local needs in the course of plan execution, in order to achieve a better intra-regional balance (as they understand it, at least). As Hough correctly stresses, this frequently carries the Party beyond the limits of the law. Thus, the text of a recent joint decree by CC CPSU and CM USSR (8 August 1978) complains of the large-scale illegal diversion of investment funds and transfer of physical capital from agriculture to other branches of the economy, with local Party organs expressly accused of having taken part in these reallocations.^{31/}

One of the more significant effects of the Party's active role in the local economy is the enhancement of the tendency toward local self-sufficiency (mestnichestvo, "localism"). Under conditions of widespread and persistent shortages, no prudent boss of a region or district would hardly act otherwise - unless, of course, his Party conscience would never allow him to compromise the higher interests of the country and its leadership. That the local Party organs are not fully imbued with partiinost' in this regard is evident from the steady barrage of warnings against mestnichestvo carried over the years in the Party press, as well as from the numerous anecdotal accounts in the press in which local Party authorities figure in some measure.^{32/}

Whatever it may do to legality, the criss-cross structure - the Party territorial and the state hierarchy primarily by "branch" - does make a good deal of sense under Soviet conditions in balancing the one organizational bias against the other. Khrushchev's sovnarkhoz solution may have been politically astute in that it strengthened the "prefects" on whom Khrushchev's

power at that time rested^{33/} (though this did not save him in the end), but economically it makes less sense.

Lastly, in spurring technical progress and innovation the local Party organs perform a function that rates very high on the central authorities' scale of values, but which after all may not as be as entrepreneurial as that of regional coordination in the sense that the initiative may be less their own. In fact, the Party's role in technical progress and innovation is not very clear. To be sure, books and articles about "Party work" devote considerable attention to these tasks, and naturally find reasons to pat the Party on its collective shoulder. In his comprehensive study of innovation in Soviet industry, Berliner concludes that Party activity in this regard is not "central" to his discussion, and that the subject "may be studied independently of the Party's role".^{34/} On the other hand, in a study of certain cases of diffusion of managerial innovations Campbell (1972, p. 593) finds that the important "Saratov system of defectless work" in industry owed its diffusion - first within the oblast' and then in the whole country - to the crucial role of the Party at the oblast' and (later) higher levels. He surmises that only the Party could have crossed the barrier between secret and non-secret work to effect the initial transfer of the technique, and to have bypassed the administrative hierarchy and gained access directly to the enterprise. Nevertheless, "on balance we should probably conclude that the Russians have not succeeded in getting this innovation diffused. These transfers by official campaigns are likely to be only superficially effective. . . . "If the potential adopters of the innovation do not have an inherent interest in it . . . "^{35/} Something of this sort may have also happened in the case of the much-

publicized Shchekino system of raising labor productivity (a kind of Soviet Scanlon Plan).^{36/}

In truth, we do not seem to know very much yet about the role of the local Party organs in promoting both technical and managerial innovations within existing enterprises. But what we do know does not suggest that it is always very successful in overcoming strong inherent resistance to the innovations where it exists.

V.

To pull together the strands of our discussion and to conclude we pose the following questions: Does the Party have any significant moderating effect on the strong tendency of Soviet firms and their superior entities to suboptimize and thereby to generate externalities of the Ex1 and (especially) Ex2 varieties? If it does, in what directions might its influence be exerted? Does the Party have any significant effect on the longer-term allocation of resources? Empirical evidence in these regards being scarce we are largely constrained to look for indirect evidence in the terms of the motives of the local Party functionaries, and especially the first secretaries of the local committees.

The weight of informed opinion leans heavily toward identifying the local Party's "success indicators" with the main plan-fulfillment indicators of the given district or region, or those of the leading industries or firms therein. Such were, by and large, Berliner's findings from his interviews with former Soviet citizens based on their prewar experience (1957, pp. 268ff.). Writing about the early thirties, Conyngham states

categorically: "To fulfill the Plan was the local Party organs' central task from the beginning of the Five-Year Plan" (1973, p.40). Hough concludes with respect to more recent times: "Yet the [local] Party officials can never forget that they themselves are judged on the basis of plan fulfillment, particularly plan fulfillment in such an important area as industry" (1969, p.177). But Hough repeatedly also stresses that it is the fortunes of the leading industries and enterprises in the oblast' or district or city that are particular relevance to the Party secretary's own success and career. ^{37/}

As recently as 1968, Brezhnev stated: "...work done by Party organizations ... must be judged first and foremost by how production assignments are fulfilled, by how labor productivity is increasing, by the state of labor discipline...".^{38/} The order of listing is doubtless significant. But how is this patent stress on output ("production assignments") to be reconciled with the aforementioned traditional emphasis on generalism in the Party's leadership of the economy? And do we interpret Kapitonov's explicit injunction (in 1978) to the Party -- citing the same Brezhnev -- to use a broader set of criteria in evaluating business performance (supra, p. 17) as a new departure or as merely another phase in the usual wavy course of the Party line? There is, however, one thing that can be safely inferred from Kapitonov's remark -- until now the Party at all its intermediate levels has been predominately concerned with getting out production, just like the managers and their administrative superiors. If so, it has probably done relatively little to forestall the generation of externalities, broadly speaking.

But whose production? Chiefly of high priority industries; say, defense industries vs. civilian ones, Group A vs. Group B? Most likely yes, in support of the first secretary's proper image up high. If so, the effect of the Party's co-management of the economy may be not only to uphold the leaders' priorities but to intensify them. Just as DDT becomes concentrated as it passes through the food chain, so the priorities may well become concentrated and intensified as they pass down the Party chain.

Yet the local Party secretaries are also responsible for order and morale in their areas. Consequently their intervention in the economy may also favor -- and there is much evidence that it does -- industries and enterprises, so to say, at the other end of the spectrum, those providing essential goods for local consumer use (or for local industrial and agricultural infrastructure). Nor would one be surprised if they also favor industries that produce good trading chips for the secretaries' inter-regional market, which would incidentally tend to help alleviate important shortages on the national scale in view of the failure of formal planning to do so.

If these hypotheses are correct, the effect of the local Party on the economy may be further summarized as follows. Local Party intervention over-all has a limited effect on the pattern of allocation provided for in the national plans (which is obviously heavily shaped by the preferences of the top Party leadership) and the ensuing effort toward suboptimization by the executives at the firm and higher levels. Thus,

generally speaking there is probably little mitigating effect from the side of the Party on the consequent externalities, both Ex1 and Ex2. . . But the actions of the Party at local levels may well intensify the leaders' economic priorities, in part by mitigating the negative effects of Ex2 on the high-priority industries and firms. At the same time (in accord with its generalist functions) the Party may also reallocate some resources to compensate for local economic imbalance and poor regional co-ordination inherent in the formal plans.

The positive effect of the Party on technical progress and innovation is uncertain and probably not very substantial. Its attitude on the local levels is influenced by the broad coincidence between the Party's objectives and the firms' and industries' success indicators, which makes it difficult for it to attack the built-in resistances in economic structure.

Lastly the Party's lobbying for long-term development of the respective regions and districts is difficult to assess. It seems that such lobbying does take place on a large scale. However, much of it may be mutually offsetting as among regions. Some of it may, however, result in a net flow of investment funds and other resources for long-term development to certain areas (and, accordingly, a net flow from other areas), probably depending on both the personal abilities and connections of the first secretary, and the cards that he holds in terms of local resources.

In our opinion, all this means that the intermediate Party bodies and their secretaries do perform significant managerial functions in the Soviet system, and perhaps even some limited entrepreneurial functions in regard to the development of their respective areas.^{39/}

Footnotes

1. The author gratefully acknowledges the beneficial effects of many conversations on this and related topics with George Breslauer, Aron Katsenelinboigen, and Alexander Yanov. He also profited from the ventilation of some of the ideas in this paper at the colloquium on "Party and Society in East Europe" in the summer of 1973 at Berkeley, and takes this opportunity to thank the co-chairmen of the colloquium, Andrew C. Janos and Kenneth Jowitt. We also thank Pauline Andrews and Alexander Bennett for able research assistance, and the Center for Slavic and East European Studies of the University of California, Berkeley, for the financial support.
2. Hough: 1969. (References are to the appended bibliography.)
3. Granick: 1954.
4. Berliner: 1957. Mention should be made of the pioneering work on Soviet management by Bienstock, Schwarz, and Yugow (Bienstock: 1948, first published in 1944), which devoted a whole chapter to "Industrial Management and the Communist Party".
5. In addition to Hough's study, the monographs by Barker (1968) and Conyngham (1973) are devoted to the Party-management relationship. Stewart (1968) also in large measure addresses himself to this issue with specific reference to the Stalingrad obkom.
6. Hough: 1976, Table 7.5, p. 125.
7. For the relationship between the director and the firm's Party secretary see especially Hough: 1969, pp. 86-97. At the heart of this relationship is the "right of control" (pravo kontrolia) over management

Footnotes (continued)

- enjoyed by the primary Party organization. Hough devotes much attention to this "right" and its implications for edinonachalie; see also (Conyngham: 1973, passim).
8. N. Borzenkov, "Sekretar' i direktor", Pravda, 29 November 1976, p. 2.
 9. See, by way of random example, a long account of such goings on in N. Mironov, "Vyvodov ne posledovalo", Pravda, 6 March 1975, p. 2. Cf. Conyngham: 1973, pp. 243-44.
 10. Regarding managers as a professional and interest group, see Hardt and Frankel (1971). As for managers being collectively a significant force for political change, a forceful negative answer is provided by Azrael's well-known monograph (1966); while Yanov's analysis (1977) contains a close observer's view of the possible potential role of management in the Soviet polity.
 11. Stewart: 1968, Taubman: 1973.
 12. Kochetov: 1975, p. 314.
 13. Yanov: 1977, pp, 22ff.
 14. At one point Kochetov's Denisov acts as though any directorial vacancy in the oblast' is his to fill, even if for reasons of "human compassion" for a particular person; op. cit., p. 353.
 15. Again, the reader is referred to Hough: 1969, Conyngham: 1973, and Barker: 1973 for extensive discussion of these functions.
 16. The symmetry-seeking reader may wish to add Ex3 for the situation that is the mirror image of the usual Soviet one; namely, a state of sluggish aggregate demand, buyer's market, and the associated unemployment of resources and costs of selling.
 17. For a discussion of "effective" vs "ideal" preferences in the Soviet setting see Taga: 1976.

Footnotes (continued)

18. See, for instance, the various contributions to McKie: 1974; a good, brief treatment relating social responsibility to economic efficiency is Arrow: 1973.
19. Cf. "A Social Lapse", editorial in The Wall Street Journal, 17 January 1975, p. 8.
20. Cf. Arrow: 1973, pp. 310ff.
21. Cf. the interesting conclusions by Granick regarding the general inefficacy of handling externalities by the Soviet administrative hierarchy (Granick: 1976, pp. 79ff.) While he has in mind both Ex1 and Ex2, he does not class them separately.
22. We do not exclude here the Party's alter-ego's and helpers, such as the Komsomol, the organs of People's Control (prior to December 1965, Party-State Control; prior to November 1962, State Control; etc.), the trade unions to some extent, and perhaps other professional and mass organizations.
23. On the theory of separate monitoring hierarchies in hierarchically structured organizations see Downs 1966, pp. 148ff.
24. Kommunist, 1975:12, p. 14; our translation and emphasis. The editorial goes on to condemn, among other things, bureaucratism, departmentalism, and localism. Experienced readers of Party prose will recognize the indicative mood as thinly veiled imperative mood, and that the injunction to businessmen is also a directive to the Party authorities who supervise them.
25. Sotsialisticheskaiia industriia, 18 October 1978, p. 1. Kapitonov goes on to mention other indicators, such as adherence to contracts, as hitherto having been incorrectly neglected by Party and other officials.

26. Berliner (1957), Hough (1969), Conyngham (1973), and Barker (1973) all heavily stress this role of the local Party authorities. Conyngham goes so far as to characterize the local Party organization as a tolkach (pusher). On the other hand, in his important article on Soviet plan execution in the face of shortages, Powell (1977) barely mentions the Party (p. 57n) as an important actor in the process.
27. Cf. Yanov's vivid eye-witness account of both the humiliation of the director of a high-priority enterprise in seeking local Party intervention in a sudden supply shortage, and the eventual "theft" of the needed materials from a lower-priority industry in the area. As a random example in the Soviet press, cf. the account of emergency shunting of skilled labor and transport from other enterprises to a favored enterprise by gorkom in E. Leont'eva, "Vcherashnie prichiny", Pravda, 31 March 1978, p. 2.
28. For this reason even a ministry may turn to the obkom for assistance in solving problems of supply and other resources; see S. Balbekov, "Ministerstvo i zavody", Pravda, 29 July 1966, p. 2.
29. Cf. Hough: 1969, p. 230. Compare the following by the first secretary of the Bashkir obkom (Z. Nuriev, "Rukovodit' ekonomikoi, ne podmeniia khoziaist-vennye organy", Kommunist, 1965: 16, p. 65): "When plan fulfillment is at stake, party committees take upon themselves the solution of business problems, dispatch pushers, and send out numerous letters and telegrams pleading to hasten the delivery of certain equipment or materials. Thus, just in the course of the first nine months of this year received from Party organs of other oblasti and republics 813 telegrams dealing predominantly supply matters.

- On our part, we dispatch similar letters and telegrams to other Party committees." (Our translation and emphasis). Note that the sovnarkhozy were still in effect during those nine months, which may have enhanced the role of Party committees.
30. Hough: 1969, Ch. XI. ^{Granick: 1954, Ch. XII.} See also Katsenelinboigen: 1978, pp. 16ff., and Smeliakov: 1975, pp. 146ff. N. N. Smeliakov's is an interesting instance of the same person having been enterprise director, gorkom first secretary, obkom first secretary, and sovnarkhoz chairman, all in Gorki, and high foreign trade official (still active). These are his memoirs.
31. Sobranie postanovlenii Pravitel'stva SSSR, 1978: 19, pp. 379-80, here cited from C. Duevel, "Joint Decree Reveals Large-Scale Diversion of Agricultural Resources", Radio Liberty Research, RL 214/78, 2 October 1978 (mimeographed).
32. As an example, see the vivid account in IU. Makhrin, "Svoe i 'chuzhoe'", Sotsialisticheskaiia industriia, 11 June 1978, p. 2.
33. Cf. Nove: 1964, pp. 99ff. However, there is reason to believe that the sovnarkhozy quickly lost power and industry was in effect largely run from Moscow on the branch principle; see Trapans: 1978, passim.
34. Berliner: 1976, p. 41.
35. Loc. cit. Hough (1969, pp. 119-20) and Barker (1973, pp. 107-12) do seem to assign some efficacy to Party intervention in innovation, though apparently ran into difficulty assessing its significance. Conyngham (1973, pp. 116, 237, 277) takes a more negative view of the matter. On the variety of instruments employed in promoting innovation in Soviet industry the reader is referred to Grossman: 1966.
36. Cf. Delamotte: 1973. The role of the Party is briefly stated on pp. 119 and 146.

37. See, e.g., Hough: 1969, pp. 146, 201, 256ff. Hough cites the evidence from Smolensk Party archives (Fainsod: 1958, p.76), dating back to the early thirties, that the first secretary of that agricultural oblast' with heavy specializsation in flax-growing considered his success indicator to be the size of the flax harvest.
38. Pravda, 30 March 1968, pp.1-2. Here quoted from Conyngham: 1973, p.348, n. 148.
39. For lack of space we have not in this paper dealt with the important matter of the Party secretaries' career patterns and the effects of these patterns on their behavior. Granick has carefully investigated the career patterns and the success-indicator maximizing behavior of Soviet managers in comparison with similar variables explaining the behavior of managers in other Eastern and in Western countries, with very interesting conclusions regarding suboptimization and the generation of externalities (Granick: 1973, 1973, 1976). Hough, Stewart, and others have carefully studied the career patterns of the "prefects" (Hough: 1969, 1976, 1977; Stewart: 1968). Others yet (Cocks: 1970; Rigby: 1976a, 1976b) have examined the changing role of the Party in view of the technological advance of the Soviet society. Much remains to be done to pull these strands together.

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