

Soviet Managerial Dysfunction

In the Soviet Union, the planning process was so huge that planners were never able to plan more than 2,000 product categories. Categories consisted of very large blocks of related products lumped together. Planners then planned the production of these categories, relying on managers to choose the output mix and the characteristics of the individual products. Planners could not micromanage planning and seldom give managers more than 30 directives pertaining to product mix and product characteristics. The most important directive given by planners to soviet managers was a **production target** expressed in rubles (i.e., the Soviet money unit). For example, a soviet enterprise would be told to produce 10 million rubles of the category products. It was then up to managers to fill in the actual details as to what would be produced.

This system created a problem called “managerial dysfunction.” Managerial dysfunction occurred when soviet enterprise managers interpreted the directives from planners in a way that promoted the self-interest of managers at the expense of what planners wanted managers to do. In other words, Soviet managers changed the output mix and the nature of the product to promote their selfish interests. Recall Milton Friedman’s assertion in one of his YouTube videos that self-interest was ubiquitous (i.e., everywhere), and not something only found just in market economies. Managerial dysfunction illustrates his point.

Managerial dysfunction was found throughout soviet industry, but an example from a single industry, book publishing, can illustrate the problem. For example, when Soviet planners told book publishers to produce 100 million rubles of books, they could not tell them what books to produce; they had to leave it to managers what to print. So, when planners told publishers that they would get paid per book, publishers printed many small books; no *War and Peace* in this mix. On the other hand, if planners said that they would pay publishers per page, big books like *War and Peace* became the mainstay of production.

Furthermore, when paid by the page, publishers made the type font bigger and page margins were expanded, all to increase the number of pages. When planners responded and required printers to minimize costs per page, printers went to printing on very thin papers; many Soviet books were printed on paper that resembled toilet papers. What Soviet planners desired was for printers to produce a good mix of books with normal features; what planning ended up producing was distorted books and a distorted array of books. This was managerial dysfunction.

This discussion is not a case of unfairly criticizing soviet planners behind their backs. The problem of managerial dysfunction was widely known in the Soviet Union and planners actively searched for solutions. They never found one.

The cartoon below appeared in a Soviet magazine called **Krocodil** (i.e., Crocodile in English). Krocodil was a satirical magazine that was published from 1922 through 2008. It often poked fun at Soviet problems and was tolerated so long as it did not criticize the Soviet state.

The setting for the cartoon is a soviet factory producing nails.



The rough translation reads:

The worker asks: "Who needs this nail?" and the factory bureaucrat answers: "This is irrelevant. It's important that we fulfilled the plan immediately."