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COOPERATION IN THE UNION OF SOVIET SOCIALIST REPUBLICS: DYNAMICS,
STRUCTURE AND CONTROL OF COOPERATIVE ACTIVITY*

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**State Commission of the USSR Council of Ministers on Economic Reforms.

The cooperative movement is one of the most powerful means for democratization of the society economic life. Offering the opportunities for the material interest of the workers and earnings equivalent to the expenditures of their labour, cooperation restores the spirit of business-making, enables to draw the additional material, financial and labour resources into the public production.

In many respects, associated with cooperation is the possibility of the best development of the small and medium productions exhibiting the flexible structure and directly oriented towards the consumer. In principle, it is capable of filling within the shortest time possible the gaps on the market of the consumer goods, commodities of the industrial-engineering purpose and services.

As the matters stand now, cooperation in the fields of production and services is fairly stringently isolated from the state, sector and the market economy is only at the stage of formation. In these conditions, control of the cooperatives activity and its support on the part of the state acquires an extremely high importance.

Passing the USSR law "On Cooperation in the USSR" in May, 1988 gave a powerful impetus to development of the cooperatives. If on January 1, 1988 only 13.9 thou cooperatives functioned in the country, in a year (1989), their number reached 77.5 thou, and on January 1, 1990, over 193 thou. Accordingly, the number of workers engaged therein increased as follows: 156 thou people, 1.4 mln and 4.9 mln (with the under-contract workers, i.e. 2.9 mln people disregarded). Based on the same dates, the produced output was 350 mln roubles, 6 mlrd roubles and 40.4 mlrd roubles per year.

The cooperative movement has started to produce a noticeable effect on the indices of the national economy development. If in 1988 the proportion of the proceeds from realization of the products (work, services) of the cooperatives in

the volume of the gross national product did not exceed 1 percent, in 1989 it reached 4.4 percent. In the total volume of production of the consumer goods, the share of the cooperatives increased from 0.4 to 1.9 percent, in the total volume of the retail commodity circulation (including public catering), from 0.6 to 1.1 percent, in the total volume of realizing the general services to the population, from 4.6 to 15.4 percent.

Not all types of the cooperatives developed similarly what depends on a number of the objective reasons. If at the beginning of 1988 90 percent of all cooperatives and over 30 percent of the products realized thereby accounted for only 4 types of the cooperatives (dealing with production of the consumer goods, general services, public catering, purveying and processing of waste materials), in a year, the share of four above types of the cooperatives in the total number of those taken into account (24 types) decreased to 50 percent, and that in the volume of the realized products, to 40 percent. At present over 60 percent of the products and about the same figure related to the number of workers account for the numerous group of such cooperatives as the trade, trade-purchase, building, dealing with production of the building materials and goods, of industrial-engineering purpose, agricultural, scientific-engineering, of medical services, artistic-design, of recreative activities, of passenger transport services.

Among them, the highest development rates belong to the scientific-engineering (planning and surveying, planning and design, adoption, scientific research, software development, rendering the information services), building cooperatives and those manufacturing the industrial-engineering products. In 1989, they accounted for 8.6 percent of the output of all cooperatives of the country, whereas in the first quarter of 1989, about 2 percent.

At the same time, by January 1, 1990 as compared to the first quarter of 1989 the number of the active public catering cooperatives has decreased (from 5.8 thou to 5.6 thou) and their share in the total number of the cooperatives decreased during two years more than 3 times. Recently, the number of

the trade-purchase cooperatives has decreased as a direct consequence of the local control of their activity.

It should be noted that the concept "types of cooperatives" is becoming increasingly arbitrary. Many cooperatives do not confine themselves to a single type of activity and are versatile.

The cooperatives developed actively in all Union Republics though the events which were observed in certain regions affected the process and slowed down the growth of the number of the enterprises. During 1989 the number of the cooperatives in the country as a whole increased 2.5 times. The higher indices were in Georgia, Uzbekistan, Latvia, Turkmenistan but the reference basis in the above Republics was low and the absolute increments were small. The highest contribution to the growth of the number of the cooperatives during 1989 belongs to the RSFSR, i.e. from 38.9 thou to 102.2 thou, or 2.6 times, as well as in the Ukrainian SSR, i.e. 13.5 thou to 29.9 thou (2.2 times). Against the background of the above indices the data on Kirgizia wherein the number of the cooperatives increased by only 30 percent (from 1.3 to 1.7 thou) appear to be more than modest.

Worthy of attention is the fact that inspite of the free labour resources and relatively low level of providing the population with the general and other services, the cooperative movement in the republics of the Central Asia develops more slowly than in other regions.

In the formed logistics conditions, the major portion of the cooperatives is oriented towards work with the state enterprises which are capable of helping them with resources.

Hence, about 80 percent of the cooperatives function at present under the enterprises and organizations from which they lease 60 percent of the basic funds and buy about two thirds of the consumed raw and other materials. In this case, the cooperatives sell about 70 percent of the products to the state enterprises.

As regards the cooperatives engaged directly in manufacture of the consumer goods and rendering services to the population, the situation is characterized as follows.

On January 1, 1990, 39.5 thou such cooperatives were active and employed over 1 mln people including 608.4 thou people (58.4 percent) under the labour contract. Out of the total number of these cooperatives 37.6 percent (14.8 thou) lease the basic means of production from the organizations and enterprises.

Developed most of all are the clothing cooperatives (13.1 percent of their total number), followed by the cooperatives producing the baked articles and pastries (5.6 percent), artistic articles and souvenirs (4 percent), wall materials (3.2 percent), furniture (3.1 percent).

The same structure of the cooperative network is seen in the republics. For instance, in the RSFSR in the forefront are the clothing cooperatives (11.5 percent of the total number), followed by the cooperatives producing the baked articles and pastries, artistic articles and souvenirs, furniture. The situation in the Ukraine is about the same. In these republics the cooperatives of other types play only a minor part (both in terms of the total number and volumes of activity), i.e. the cooperatives producing furs and fur articles, standard houses, building parts, the agricultural and market-garden implements, etc.

The similar situation as regards the structure of the cooperatives is witnessed in the Baltic republics and Byelorussia. In the Transcaucasian republics, along with the clothing cooperatives, those producing the artistic articles and souvenirs a large number of the cooperatives producing the baked articles and pastries, shoe-making, producing the building materials were set up due to the local traditions.

Most of all, the cooperatives producing the consumer goods were set up in the RSFSR. On January 1, 1990, 18.5 thou such cooperatives were active therein. If their number, however, is assessed on a per-million of residents basis, it turns out that in the country on an average this index will be 140 cooperatives, whereas the leaders among the republics are Armenia (1,150), Georgia (455), Lithuania (355) and Estonia (260). Least of all, the cooperatives cover the residents of Turkmenistan (49), Tadzhikistan (57), Kirgizia (69) and Uzbekistan (74).

In considering the branch complexes, it turns out that most of the cooperatives are in the agroindustrial complex. As of the beginning of 1990, 4.5 thou cooperatives were active therein, out of which 3.7 thou were producing the consumer goods, whereas others, the industrial-engineering commodities. During 1989 they produced and realized the goods and services worth of more than 890 mln roubles. In terms of the number of the cooperatives, the next are the machine-building complex (2,251 cooperatives, the chemico-wood complex (1,564 cooperatives) and fuel power complex (1,482 cooperatives). It should be noted that most of all the products were realized by the cooperatives of the chemico-wood complex, whereas directly to the population, by the cooperatives of the agroindustrial complex.

The cooperative movement flexibly responds to various measures related to changing relations with the state. The vigorous origin of the cooperation development (during 1988 and 1989 the number of the active cooperatives increased 14 times, that of the cooperative workers, 32 times, the volume of production, about 126 times) distracted the attention from the deep processes taking place therein. Meanwhile, control of the activity of the cooperatives involved in buying the commodities from the trade establishments first before anyone else in compliance with the decision of the Supreme Soviet of the USSR (October, 1989) was artificially applied in some regions to all trade-purchase cooperatives. The effect of such decisions resulted in a trend towards slowing down the growth of the number of registered cooperatives.

In the new cooperative movement the problems of growth and contradictions associated with formation of the market as well as the negative trends manifested themselves fully. Unfortunately, many cooperative officials were tempted to use the market destabilization, commodity shortage for getting an easy money. Various "means" were made use of: manufacture of the commodities and rendering services using the scarce types of raw and other materials bought in the retail trade network, concealment of the considerable sums of profits, non-restitution and embezzlements of the large sums of credits and other

financial resources, profiteering operations, "high-profit" mediatory activity, etc.

Many infringements are revealed in the managing-financial activity, i.e. making up the declarations, keeping the record of the materials and finished products, takings.

As a rule, the due book-keeping is not maintained in the cooperatives, the financial authorities supervise their activity badly. This situation creates the favourable conditions for major embezzlements and bribery, and undermines the fundamentals of the state financial and credit system.

Using the Law on Cooperation in the USSR, that permitted the cooperatives to settle the accounts in cash without limiting the sum of payments, the banks provided the cooperative officials with the large sums of credits and cash which were spent for profiteering purposes.

The study of the negative effects revealed in the activity of the cooperative officials led to the conclusion that their elimination using exclusively the administrative and economic measures was impossible. The Law on Cooperation itself requires to be corrected as the cooperative officials failed to withstand the test by freedom granted by the Law in terms of quite a number of items. And the appropriate supplements and revisions to the Law were prepared.

The bill submitted to the Supreme Soviet of the USSR has a feature of principle, i.e. it is proposed to solve the set tasks through expansion of the rights of the local Soviets of People's Deputies and increase of their role in development of the regions.

Introduced is the more democratic and, at the same time, more clear and exacting procedure for setting up the cooperatives. If before the role of the executive committee of the local Soviet of People's Deputies was frequently confined to the formal function of the statute registration, provision is made that the local Soviet as the representative body of the territory will determine priorities in development of the specific types of production and grant a permission to set up a cooperative on a basis of the conclusions drawn by the specially set up deputy commissions.

The new organizational measure is the introduction of the requirement for the mandatory state registration of the cooperatives and issue to the latter of the licences for the right to be involved in the types of activity, which are specified in the cooperative statute. Unless the licence is granted, the registered cooperative may not function. Should infringements be revealed, the supervisory agencies may withdraw the licence and, thus suspend the cooperative activity until the revealed shortcomings are corrected.

It is proposed to make the requirements for the cooperative statute more stringent. Along with the specific indication of the subject of activity, the procedure for forming the property and distribution of income, it should include the provisions regarding the implementation of the financial and foreign economic activity, book-keeping and accountancy as well as the responsibility of the cooperative members in terms of its debts.

As is known, many cooperatives are the members of various cooperative unions and amalgamations with no provision, however, for their registration made before. This resulted in various misunderstandings and infringements, in particular, when the unions and amalgamations strived to accomplish the managing operations including the foreign economic operations. It is proposed to introduce the registration of the cooperative of the unions and amalgamations, thus enabling to establish the legal basis for their recognition by all state, economic and other agencies as well as to eliminate the contradictions associated with the possibility for these unions (amalgamations) to deal with current business.

The supplements and revisions to the Law also covered such important issue as regulation of the financial activity of the cooperatives. In this case the objective to set forth the more clear requirements for procedure of settling the accounts with the suppliers and buyers, restrict the possibilities of the cooperatives in manipulation with the written-order financial resources and cash, that is favourable to origination of the crime-causing situations, and, finally, eliminate the

unjustified distinctions in the rights of the cooperatives and state enterprises in using cash was pursued.

In particular, provision is made for the cooperative to settle the accounts on a written-order basis against its commitments with the state enterprises, organizations and establishments and settlements with them in cash in the order established for the state enterprises.

The cooperative will enjoy the right to open one settlement account with the bank office wherever registered. Its branch (division) and representation may open the current accounts (subsettlement accounts) wherever located.

As agreed upon with the bank office and with the specific features of the cooperative activity taken into consideration, the limiting amount of cash ever available in the cooperative to cover the current expenditures is determined. The means intended for paying for labour of the cooperative members and persons working therein under the labour contract and on a pluralism basis, buying the agricultural products and raw materials on the collective farm markets and from the population as well as the travelling expenses are not regulated by the above limit. The procedure for spending cash by the cooperatives from the takings and cash receipts will be set up by the State Bank of the USSR.

Provision is made for supervision over the use of the labour payment cash and observance of the cash discipline by the cooperative on the part of the financial and banking agencies on a basis of the profit declaration submitted to them every quarter. It is meant that the role of the declaration will be considerably enhanced. This can be achieved through higher responsibility of the cooperative for strict observance of the procedure for filling in the declaration and reliability of data contained therein. If distorted, the cooperative managers should bear the responsibility (administrative or criminal) in the order set forth by the legislation.

As we see, the absence of supervision over the activity of the cooperatives, the formal approach to the supervision rendered disservice to the cooperatives, did not allow to timely prevent many infringements of the law, which discredit this form of managing.

In the proposed supplements to the Law, provision is made for more stringent supervision over the cooperatives observance of the existing norms and regulations.

Introduced is supervision on the part of the bank offices over observance of the credit, settlement and cash discipline by the cooperatives which they attend to. In case the cooperative infringes the obligations under the credit agreement, the bank may exact all issued sum in the undisputable order.

Provision is made for execution of the book-keeping and statistical paperwork by the cooperatives on a basis of the forms, addresses and time intervals established by the financial and state statistics agencies. Expanded are the forms of auditing the productive-managing and foreign economic activity of the cooperatives.

More stringent supervision should not restrict the independence of the cooperatives. Stemming from the need to level their legal and economic conditions with the state enterprises, provision is made for guarantees for the cooperatives against the unfounded interference of any authorities with their current business activity. In this case it is set forth that supervision on the part of the banking, financial and other agencies of the state management is effected with respect to the cooperatives like in relation to the state enterprises, organizations and establishments.

Secured is the right of the cooperatives like any other enterprises and organizations without limitation to join various associations, concerns, consortiums and other amalgamations on a voluntary basis.

Still subject to discussion are the issues associated with the cooperatives functioning under the enterprises. Indeed, the contribution of these cooperatives to saturation of the market with the goods and services continues to remain insufficient.

Many shortcomings are related to the absence of the due supervision over the activity of the cooperatives on the part of the guarantor enterprises.

As shown by the examples, the efficient interaction of the enterprises and cooperatives is ensured in case the councils

of labour collectives and administration base their relations on the long-term economic methods and duly supervise their work. In these instances the cooperatives take up the fulfilment of the state orders, take part in development of the production and social infrastructure of the enterprises and regions, achieve high final results.

For instance, cooperative "Montazhnik" (Saransk) set up under trust "Soyuzmedbiostroimontazh" with the number of workers reduced by 65 persons increased during the second half of 1969 fulfilment of the volume of work as compared to the state contracted organization on the basis of which it was set up by nearly 40 percent. In this case the average monthly output increased by 60 percent, wage, by 55 percent, assignments to the production development fund, 6.5 times.

As regards the issue of reorientation of the cooperatives towards servicing the population, it is not neglected. The law "On Income Tax Imposed on Cooperatives" provides for full exemption of the cooperatives dealing with processing of the agricultural products, production of the building materials and building cooperatives from payment of the income tax during the first two years of work.

Decision of the Supreme Soviet of the USSR (September, 1969) on measures for regulation of the increment of the means used for labour payment by the cooperatives provides for non-application of this order if decided by the local Soviets of People's Deputies to the increment of the means used for labour payment provided the increment is caused by increase of production and realization of the goods and services. The appropriate measures are provided for by the USSR Council of Ministers in decision "On Order and Conditions of Granting to Cooperatives Privileges Related to Tax Regulation of Increment of Means Used for Payment of Labour".

Provision is made in the amendments to the Law on Cooperation for setting forth that in the cooperatives engaged in the fields of production and services the cooperative members should be the principal workers, whereas the pensioners, invalids, housewives, students, pupils as well as workers, scientific and engineering-technical workers and employees of the

enterprises, establishments and organizations may take part in the cooperative activity under the labour contract in spare time.

The economic levers are very important in this plan. In determining the size of the rates of the income tax imposed on the cooperatives, the Presidium of the Supreme Soviet of the RSFSR laid down that in case the number of persons working in the cooperative under the labour contract exceeds 30 percent of the number of the cooperative members (in this case the invalids, pensioners, students and pupils, mothers of a large family are not taken into account) the tax rate increases by 25 percent.

It should be noted that the cooperative sector of the economy becomes increasingly attractive to the working people. As the cooperatives find their feet, their material and financial base strengthens and, thus the guaranteed profit-making steps up, the number of workers changing over to work directly in the cooperatives increases. This is indicated by the increase of the proportion of the cooperative members in the total number of the employed.

The number of the pluralized workers during 1989 increased by 1 mln people, whereas the number of the cooperative members, by 2.4 mln people or 4.2 times. Under the effect of these factors, the proportion of the pluralized workers in the total number of the persons employed in the cooperatives tends to decrease. If at the beginning of 1989 the number of the pluralized workers in the cooperatives was equal to 47 percent of the employed persons, by the beginning of 1990 this proportion decreased to 35 percent.

A number of factors contributes to the higher level of the cooperative officials' earnings (if the negative aspects are disregarded). As a rule, employed in the cooperatives are the highly-skilled workers and they work much more intensely as confirmed by numerous examples. Herein the managerial and other overhead expenses are much more lower, wage is formed by the results of labour and not on a basis of labour expenditure. One cannot but also take into consideration that the profits of the cooperative officials partially safeguard the conditions of the cooperatives activity and lesser social protection.

The size of the cooperative officials' earnings varies over the broad range, as it depends on the type of the cooperative activity, its location. The highest earnings are in the cities.

Yet another important circumstance should be borne in mind, that artificially increases the earnings of the cooperative officials. The instability of the mechanism of the cooperatives interaction with the state restrains their orientation towards the long-term objectives, targets them to getting the direct results. This is indicated by the high proportion of the allocations to the labour payment fund and the low proportion of the allocations to the cooperative development and social development funds.

As of 1990, both in the cooperatives and the state enterprises the increment of the means used for labour payment is regulated by the decision of the Supreme Soviet of the USSR but this problem can be really solved using the progressive system of taxation of personal income.

If conclusions are to be drawn in principle, it should be probably noted first of all that cooperation exposed to very complicated conditions proved to be viable. In some regions it is regarded as a serious assistant in solving the national economic tasks and this yields the appropriate results.

During the last year the output of the cooperative products in the Crimea Region increased more than 10 times. The similar situation is observed in the Komi ASSR, the republic with the quite different economic and natural conditions. The first agreements of cooperation between the local Soviet power authorities and cooperative officials in participation of the latter in implementation of various social programs were signed. In Cherkassk, Stavropol Territory, the cooperatives provided in 1989 8 thou working places. It turned out to be very important as 13 thou unemployed workmen's hands were in the town. In some regions the payments of the cooperatives to the local budgets considerably increased due to expansion of their activity and account for the large share in the income of the district Soviets. For instance, in the Bauman district of Moscow they accounted for 16 percent.

Noted is the strive of some branch cooperative unions for regulation of the activity of the member cooperatives. For instance, the Union of the USSR Health-Improvement-and-Medical and Medical-Technical Cooperatives approved the list of prices of the medical services provided to the population. Practically, they are identical to those effective in the state self-supporting polyclinics.

In case the cooperative officials take a more active part in implementation of the republican and regional programs related to solving the social problems, saturation of the market with the consumer goods and services, improvement of the population servicing, it is possible to count on the new convulsion of growing volume of the cooperative activity. As regards the predictions of the economic agencies and scientists, they are much different but the most daring predictions refer to the volumes of producing the goods and services in 1990 within the limits of 100 to 120 mlrd roubles. It is about thrice as much as the indices of 1989.