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**MATERIAL INCENTIVES AND PLANNING
INDUSTRY**

Herbert Finger

**INTERREGIONAL TRAINING COURSE
ON INDUSTRIAL PLANNING**

**BERLIN – GDR
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MATERIAL INCENTIVES AND PLANNING INDUSTRY

**Forms, methods and functions of material incentives
in drafting and executing industrial plans at vari-
ous levels.**

Prof. Dr. sc. Herbert Finger

**Texts for the
INTERREGIONAL TRAINING COURSE ON INDUSTRIAL PLANNING**

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Forms, methods and functions of material incentives in drafting and executing industrial plans at various levels

1. Material incentives are a basic principle of the economy and an important condition for the operation of the law of socialist appropriation

The German Democratic Republic has established the social ownership of the means of production, thus abolishing the antagonisms in the economic relations among men. This type of ownership was the first at a historically advanced stage of social production to give rise to a uniform basic interest of all members of society in developing the economy as rapidly as possible, in order to satisfy the material, cultural and intellectual needs of working people in an ever better way. The economic foundations of socialism and the purpose of socialist production reflect the objective coincidence of the interests of society, socialist enterprises and working people. This coincidence is the principal driving force in the development of production, the achievement of the fastest possible growth of the national income and its most effective utilisation. This force does not, however, operate automatically. The interest of society as a whole is met through the channel of the specific interests of enterprise collectives and the individual interests of working people in the socialist economy, which is based on a division of labour and whose parts are closely tied up. Therefore, socialist economic management has to link and regulate the whole system of the national economy and its parts, on the one hand, and the uniform interest and the interests of enterprises and individuals, on the other, in a way which directs all efforts at the common aim of increasingly meeting the growing material and cultural needs of working people.

All forms of utilising material interest have to be based on correct and precise planning. Mistakes in the employment of material driving forces reduce or negate their stimulating effect, lead to violations of economic laws, slow down the development of production and do damage to society. At the same

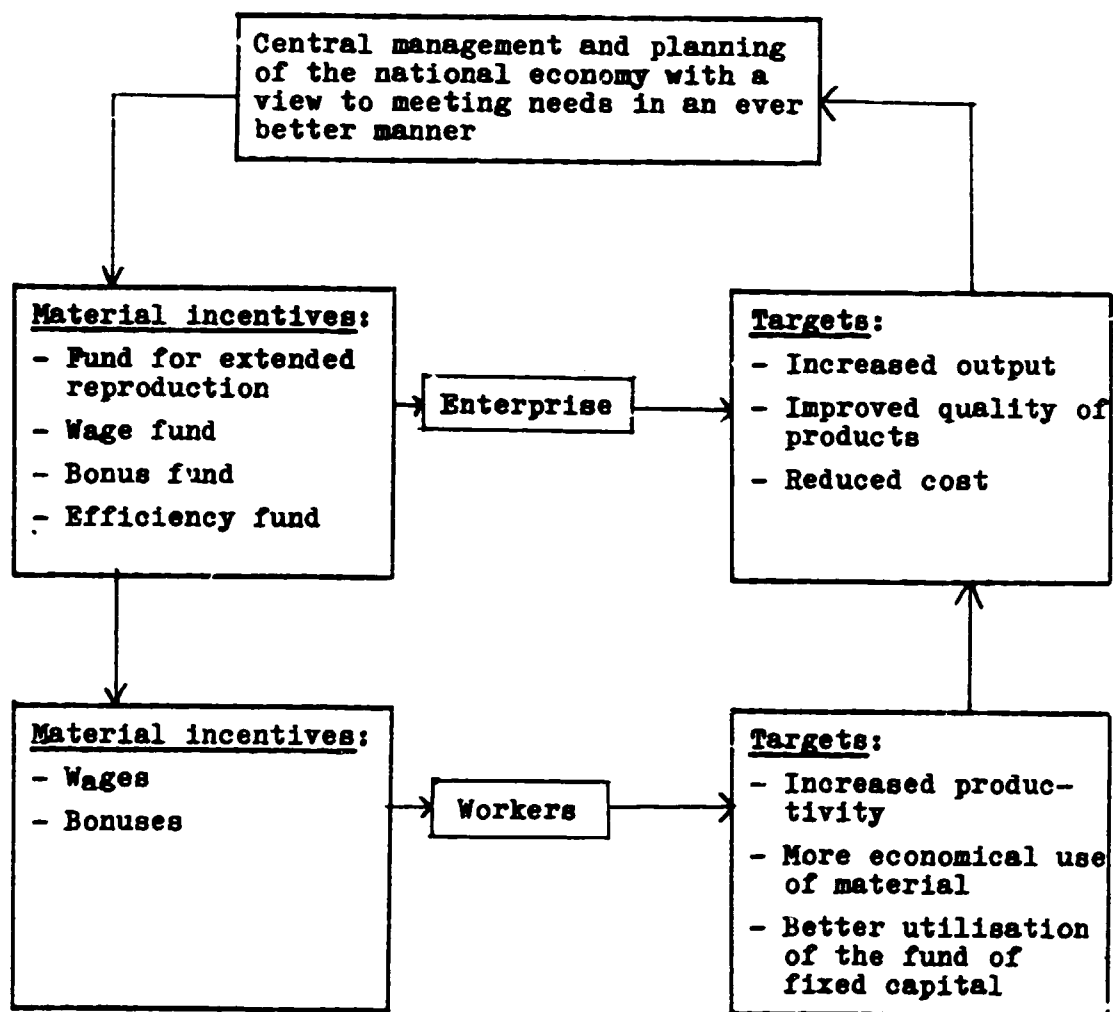
time, it should not be forgotten that this interest always has to be taken account in the form it takes in any specific case; and this form varies in accordance with the level reached in the development of society.

The establishment of the coincidence of interests, which is an active factor of the socialist economic system, is founded on a plan. In planned socialist economy, there is an immediate connection between material incentives and plan. We use the term material incentives to cover a whole system of material rewards for performances by enterprise collectives and individual working people.

Material incentives help to harmonise the targets of enterprises with those laid down in the governmental plan; they enforce the principle of pay according to performance so as to prevent working people losing sight of the tasks of their particular enterprise. So, they make enterprises and working people act in a socially necessary way; and what is socially necessary for the enterprise to do is laid down in the plan.

Material incentives, which are an inherent element of planned socialist economy, are effective at all levels of the national economy. The purpose of this system is both to stipulate such remuneration on the part of society for a performance and to attach such importance to it in line with its importance to society as a whole, as will give every enterprise collective and every worker enough material interest to make them want to improve performance.

The following table shows how material incentives which are linked with the plan serve to reach the targets of socialist production:



These targets are to be seen as nothing but examples. They are dependent, in any case, on the specific tasks and conditions of reproduction at the particular enterprise.

It is the purpose of the socialist economic system to establish relations among the various levels of the national economy - at which material interest operates under the conditions of socialist commodity production - and to put them on an economical-

ly sound basis. This has to be achieved by means of a systematic improvement of the scientific nature of planning and management, into which the implementation of the principle of material interest is harmoniously integrated.

- (1) The material interest of society is the maximum growth of the national income, which is laid down in the plan and serves to satisfy the needs of people in an increasingly effective manner.
- (2) At the level of enterprises and combine plants - commodity-producing units which use economic accounting - the material interest of collectives is aimed at the all-round fulfilment of governmental plans.
- (3) The individual material interest of working people, which is directed at their earned income, is so arranged that, on the one hand, performance-stimulating wages are paid in accordance with government-stipulated principles or criteria which are the same throughout society and, on the other, relations are established between the overall performance of an enterprise on the basis of the plan and a part of the earned income of the individual worker. The latter is, in particular, done through the bonus fund.

Socialism has both material and ideal driving forces for man to do work and do it well in terms of quality and quantity. Although both of them operate at the same time and to the same end from the very beginning of socialist construction, complementing each other and forming a unity, their impact differs at various stages of development. At first, material stimuli prevail among working people; but they are more and more added to by moral ones. The more socialist society matures, the greater is the importance of ideal and moral driving forces, which, in their interaction with material stimuli, are a manifestation of socialist consciousness.

2. Forms of material incentives

There are two forms of material incentives, which are intimately wedded and form an unbreakable unity: collective and individual economic stimulation.

Collective economic stimulation refers to an enterprise or a combine plant as a whole. It gives the enterprise an interest in ambitious plans and the fulfilment and overfulfilment of all their indicators and stipulations. These indicators express in physical terms and in value what plans lay down about production, its result, the expenditure required, and, in consequence, the efficiency of the enterprise. They also include indicators and stipulations about the development of society and personality.

Individual economic stimulation takes the form of wages and bonuses and is based on a breakdown of a plan among the sections of an enterprise. It provides for monetary rewards for performances of individuals in accordance with their share in the fulfilment of the plan and gives them an interest in dealing with as large a part of the plan as possible and fulfilling and overfulfilling it. This way, their individual material incentives ensure that their enterprise will fulfill its plan as a whole.

3. Material incentives for collectives

Below we shall be considering material incentives at enterprises, incentives which can be regarded as the typical form of collective economic stimulation. Its first function is to make enterprises draft and adopt improved plans¹, which lay down in advance the overfulfilment of plan tasks² and plan

1 'Improved plan', translated from the German 'Gegenplan', signifies an economic plan which is elaborated by enterprise collectives on the basis of the governmental plan and is aimed at overfulfilling the targets of the latter plan.
(The tr.)

2 'Plan task' ('Planaufgabe') refers to a task which the State Planning Commission has set and the Council of Ministers has adopted and which serves as a basis for enterprises and

targets³ which an enterprise has been given.

An enterprise knows best what its opportunities and reserves are. It therefore has to be given an interest in mobilising these reserves so that it will overfulfill the governmental plan tasks. And this is the second function of material incentives: to provide for specific rewards for overfulfilling governmental plan targets or accepting additional plan tasks. In this connection, it is meaningful to differentiate between material incentives and stimulate the overfulfilment of governmental plan tasks which are stipulated in improved plans more than the simple overfulfilment of the plan. The material and financial results can, de facto, be the same, irrespective of whether they are due to the simple overfulfilment of the plan or the overfulfilment of governmental plan tasks under improved plans. Yet the latter can be included in the balancing of the national economy. Society can reckon with that from the very outset.

Therefore, material incentives start to operate as soon as the plan is being drafted and continue to do so throughout its execution. They encourage enterprises and their collectives to make use of all the opportunities they have to increase output and productivity and reduce cost already at the early stage when the plan is being drawn up. When the plan is being carried out stimulation has to be aimed mainly at an output which is in line with demand in terms of the amount and range of products and is distinguished by high quality and low cost.

An important yardstick of the work done at socialist enterprises and combine plants in industry is profit. It is the most important source of money for meeting the expenditure of the socialist government and, at the same time, financing

Continuation Footnote 2

other partial systems of the national economy to draft their parts of the national economic plan. (The tr.)

3 'Plan target' ('Planaufgabe') describes a task which is laid down in the national economic plan passed by Parliament and is delegated to an enterprise or other partial system of the national economy. (The tr.)

extended reproduction, increasing the bonus fund, and improving cultural and social-welfare services for working people. Profit thus plays an important rôle in the operation of collective material incentives at enterprises.

In the German Democratic Republic the mechanism of price regulation is firmly under the control of the government. It is so arranged that, as a rule, enterprises can pay their expenditures from the proceeds of their sales and, in addition, make a profit. Provided enterprises are run along economical lines and employ their living and materialised labour as effectively as possible, they are profitable. Consequently, profit is an important gauge of the economic performance of an enterprise and a major criterion of the economic benefit which is derived from scientific and technological measures planned and taken at an enterprise. Acting as an economic stimulus, it also takes an important place in the system of collective material incentives.

Although it is the artificial reflection of essential aspects of the economic activities of enterprises, profit - or, to use another term, the operating result - cannot be the one and only yardstick of performance at an enterprise. A comprehensive appraisal of the performance of an enterprise can be given only on the basis of the results it obtains in reaching all the partial targets of socialist enterprise management (its productive and society-forming functions). Since profit is a criterion of benefit and an economic stimulus of the material interests of an enterprise collective, it invariably has to be seen in its context with the rest of the results of an enterprise's activities which affect the enterprise.

Under socialism profit can be neither the purpose nor the starting point of the economic activities of enterprises. Profit is important merely because it is the source which finances the fulfilment of the tasks of the entire society, and is, simultaneously, a mirror which reflects the economic activities of enterprises. Socialist society wants the profits

of enterprises to rise steadily to the extent to which this rise manifests an improvement of performance, especially an increase in output, with the range of goods remaining in line with demand, their cost not changing and the profitability and structure of export improving. Profit coming from other sources (e.g. illegal price increases or violations of the range of goods laid down in plans) have to be considered null and void and must not be economically advantageous to enterprises.

The material incentives for enterprises to make high profit operate mainly through the principle of self-financing of investments. This principle governs the financing of production at all socialist industrial and building enterprises today. It can be described as follows:

- (a) As far as plan targets allow, every enterprise is responsible for meeting its own requirements in terms of the means for simple and extended reproduction.
- (b) The speed and quality of the development of its various funds and its reproduction capabilities are largely dependent on its economic activities and, thus, on the quality of its management and planning.
- (c) The results exporting enterprises obtain in their foreign trade are included in their financial operating result.

The room left to an enterprise to manoeuvre in this respect is limited in two ways:

- first, by prices, which are fixed by the government (both industrial delivery prices for its output and prices of the material and the supplies it receives play a role in this context); and
- second, by governmental stipulations about payments to the government.

The application of the principle shows that enterprises are responsible for their own reproduction.

On the one hand, the sphere is widening - as far as the government's binding plan indicators allow - in which enterprises may, and have to, take independent decisions.

On the other hand, these decisions depend largely on the available financial resources, which enterprises have to provide for themselves. In other words, the volume of resources which may be used for extended reproduction, and a part of the resources which may be put into the funds serving to stimulate individual material interest, depend on the economic result, the profit. This gives rise to an immediate interest of enterprise collectives in best economic results.

In consequence, the principle mentioned above establishes a direct relationship between making profit and using it. There is a simultaneous stimulation of an effective employment of all the various funds at an enterprise in each and every phase of reproduction, starting from research and development and ending at sales. Here again, a direct link is visible between material incentives and plan. Not only are the resources for simple and extended reproduction planned but also the sources of these resources and their utilisation.

The principle makes enterprises concentrate on very definite key tasks. Of special importance are long-term decisions which aim at a continuous and great efficiency and serve to bring about a considerable increase in profit. This calls for future-orientated ideas and decisions with regard to the development of demand and effectiveness. It is no longer enough to judge the effectiveness of a product or procedure only from the point of view of the present conditions of profitability and sales. Future-orientated decisions mean that economic processes at enterprises should be assessed from the angle of tomorrow's effectiveness, i.e. the highest world standards prevailing in the future. This is the basis on which decisions have to be prepared and taken. Therefore, demand analyses, comparisons with highest world standards and benefit calculations which rest on these foundations are gaining increasing importance for the safeguarding of an effective re-

production. Orientation on producing an output which is in line with demand, ensuring a high quality of products and stepping up export profitability is directly linked with any decision on matters of effectiveness. This link is only too obvious; for every product has to be sold before it can yield profit.

Additionally, the principle of self-financing of investments makes enterprises avoid neglecting economical stock keeping, which refers to the spheres of fixed capital and working capital. Capital which is not required has to be abandoned; and a great degree of economic benefit has to be aimed at whenever investments are made and working capital is expanded. This shows that the interests of the national economy as a whole and those of enterprises coincide.

This coincidence of interests is effectively encouraged by a purposeful use of material incentives. In this instance of economical stock keeping with regard to fixed and working capital, material incentives take the form of a production funds levy.⁴ To facilitate a grasp of the latter's stimulating effect, we should like to proceed to describe the criteria of profit formation and profit utilisation and also their connection.

Gross profit, which is also called the compound operating result, is made up of:

- the returns from sales of output and other sales at home;
- the returns from exports; and
- the proceeds from export-stimulating resources (governmental export subsidies).

⁴ The production funds levy ('Produktionsfondsabgabe') is a part of the gross profit of a socialist enterprise. It is a standard percentage to the part of the fixed capital fund (gross value) and the part of the self-financed working capital fund which are used on an average, and has to be transferred to the governmental budget in advance.

Profit is utilised as follows:

	gross profit (compound operating result)
minus	production funds levy
<hr/>	
	net profit
minus	planned transfers to the bonus fund
minus	planned transfers to the efficiency fund
minus	net profit payment to the government
minus	planned transfers to the self-financed working capital fund
minus	planned transfers to the investment fund
minus	planned repayment of interest-bearing fixed capital credits

Profit exceeding the planned level is evenly divided between the governmental budget and the enterprise funds.

The transfers to enterprise funds can take the form of:

- additional transfers to the bonus fund; and/or
- an increase in the share of self-financing in the financing of working capital and investments, and also the repayment of credits.

This shows that the production funds levy takes pride of place in the utilisation of profit. It is usually fixed at six per cent of the gross value of the productive funds - i.e. the funds of fixed capital and of self-financed working capital - and is transferred to the governmental budget.

The following example will demonstrate how the production funds levy operates:

	Enterprise A	Enterprise B	Enterprise C
Productive funds	600	500	400
Gross Profit	75	70	80
Production funds levy (6 %)	36	30	24
Net profit	39	40	56

The effect of the production funds levy is that enterprises have a higher net profit at their disposal if they make rational use of their funds. But net profit is the all-important factor on which both the financial resources for extended reproduction and individual material stimulation are dependent. Thus, the lever action of the production funds levy aims at:

- a great effectiveness of investments;
- the abandonment of fixed capital which is obsolete and not used any more;
- a rational economy of stocks with regard to material, unfinished products and finished products; and
- a great degree of shift-work utilisation of highly productive equipment.

The more an enterprise makes rational use of its funds, raises its productivity and reduces its prime cost, the higher will its net profit be. The amount of the production funds levy is, however, tied up with the size of the productive funds, rather than the actual amount of enterprise profit. In consequence, the development of net profit and, thus, the development of the accumulation capacity of enterprises is to a very considerable extent dependent on how successful enterprises are in reducing the prime cost per product unit, with the productive funds remaining at a given level or with funds saved.

The mechanism of the production funds levy provides the condition for linking collective and individual material interests with the requirements of the national economy, in this case mainly with the requirements of an effective funds policy. So, the production funds levy is the point of intersection between the requirements of centralised governmental planning and the interests of enterprises.

It has become apparent that the compound operating result comprises the profit of enterprises from the sales of products at home and abroad. Only by including export returns, profit becomes a genuine yardstick of the effectiveness of the entire activities at enterprises, from research and development right to sales. Economically, enterprises are faced with world market

conditions, and their interest is guided towards utilising the opportunities of the economic integration of socialist countries. They are made to control the market in selected fields and ensure stable sales through improved supplies of goods, a good service to customers and a swift response to changes in the market.

The fact that positive and negative results of export activities are integrated into the compound operating result forces enterprises to adjust the manufacturing of products to the standards and requirements of foreign trade. This integration and the direct relationship it establishes with the self-financing of investments gives a boost to the material interest of enterprises. It is directed at the increase in profitability with regard to products sold both at home and abroad and, accordingly, covers all aspects of reproduction at enterprises.

The self-financing of investments also includes bank credits. Credits enable enterprises to use financial resources for extended reproduction earlier than would be possible without them. Enterprises can, e.g., take planned investment measures sooner and in a more concentrated way. But - most important of all from the point of view of self-financing - even these resources have to be accumulated by enterprises themselves. Enterprises which take up credits have to accumulate not only the resources for their repayment but also all accruing interest.

As far as enterprises are concerned, a bank credit is the advance provision of resources which are to be accumulated later. It enables them to carry out measures of intensive extended reproduction at greater speed and entails the obligation for them to repay the credit and an agreed interest from their net profit at fixed dates.

Departures from the basic rate of interest are permissible so that the varying conditions of credit projects can better be taken account of. The bank concerned can award interest re-

ductions if certain credit conditions have been met (efficiency indicators, the share of self-financing, the life of a credit, etc.) or if a credit has to be granted on preferential terms on account of urgent requirements of the national economy. Extra interest is charged if credit conditions are not met or if credits are required to put plan irregularities right. So, these variations serve to enhance the stimulating effect of interest even more.

The utilisation of categories of value (price, profit, credit, interest, wages, and bonus) for economic stimulation calls for well-harmonised regulations. In other words, material incentives are fully enforceable only if they act as a system of stimulation. The larger the number of isolated regulations, the greater the danger of mutual contradiction or double stimulation. There is an occasional inclination to use what are called counter-levers to do away with shortcomings in stimulation; but this merely serves to complicate matters and may even obscure regulations. Although the demand for a system of stimulation is theoretically logical and is raised equally in all socialist countries, it is not easy to meet in practice. One of the problems involved is the optimum combination of those material incentives which are based on annual plans, with longer-term economic stimulation which is based on a binding five-year plan: both short-term and longer-term effects have to be stimulated at enterprises after all. This is connected with another problem, that of the transferability of funds in terms of time and, to a certain extent, also of purpose. Shall enterprises be enabled to "accumulate" financial resources over a period of more than a calendar year? And if so, for what funds and in what dimensions? Naturally enough, the material safeguarding has to be ensured for funds in the year in which they are used, and there must be no disproportions in the national economy, e.g. between the disposable income of the population and the total of the commodities available. Furthermore, certain proportions have to be maintained between wages and bonuses. This means that a system of stimulation will not come about automatically and

that there cannot be a regulating mechanism which is "perfectionist" for all time. The system depends on the conditions of development existing at any one time and has to be perfected in a continuous process.

4. Material incentives for individuals

4.1. Relations between the material interest of enterprises and that of individuals

As has repeatedly been emphasised, socialism gives the whole of society an interest in enterprises making big accomplishments in production and enhancing the profitability of their products. This is a logical outcome of the basic economic law of socialism.

This interest of society defines the lines along which every enterprise collective has to be stimulated. Governmental provisions about the formation and the employment of the wage fund, the stimulation funds (the bonus and efficiency funds) and the funds of extended reproduction give every enterprise material incentives to work in a way which is in harmony with this interest of society.

Therefore, the working people of an enterprise take a collective material interest in the development of their enterprise. Yet it would be wrong to speak of material interest only, since this interest is coupled with an ideal interest in the same aim. The ideal interest is a result of the pride of working people in their enterprise's good performances in production, in the respect their enterprise commands in society, etc.

The operation and gathering momentum of ideal driving forces in the field of work in association with the correct employment of material interest are clearly demonstrated in the German Democratic Republic by the Movement of the Pioneers of Work, the Emulation Contest Movement and socialist collective work. The new attitude to work gives rise to creative

initiatives and cooperation on the part of working people, which have a variety of manifestations: meetings at which workers discuss production affairs with a view to improving the planning and management of production; exchanges of experience; improvement proposals; innovators' activities; the advance training workers receive to learn how to operate new technological equipment; etc. An important requirement is the establishment of a proper link between the material interest of working people and the moral and ideal rewards they get for performances. Any lop-sided utilisation of material interest is to be avoided. Against this background, use has to be made of the many opportunities which exist for granting moral rewards. This requires that at the level of enterprises and at even higher levels a system should be used which envisages the effective utilisation of awards such as governmental distinctions, honorary titles conferred by enterprise managements, certificates and additional moral incentives like "Road of Top-Workers" (along which photographs portraying such workers and a few data about them and their performance are displayed, the tr.), publications in enterprise-owned newspapers, etc.

The material interest of an enterprise collective is closely tied up with that of every single worker. Working people are interested, e.g. in their enterprise being able to transfer large sums to the bonus fund, because this will mean high bonuses for them in the end. In this way, there is a full coincidence of interests between the collective and the individual.

Within the limits of this coincidence, there can, however, be contradictions in the further distribution of stimulating funds, e.g. the bonus fund. Every production sub-department, every department, every work team (group of workers headed by a team leader; basic unit in factory floor, the tr.) and, finally, every worker wishes to get as large a share of the fund as possible. When an enterprise has a large bonus fund,

every individual may get a large end-of-the-year bonus, for instance. Whether he actually gets it or not depends on how far the quantity and quality of his work have contributed to the fulfilment of the tasks of the enterprise. Every worker gets his share of the bonus fund in accordance with his specific performance. This leads to the constant stimulation of further improvements of performance, which, in turn, has a favourable effect on the development of the enterprise, and in the final analysis, on the development of the whole of society.

This shows that there are two types of incentives in socialist society for every worker to improve his performance:

- his earned income (wage and bonuses) increase in accordance with his individual performance; and
- being a member of a socialist society, he shares in the overall progress of this society through increased services supplied by the government in social welfare and culture, through price-cuts for important consumer goods, which have been made systematically in the GDR in the last few years, etc.

4.2. The enforcement of material incentives for the individual through his earned income

The earned income of working people is, in the main, made up of wages and bonuses.

Both of them are to make working people interested in raising output in accordance with demand, improving the quality of products and reducing the cost required to make them. Since the manpower potential in the GDR has practically been exhausted and the number of workers engaged in material production cannot therefore go up, the tasks mentioned have to be fulfilled by means of an increase in productivity.

This increase has to be achieved mainly by:

- a rise of the scientific and technological level of production by way of purposeful measures of rationalisation;

- an optimum utilisation of the capacity of industrial enterprises;
- an economical use of power, basic material and auxiliary material; and
- an intensive utilisation of the working hours of working people, e.g. by a reduction of idle hours for machinery and equipment and for repairs, the avoidance of idle hours for organisational reasons, etc.

These four factors which help increase productivity are the focal points on which the two forms of earned income concentrate. The latter have to be so arranged at enterprises that they can provide material incentives to raising productivity.

Wages and bonuses have specific functions as well though.

Wages are the principal form of income distribution according to work performance in the GDR. They are the major factor determining the earned income of working people. The average earned income of factory-floor and office workers at GDR enterprises rose from 439 marks to 792 marks a month - i.e. to roughly 180 per cent - from 1955 till 1971. Minimum wages were raised on two occasions during this period, in 1967 and 1971. The minimum wage, which is fixed by the GDR government, is 350 marks a month.⁵ Incidentally, retail prices remained virtually the same in that period.

Wages have the following functions:

- They are material incentives to raise productivity, which is achieved mainly through a proper use of wage forms.
- They encourage the interest of working people in improving their qualifications and accepting greater responsibility.
- They serve to distribute manpower among the branches of industry in line with their importance for the national economy.

⁵ Cf., Several authors, *Ökonomik der Arbeit* (Economy of Labour, the tr.), published by Verlag Die Wirtschaft, Berlin, sixth edition, 1974, p. 495.

Wages form part of the prime cost of output. If wage cost per unit of product goes down, the prime cost of the particular enterprise does so as well and - since prices remain the same - profit goes up.

Wages, in contrast to bonuses, are not, however, dependent on the result achieved by an enterprise as a whole. They are measured solely by the performance of a worker in the fulfilment of his work tasks.

Bonuses are financed from the enterprise's profit. Their proportion in the earned income of working people stands at approximately 8 per cent in the GDR at present.⁶

Bonuses have the following specific functions:

- They give working people an interest in the drafting of an ambitious plan for the enterprise and in its fulfilment. They do so mainly on account of the conditions laid down by the government for the stipulation of the size of the enterprise's bonus fund.
- They encourage working people to work very hard themselves so as to fulfill and overfulfill the plan of their enterprise. This is done by measuring the performances of every worker and reflecting them in the amount of bonus he gets.
- They allow giving material award to certain collectives or individual workers for very specific achievements, such as the speedy repair of some vital equipment for their enterprise, the execution in especially high quality of an important export order, etc.

4.3. The employment of different wage forms and their effects with regard to the enforcement of material incentives

The GDR has gradually established a system of wage rates which is in keeping with its socialist conditions. The all-important

⁶ Ibid., loc. cit., p. 497.

progress which it represents is that the same standard wage is paid for the same work, irrespective of the age and sex of the performing worker. This system of wage rates is the most important instrument of the socialist government to enforce the principle of remuneration according to work performance throughout the national economy.

The tables of wage rates are arranged according to occupational groups (workers, office workers, foremen, etc.). A special table is in force for every branch of the economy. Rates vary according to both the qualifications required of a worker and the responsibility to be accepted by him. This is the basis on which different money wages are laid down for the different wage and salary groups. There are, e.g., eight wage groups for production workers.

Standard wages act as material incentives for working people mainly to improve their qualifications and accept responsible work. But this does not meet all requirements of performance-stimulating pay. Another essential is to select the proper wage form on the basis of the specific conditions of production and work. This wage form is the one which permits taking account as precisely as possible of the quantitative and qualitative performance of working people and giving them material incentives to fulfill the tasks in their jobs completely.

A large number of successful wage forms have been developed in the economic practice of the GDR; and new variations are emerging and are in the testing stage. By and large, all these wage forms can be reduced to a few basic forms: time-wages and piece-rate wages, which bonuses can turn into bonus time-wages or bonus piece-rate wages, respectively.

In the case of simple time-wages, the wage level is determined by the period of time during which a worker works every day or every month and by his qualifications (his grading in the wage-scale). These wages are applied when working people cannot be given measurable performance indices in advance. This

is, at present, particularly true to say of management personnel, staff engaged in planning, management and accounting, any ancillary personnel and manpower hired to look after other working people.

Simple time-wages do not create adequate incentives to improve the quality and quantity of results of work. Therefore, work is now being done in the GDR to perfect the forms of pay and bonuses especially for management personnel to a point where their interest in the fulfilment of their tasks is heightened.

Simple piece-rate wages are used if conditions of production allow measuring the expenditure of work for every single working operation in terms of time. The specific gauge to measure work in these instances is the technological work norm. Here, the wage level depends on the rate of scale for the particular wage group and on the technological work norm in force. The larger the number of products made, or of working operations performed, in a unit of time, the higher are the wages, and vice versa. The hourly wage of working people rises in proportion to their overfulfilment of the work norm. Therefore, it one-sidedly orientates on the quantity of work results. A difficulty is the stipulation of objective criteria of performance by means of technological work norms in a situation in which the conditions of technology, production engineering and organisation are changing all the time.

In the past, the development and employment of technological work norms was sometimes underestimated in some GDR industries. When this happened there were no genuine criteria of efficiency, and wages could not fully play the rôle of material incentives for working people to improve performance. Experience has shown that material incentives can produce their full effect only if performance is measured by technological work norms. Therefore, big efforts are now being made by GDR enterprises to meet these requirements.

An advanced form of simple piece-rate wages is that of bonus piece-rate wages. They take account of new qualitative criteria of efficiency, such as the improvement of the quality of products, the economical use of material, the optimum utilisation of machinery, etc. The degree to which these indicators are complied with corrects the wage level which is arrived at on the basis of the quantity of the work result.

The scientific and technological revolution and the increase in continuous processes of work following in its wake increasingly objectify the flow of production. The resultant technological pressure of time leads to a situation in which the economic result of production is determined directly by the technological and economic parameters of production equipment. Work is changing its quality. Its new major features are: the maintenance of technological conditions of equipment, the technological supervision of machinery and equipment for whole manufacturing sections, and maintenance work of high quality and short duration. Under these conditions of production, bonus time-wages are used in the GDR. They are particularly widespread in chemical industry. As mechanisation and automation advance, these wages will gain in importance in other branches as well.

The employment of specific wage forms is a responsibility of enterprises in the GDR. Enterprise managements cooperate with enterprise trade union branches when they fulfill this task. It is essential for any enterprise not to admit of schematism in the employment of wage forms. An analysis of the specific conditions of production at an enterprise will have to be made in any case to find out what wage form is best suited to contribute to the fulfilment of the economic and public tasks of this enterprise.

4.4. The stimulation of good performance by working people through the use of the bonus fund

Next to wages, bonuses are one of the most effective forms of material incentives for working people in the GDR. Particularly important is the end-of-the-year bonus, which takes the lion's share of the bonus fund in any GDR enterprise. Other types are the bonus linked with a specific order and the initiative bonus or instantaneous bonus.

The former is paid for the fulfilment of tasks which were given to individual collectives or working people in addition to their actual work task. It thus encourages them to enter into special commitments, e.g. in connection with the socialist rationalisation of production.

The latter is paid right after working people have scored particular achievements in socialist emulation contests. Such achievements can be: better utilisation of equipment so that output is increased; economies with regard to working hours, material and energy; reduction of the costs of products; improvement of the quality of products; etc.

The forms of bonuses planned at an enterprise and the resources in the enterprise bonus fund to be used to pay them are agreed between the director of the enterprise and the enterprise trade union committee in what is called an enterprise collective contract. This contract also lays down the principles which govern the payment of bonuses at an enterprise as a whole and its sub-departments.

The payment of bonuses must not be seen in isolation: it is a component of the system of incentives. This calls for a complex consideration, recording and accounting of the indicators which provide the groundwork for stimulation through both wages (bonus time-wages and bonus piece-rate wages) and the various forms of bonuses (especially the end-of-the-year bonus).

4.5. The purpose of material incentives for individuals

The purpose of the individual material incentives for working people which are created by wages and bonuses is determined by the tasks an enterprise has in the fulfilment of central governmental plans. These tasks are mainly related to:

- an increase in output;
- a rise in productivity;
- a reduction of prime cost;
- a growth of profit;
- an improvement of the quality of products;
- an expansion of export; etc.

The enforcement of individual material incentives requires plan tasks to be broken down and distributed, in line with the structure of an enterprise, among its departments, foremen's sub-departments and work teams. As a result of this breakdown, every worker has to know precisely what the tasks of his work team are, and what his own tasks are, in a given plan period.

The specific tasks of every section of an enterprise provide the basis on which the enterprise stipulates what indicators the stimulation through wages and bonuses should focus on. As has already been said, these two forms of stimulation have to be seen in their interaction. A production worker may, e.g., be given the following stimulation:

Stimulation through wages (bonus piece-rate wages)	Stimulation through bonuses
- his performance in terms of quantity	- his fulfilment of production tasks every day and every month
- reduction of the amount or refinishing required	- avoidance of unplanned unused periods
- maximum utilisation of fixed capital	- reduction of the cost of material

When an enterprise breaks down its plan among its sections, two major problems arise, whose theoretical solution is now being worked on in the GDR.

- (1) What plan indicators have to be given to the sections of an enterprise in view of the principal tasks of the enterprise?
- (2) How do these plan indicators have to be quantified for the sections?

A large number of enterprises have so far been breaking down plans among their collectives and individual working people on the basis of empirical statistical values. But if we wish to arrive at a workable basis for measuring performance and stimulating collectives and individual working people, we shall have to have objective criteria for the breakdown of plans.