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# **WIDER WORKING PAPERS**

## **Reforming Process and Consolidation in the Soviet Economy**

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WP 53

January 1989

*World Institute for Development Economics Research  
of the United Nations University*

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**REFORMING PROCESS AND CONSOLIDATION  
IN THE SOVIET ECONOMY**

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August 1988

The views expressed here are the author's own and not those of the Institute. Part of the work for this paper was carried out while the author was a visiting researcher at the World Institute for Development Economics Research (WIDER), Helsinki, Finland.

The author is grateful to Prof. G.W.Kolodko, Dr. K.Mizsei, Prof. M.Ostrowski, Dr. D.Rosati, Dr. A.Török and Dr. Zhang Yu Yan for their constructive comments on the earlier draft of the paper.

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### Summary

One of the main reasons for launching a radical economic reform in the USSR is that the previous system of rigid administrative management failed to become efficient and to react adequately to internal and external developments. Disproportions and imbalances were a general phenomenon at both macro- and micro-levels. At the same time, the usual economic tools (monetary and fiscal policies, exchange rate, etc.) could not play their usual role, since there is no internal market as such in the USSR and the degree of demonetization of the economy is rather high.

The process of reform-thinking in the USSR has been gaining momentum since the early-1980s. In mid-1980s it was followed by some short-term stabilization measures which tried to bring more discipline into production, to improve quality, and to solve urgent social problems. These measures, however, had only a limited effect. Since 1986 the pronouncements about reform became more radical, and they triggered the adoption of a package of legislative acts (though still incomplete) aimed at restructuring the whole economy.

The key issue of the economic reform is the combination of economic centralism and autonomy. This task is extremely hard because of strong traditions of state interference in the economy, paternalism, and over-centralization of decision-making. The idea is that after the reform, economic agents (enterprises and firms) will have complete autonomy, self-support and self-financing. They are supposed to compete between themselves, thus breaking the monopolism of producers and a chronic "sellers' market".

The intention is to create an appropriate environment for the performance of all economic agents, to develop a socialist market and to put to work its mechanisms of self-adjustment and stabilization, which will eliminate a large share of the present shortcomings. The center of economic decision-making

is expected to concentrate attention on strategic issues, monitoring macro-processes, giving orientations to the market by indirect economic tools, distributing a part of total investments, implementing social programmes, etc. The planning system will play a different role than up to now, since the day-to-day operational activity of the enterprises will be out of its control.

It is impossible now to predict precisely the future performance of planning and of the market. In any case, "marketization" of the Soviet economy does not mean a complete reliance on market mechanisms in a laissez-faire sense. Nor will this country practice Darwinism in social processes, and social imperatives will always remain a criterion for appraisal of any economic policy.

The reform tends to provide room for a sort of economic pluralism in the form of three sectors - public, co-operative, and individual. This will also contribute to a higher degree of individual freedom as far as the economy is concerned. At the same time, the public sector will have to prove its efficiency in practice by finding methods to overcome alienation and to realize the potential benefits of social property of the main means of production.

Implementation of the reform encounters numerous short-, medium- and long-term problems. The theoretical foundations of practical policies prove to be inconsistent and compromising in some cases. The strategy is also subject to shifts in the sequence of reform steps and their radicalism. It is in essence a process of "learning by doing" that requires a flexible policy. Unfortunately, certain parts of the "package" are not synchronized enough -- e.g., reforms of pricing, planning, wages, banking and credit, taxation, and administration still lag behind, thus hindering the realization of far-reaching decisions and programmes. Discussions are just beginning around such topics as so-called "factor markets" (capital, labour), openness of the economy, etc.

One must not underestimate the bureaucratic resistance to reform efforts, the enormous inertia, and the uncertainty of a considerable part of the population about the changing environment. These phenomena partly explain why the economic restructuring is not advancing fast enough, and why there was no radical change in 1987. There have been suggestions in favour of different scenarios for the pace and radicalism of the reform -- the radical one and a gradual one. Thus far a gradual evolution towards a new economic model (instead of a "shock therapy") looks more probable.

Almost every month brings some new important development in the Soviet economy. Therefore, research of the implementation of the reform in the USSR should be continuous. This country's attempts to increase economic efficiency and to reinforce at the same time social guarantees for the population is of interest to others (this challenge is faced constantly by policy-makers and scholars in the developing countries). It could also be worthwhile to undertake special research in the areas of property, planning, role of the state, monetary policy, distribution, social policy in the USSR under the economic reform.

## Introduction

Stabilization and adjustment policies are usually taken to refer to a set of short- and medium-term economic measures aimed at overcoming the disturbances, negative effects and disproportions caused by external and/or internal developments (shocks). The analysis of these issues normally includes discussion of monetary policy, fiscal policy, labour market policy, foreign economic policy.

If the experience of the USSR is to be analysed, then there is a need for another approach that covers a different range of problems. The Soviet Union has a specific system of economic management (central planning), so mechanisms of adjustment and stabilization are quite different from those employed in the market economies. It suffices to say that the USSR does not have an internal market in the full measure of the word. The Soviet economy is a deeply unbalanced one, where inflexibility and inertia paradoxically co-exist with over-management. That is why the traditional scope of analysis of adjustment policies would in this case be inappropriate.

Therefore, it makes sense to discuss the entire macro-economic model from the point of view of its ability to adjust, and the economic restructuring policies that have been implemented since mid-1980s. This restructuring has several goals, and along with improving the efficiency of the economy and the standards of living, it intends to create a more flexible economic organism capable of reacting to shocks.

The conceptual background and the practice of the economic reform under way in the Soviet Union clearly deserve a full study. However, the scope of this paper enables the author only to present a rather short survey. One of the difficulties is that there is relatively little practical experience of the economic reform so far. Even a theoretical discussion on different important topics is doing the first



steps, so it is not easy to identify the main-stream of reform-thinking. The majority of the sources are available only in the Russian language. In addition, terminological problems may arise, since many Russian terms do not have adequate equivalents in English. Nevertheless, the author tried to give an account of some general features of the current socio-economic developments in the USSR, which can be seen from the point of view of adjustment and consolidation.

## Chapter I

### URGENCY OF REFORMS IN THE CONTEXT OF SOCIO-ECONOMIC DEVELOPMENT IN THE USSR

It would be wrong to think that during the past 70 years (i.e., after the 1917 Revolution) the economic development of the Soviet Union was a total failure or in constant crisis. The USSR is one of the few countries that in the 20th century managed to change dramatically their position in the world economy, or namely to multiply their share in the total world income and industrial output. (See Table 1).

Table 1  
Share of the USSR in the world economy (per cent)

	Year				
	1913*	1920	1950	1986	1987**
Population	9.4	9.0	7.0	5.7	5.7
National income**	6.0	2.2	10.0	14.0	14.2
Industrial output	3.6	0.6	6.9	14.6	14.9
Agricultural output	7.6	5.1	6.8	8.7	8.8

\* Russia

\*\* Preliminary estimate

\*\*\* net output; services not included

Source: Calculations by Soviet researcher B. Bolotin based on diverse international and national statistics. (World Economy and International Relations, No.11 (1987), pp. 148-152).

This dynamism became feasible within the economic model that was definitely shaped in 1930s. It pursued an accelerated

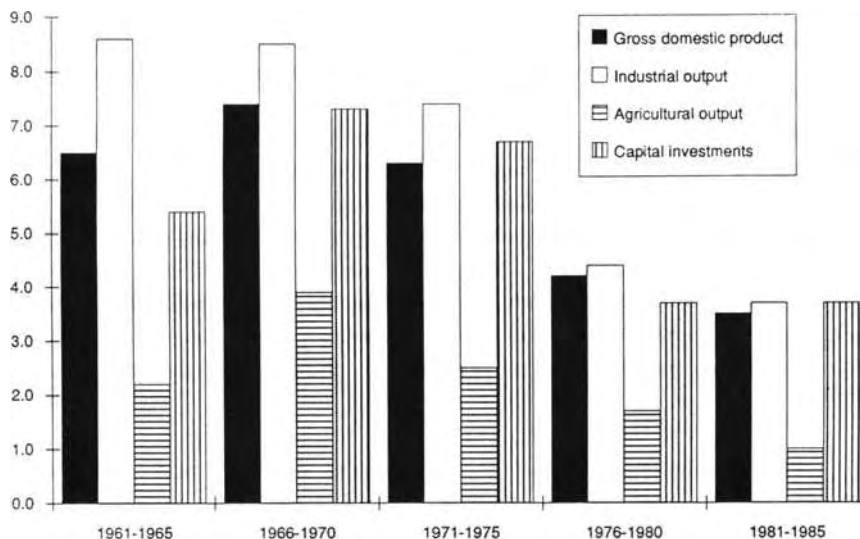
or even forced economic growth and structural change. There has been a lot of debate about the social costs and efficiency of this economy, however, the average standard of living has also increased considerably, if viewed over a longer period of time.

The inherent defects of the "administrative" or "command economy" became more and more evident after the World War II, when the global scientific and technological revolution presented a serious challenge to the system's ability to be innovative and efficient. It led to an attempt at an economic reform in mid-1960s, which failed due to the theoretical and practical inconsistency of the reformers. The system followed its evolution without major essential changes up to the early 1980s.

The economic situation in the first half of the 1980s is identified by the leading Soviet scholars and policy-makers as "pre-crisis". We will not open a separate discussion about terms - whether it should be called "pre-crisis" or "crisis". What is important is that this situation was characterized mostly by qualitative disfunctions and contradictions rather than by the typical manifestations of crisis in non-socialist economies. For instance, rates of economic growth were decreasing from one five-year period to another after mid-1960s, but they have never been negative, or at least this is the impression that can be drawn from the official statistics (see Figure 1 and Table 2).

These figures look too optimistic, however, because they are calculated on the basis of current prices, and the methodology itself is far from perfect (some elements are accounted two or more times, thus increasing the gross volume indicators). If deflated by price increases, these indicators become much more modest. According to A. G. Aganbegyan, during several years, especially in 1979-82, there was no real growth of the national economy. Output levels of 40% of the items produced by the industry were decreasing.

FIGURE 1. Rates of growth of the Soviet economy (yearly averages, per cent)



Source: USSR in Figures in 1987, pp. 15-17.

Agricultural output was falling as well, and the 1978 level was not surpassed. (Economics and Organization of Industrial Production, No. 11 (1987), p.7).

It should be stated that it was not quantitative indices that marked a certain turning point in the Soviet economic development by the early 1980s, but an increasing aggravation of internal imbalances and shortages, falling efficiency, and management failures.

The efficiency of production had stopped growing. Index of industrial output per 1 rouble of yearly-average cost of fixed assets acquired an extremely unfavourable trend: if 1970 = 100%, then 1980 = 81%, and 1986 = 69%. (National Economy of the USSR for 70 years, pp. 51, 65).

Inputs were growing at lower and lower rates in the 1970s and particularly in the early 1980s. These increases could not

offset the downward trends, because they were yielding a diminishing return (see Skorov, pp. 4-5). Labour productivity had also lost its dynamism: in 1966-70, it grew at an average rate of 6.8% per year; in 1981-85, just 3.1%.

These factors triggered a widening of internal disproportions and imbalances. Chronic shortages became a general phenomenon, comprising raw materials, labour resources, new equipment, consumer goods and services, etc. The peculiar thing about it is that the shortages did not originate from insufficient output, since the USSR is the world's major producer of many primary goods and basic materials.

The problem was (and still is) that the information circulating between economic agents consists principally of quantity signals, and not of price signals (see Kornai, 1984). Real solvency, supply of goods and services, prices were somewhat autonomous from each other. The shortages of raw materials, intermediate materials, fuels, equipment were felt everywhere, but at the same time producers almost never lacked money to acquire these inputs. It is therefore not mistakes in planning or high rates of growth that should be blamed for shortages but the whole system of economic planning and management. Despite severe scarcity, the utilization of resources is very inefficient. Energy-, metal-, material-intensity of a unit produced is very high by modern standards - e.g. energy intensity is at least 1.5 times higher in the USSR than in the West. After price shocks in the 1970s the industrialized capitalist countries adjusted their economies during the last decade and managed to cut the consumption of fuels and raw materials. The Soviet economy did not adjust to new conditions, and material-intensity of the gross output declined very slowly (e.g., in 1976-85 by only 0.5% on the average per year. - USSR in Figures in 1987, p.71).

Rates of investment are still high, but at the same time existing production facilities are under-utilized due to shortages of labour force and raw materials, or to technical

reasons. In industry alone, assets worth 100 bn roubles<sup>1</sup> are idle (National Economy, pp. 82-84, 112). To compare, in 1980-85 new assets entering into service annually equalled 150-170 bn roubles (throughout the economy) (USSR in Figures in 1987, p. 6).

Chronic disfunctions in exchange processes reflect a general trend towards a "natural economy". Circulation of financial and material resources does not correspond and is not balanced. This can be proved by the sharp increase in deposits of goods in the economy (i.e., immobilized inputs), which in 1985 reached the amount of 463,5 bn roubles.<sup>2</sup>

Perhaps the most dramatic gap lies between the supply and demand for consumer goods. The difference between the population's effective demand and its coverage is getting wider, since the mechanism that could force producers to react to the demand is lacking. The amount of money in individual saving accounts reached 266,7 bn roubles by the end of 1987, exceeding the 1980 level by 70%. In the same interval, wages throughout the economy grew by 19%. (USSR in Figures in 1987, pp. 197, 209).

Saving accounts represent only a part of the population's liquid assets, and another amount comparable with the deposits may be retained in cash, because the system of accumulation of personal savings is underdeveloped and gives no real incentive for depositing. Let us assume, that the cash is equal to one-half of the deposits, then it totals 400 bn roubles altogether. The volume of retail trade and paid services to population rendered in 1987 is also about 400 bn roubles (USSR in Figures in 1987, p. 6). It is very difficult to present in quantitative terms the level of satisfaction of the population's demand<sup>3</sup>, but it comes to the surface in the form of queues, rationing, and enforced substitution. The citizens can not find goods and services required, and are compelled to save money, increasing thus the magnitude of postponed demand. The inability of producers to cope with these signals of demand called into being an entire "shadow economy" where

illegal elements or sectors prevailed (theft and resale of state property, illegal privatisation of means of production, smuggling of consumer goods from abroad, rendering services by non-registered craftsmen, resale of subsidized products at market prices, etc.). A recent estimate made by the State Planning Committee says that the "black economy" has a turnover of about 90 bn roubles a year (i.e. nearly 11% of GDP).

The criteria applied for assessing the performance of each economic agent have, as a rule, quantitative nature and are oriented, therefore, on intermediate indicators instead of final outcome. This is why the "administrative economy" is unable to solve two major problems - the quality of products and perceptibility of innovation. According to official statistics, in 1986 the share of supreme-quality products in the total output was only 14% (National Economy, p. 155). As little as one-third of all inventions find an application in the economy and even in these cases, their diffusion is rare. The renovation of production programme progresses at a slow pace, and the average period for developing a new item in engineering is estimated at 5 or 6 years. Nearly 30% of the machinery produced at present entered the programme more than 10 years ago, another 25% date from six to ten years ago.

All these or other problems and shortcomings of the Soviet economy are probably familiar to economists world-wide. Hundreds of authors in the West and the East have written extensively on these issues<sup>4</sup>, so it seems inappropriate to compete with them by going into further details.

For our context it is important to draw the conclusion that the traditional economic system proves to be unable to overcome long-lasting imbalances and disproportions, not to mention adjustment to current internal and/or external challenges, or a change in the pattern of development (from extensive to intensive factors).

From such a viewpoint, it would not be very fruitful to discuss only tactical measures for adjustment and consolidation. The entire mechanism keeps on generating disproportions instead of eliminating them; it is discoordinated to such a degree that economic tools and instruments normally applied for fine-tuning can not be utilized. At present this inflexible model of "administrative economics" is undergoing a radical restructuring in the USSR.

## Chapter II

### SHAPE AND CHARACTERISTICS OF ECONOMIC RESTRUCTURING: THEORETICAL AND INSTITUTIONAL APPROACH

After years and decades without serious scientific discussion on crucial matters of the functioning of the Soviet economy (some topics simply were taboo) we have been witnessing since early-1980s and especially after 1985 an extraordinary enthusiasm in what can be called "reform thinking". At this initial phase the reform thinking is in many cases quite a confusion, since even basic philosophical and methodological positions are not yet defined. Confrontations of opinions are spectacular, and it is hard to affiliate each discussant with some "camp" or ideology. The author would not be able to offer a classification of these views similarly to what J. Kornai (1986, pp. 1724-1734) presented, firstly because theoretical notions are now evolving fast enough, and secondly because analogies in approach to some apparently identical phenomena under capitalism and socialism can be only relative. (Perhaps, at this stage of reform-thinking in the Soviet Union practically all economists are "naive" to a lesser or greater extent). It is difficult also to detect the mainstream in theoretical views and in institutional policies, since they reflect a continuously shifting balance between different ideas and groups of interest.

In mid-1980s some stabilization measures of a short-term character were taken with the purpose of bringing more

discipline into production, improving quality, and solving urgent social problems. These measures were not supported by a solid economic background, so they had only limited effect.

After 1986, the pronouncements about the reform became more radical. It was followed by the resolutions of the 27th Congress of the CPSU (1986), by posterior governmental and party decisions and legislative acts which formed an "economic reform package" (though still incomplete), shaping the general direction of changes.

The scope and character of this paper makes it impossible to describe and to analyse in detail all these documents, or all the research carried out by Soviet scholars<sup>5</sup>. Developments in the Soviet economy aroused general interest among foreign experts, so quite a number of works on this topic have already appeared.<sup>6</sup> The range of authors' attitudes toward the reform is very wide and so is the degree of their optimism about the success of economic restructuring under way in the USSR. We will try first to give an interpretation of the theoretical background for the reforming policies, and then to disclose the obstacles and difficulties faced by the reform.

# 1. Centralism vs. Autonomy

The fundamental problem of the economic reform and of the new economic model consists, in the author's opinion, in finding a more or less optimal combination between centralism and autonomy, between guidance from the centre and self-regulating mechanisms.

During recent decades, incorrect and idealistic notions about the way how a socialist economy should function were, unfortunately, the mainstream of the economic theory in the USSR. Extreme centralization of decision-making was seen as the best means to move the economy "in the right direction". In other words, an administrative interference in and arbitrary subordination of the economic life to political decisions were considered to be the most "rational" and reliable way of control over the economy, while market



mechanisms of equilibrium were distrusted, mainly because they did not immediately obey those decisions.

The idea of centralized guidance and management suffered a reductio ad absurdum. It is natural that an economic centre, even one of a monstrous size, can not administrate properly the development, production and distribution of all the 25 million types of products in industry alone. Rigid breaking-down of output targets proves to be inefficient in the achievement of its main goal: instead of stabilizing the economy and adjusting output to demand at each moment, the over-centralized model only creates shortages and a genuine anarchy, where plan targets are normally not completely fulfilled.

One of the most essential elements of the managerial reform is (or should be) decentralization of decision-making in what concerns the operational activity of economic agents. Before launching a reform nation-wide, some large-scale experiments were carried out, where several factories (e.g. a plant producing chemical equipment in Sumy, and the automobile plant VAZ in Togliatti) could enjoy a relatively high degree of independence from their sectoral ministries in the planning of output, distribution of profits, re-investment, wages, etc.

In June 1987, a broad discussion on the draft was concluded by the adoption of the Law on State Enterprise (Association). It stipulates that all enterprises have complete autonomy, self-support and self-financing. Profits or incomes represent the most important synthetic exponent of their performance. Production programmes should not be given to enterprises from higher levels of management, but the state can issue orders (procurements) for the most important items, while the rest of the programme will be formed by the enterprises independently. According to the Law, the general trend is to narrow the sphere of utilization of state orders. Further, enterprises are expected to exist in the environment of economic competition, which will be encouraged by the state

through economic tools (Ryzhkov, pp. 14-15; Law of the USSR on State Enterprise, pp. 6-7).

The above mentioned document has a tangible de-centralizing impact but, at the same time, it leaves room for different interpretations, and does not set institutional guarantees for the fulfilment of its clauses. To begin with, "enterprises" and "associations" are not quite synonymous, so if the plenitude of rights is given to huge associations (which in many cases enjoy a monopolistic situation), then the smaller enterprises subordinated to them will not have their rights visibly expanded. Secondly, the Law speaks of economic normatives applied by the state for control, but it gives no security that these normatives would be stable and fair (e.g. a ministry can establish for a well-performing enterprise a normative that will strip from this enterprise practically all its profits). Thirdly, the Law does not stipulate the limit share of the programme to be covered by state orders, so in practice the enterprise can be left without room for manoeuvre. Fourthly, situations of poor performance and eventual bankruptcy of the enterprises are treated in a very implicit way, so that the state's paternalism will inevitably remain. Fifthly, enterprises have very limited autonomy in pricing their products. Sixthly, the problems of capital re-allocation, as well as the entry of new producers in the market, are left unclarified, which brings doubts about the possibilities of abolishing the chronic monopolism. This enumeration can be continued.

One peculiar fact about the de-centralization of economic decision-making is that central managing bodies are expected to take far-reaching resolutions which will evidently suspend their right to decision-making or will reduce it substantially. In addition, both enterprises and ministries are uncertain about the effects of complete autonomy of agents in decision-making; there are fears of a severe destabilization and a chain-reaction of shortages and prices, at least in the initial phase. Furthermore, autonomy of agents comprises both right and responsibilities, while these latter

raise more complex problems of limits of responsibilities to be borne by the workers' units in the public sector.

If the previous model can be characterised as "administrative centralization", then at least three alternatives do exist now:

- administrative de-centralization;
- economic de-centralization;
- economic centralization.

The first two of these options are understood as a reform which will disaggregate central managing bodies, taking from them the real economic power and passing it to administrative or economic structures at inferior levels.

The best solution seems to be given by the concept of real economic centralization. It implies that economic agents have practically total autonomy in their day-to-day activity. At the same time, the centre of economic decision-making has the power and mechanism to give strong orientations, mainly by means of monetary policy and other economic tools, which would modify the environment where producers exist. Paradoxically, some developed market economies (e.g. Japan) are in many respects far more centralized than the Soviet economy, because in the first case the economic centre can effectively orientate all agents to cope with strategic development programmes, while in the case of the USSR, centralism is often only nominal, and lots of resolutions and acts do not produce any real effect on the agents and therefore are not fulfilled. (This fact can be proved by the numerous campaigns launched in the USSR for introducing innovations, improving quality, reducing outlay, becoming competitive in the world markets, restructuring production programmes, etc.).

## 2. Creation of market and role of planning

The only self-regulating economic mechanism known up to now is a market. Its functioning is never perfect, and major disproportions appear periodically, not to mention social by-effects. However, market is a system provided with mechanism

for surpassing, at least temporarily, its own imbalances, and for aggregating the interests of all economic agents.

In the USSR, the "new economic policy" which relied on market forces yielded spectacular results in revitalizing agriculture, trade, industry, finances for several years after 1921. Nevertheless, since late 1920s there began a long period when decision-makers evidently under-estimated the role of market for successful performance of the economy. Market was assumed as something "alien" or even "harmful" and it was identified usually with a complete chaos and spontaneity that had to be eliminated through central planning and "conscious monitoring". Official political economy was certain that "an objective law of planned and proportional development" governs the socialist economy, replacing market mechanisms of adjustment that operate in capitalist economies.

Carrying out these orientations, practical policies tried to wind up market and monetary relations, and they rather succeeded in doing that. The Soviet economy today has no internal market as such. There is a high degree of demonetization (or naturalization), and money plays only an auxiliary part, serving mainly as a means of calculation.

Since early-1980s, economic thinking and public opinion in the USSR seem to be passing a turning point in the evaluation of the role and place of a market in planned economy. In the papers by some leading Soviet economists - N. Shmeliov, R.Yevstigneyev, O.Lacis - one can find arguments that a market mechanism itself is indifferent to the social system. (Shmeliov, 1987, p. 154; Issues of Economics). It was not an invention made by capitalism, nor should it disappear under socialism, since the latter is also a kind of commodity economy. Market mechanisms alone (supply-demand, competition, choice, reduction of outlay) have nothing to do with ideology. They are just conditions of viability and efficiency of the economy at a given stage of development. Therefore, market should be created in the USSR. (When saying "creation" or "construction" or "development" of market, it does not mean an

institutional act, but rather a set of measures for reorganising the whole environment where economic agents exist, first of all for monetization of the economy in order to overcome the trend to a "natural economy" with isolated producers/sectors).

Basic documents on the economic reform in the Soviet Union accepted the necessity of creating a market. New model of economic management is supposed to be featured by unity and mutual complementation of planning and self-regulation. Are these two principles compatible or not? - the issue is being discussed very widely, in the USSR as well. A negative answer to the question usually comes from absolutization of the forms of central planning that emerged in the USSR in 1930s. But if the new interpretation of economic centralism takes over during the reform, then central planning and market can be combined.

No-one sets the task to remove central planning at all. "Centrally-planned economy" is not an injurious expression; it contains potentially many advantages. The crucial problem is to change the methods and functions of the planning system, because in its traditional shape this system will be incompatible with market, autonomy and self-government of units, monetary policies, etc.

Governmental decree No. 816 (17.07.1987) "Restructuring of Planning and Improvement of State Planning Committee's Role in the New Economic Situation" puts the task of a definite transition from mainly administrative to mainly economic levers (Radical Restructuring of Management, pp. 57-58). The proclaimed goal is to permit enterprises to act on the basis of cost-accounting and self-financing, to make them interested in using totally their possibilities. Instead of breaking-down mandatory targets in physical terms, planning is supposed to concentrate on the strategic issues and to be released from the interference in the day-to-day operational activity of enterprises.

Different versions of "division of labour" between plan and market are now being discussed in the literature, e.g., that some sectors should be regulated predominantly by the plan, and other sectors predominantly by the market. Another idea is that the State Planning Committee should set plan targets in physical units for only 250 - 300 or even several dozens of essential strategic items, while the other proportions would be regulated by financial and credit tools.

Market construction means that satisfaction of demand will be fulfilled to a growing extent by direct links between producers and consumers. It comprises not only consumer goods, but producer's goods as well. Introduction of wholesale trade in capital goods in the place of "rationing" and administrative assignment of producers and consumers, is expected to attack the inefficiency of capital stock utilization, waste of natural resources and raw materials; to eliminate some perennial shortages. Wholesale trade in capital goods and raw materials, together with cost-accounting at micro-economic level, will make the demand for these goods more substantiated. In other words, the demand will be reduced, because if an enterprise finances its own supplies, it will then cut the consumption to an indispensable level. A large share of inventories would be de-frozen. (This might become per se a strong measure for a short-term stabilization in the internal market). In July 1987, the government decreed a transition to wholesale trade in capital goods within 4 or 5 years, i.e. by 1991-92 (Radical Restructuring of Management, p. 111).

The experience of other socialist countries which are also implementing economic reforms suggests that the creation of a market for goods (both consumer and producers') and services is only a part of the solution. In Hungary enterprises have their own finances and purchase all inputs in the market, but shortages still exist, though it is incomparable with the USSR. One cannot limit a marketization of the economy only to the creation of markets for goods and services. Problems of resource allocation at the macro-level

will inevitably remain, while the probability of wrong structural decisions in distributing new investment is high, and there is no mechanism for the flow of resources between sectors. In Eastern European socialist countries, reform-thinking now includes a market for labour and capital. However, in the USSR these issues are still out of serious discussion and beyond practical policies. The majority of Soviet economists apparently reject the very feasibility of the so-called "factor markets" (capital, labour). These doubts are explicable, but at the same time, they leave the concept of the future Soviet economy somewhat vague and undefined.

It is worthwhile maintaining that market construction in the USSR can not be interpreted as a "return to capitalist methods of economic management". Many observers prefer to limit themselves to a dichotomic construction "if not central plan - then market in the common Western meaning of the word". As a matter of fact, such an opposition is not exact. Market performance under capitalism and socialism can not but be different. Some radical differences which emanate from opposite forms of property of the main means of production will remain. Besides, functioning of markets always has by-effects, primarily in the social sphere. The way in which the state treats these problems and corrects the defects of market performance, will be specific in each of the two socio-economic systems.

### 3. Evolution of different economic sectors

Public-owned enterprises are the prevailing sector in the national economy of the USSR, in contrast with co-operative and individual sectors. However, practical experience has proved incorrect the assumption that public property is in all cases the superior, the most advanced and the most efficient form of property, so the other forms should allegedly die away. This idealistic notion over-estimated the capability of direct command and administration, for which the state-owned enterprises fit best. (Perhaps, for a number of developing countries this was also relevant, hence the aspiration to expand the public sector despite objective conditions).

Which sector creates the best prerequisites to the economic progress and modernization, depends on many factors. Poor performance of socialist economies gave Western and some Eastern scholars ground for doubts about the advantages of social property over individual one. These doubts can be understood but are not completely justified. Situations when workers perceive social property as something belonging to no-one, only prove that the methods of realization of social property are inappropriate. If adequate methods are found (through the individual interests of each worker, responsibility system, up-grading of distribution and incentives, etc.), then the public sector is capable of achieving high standards of efficiency and innovation. Social property, as a matter of fact, does not impede the right of production units to perceive the means of production as something of their own, and to distribute the profits resulting from good performance (and, equally, to share material responsibility for poor performance). The problem is, therefore, how to make the property "social" instead of "state" property. In this respect, attempts to increase the role of production collectives (units) in decision-making and distribution were made in the last several years. They have not been very successful yet due to a limited autonomy of enterprises.

Another point is that if the public sector tends to dominate in full all economic activities, then it becomes an obstacle to efficiency. Some branches and spheres, e.g. agriculture, trade, services, manufacturing of consumer articles, small-scale enterprises - in case of their excessive nationalization become inoperational and super-bureaucratic, and it is extremely difficult to make state enterprises perform properly in these branches (especially if there is no competition, only shortage and monopolism).

The co-operative sector is now strongly encouraged in the USSR. Since 1 July 1988 the Law on Co-Operation entered into force. It is aimed at developing a widely-ramified system of



co-operatives of different kinds, and at improving this sector's position in the scale of the whole economy. There are now 26,600 production co-operatives (collective farms) in Soviet agriculture (which employ about 12.5 million persons, or nearly 55% of the agricultural labour force (USSR in Figures in 1987, pp. 136, 139). For a long time, the autonomy and self-support of these co-operatives were impaired by state interference; now they should be restored.

Besides this, by the beginning of 1988 about 13,000 different co-operatives engaged in trade, services and consumer goods manufacturing have been created (Izvestia, 7 June 1988; Pravda, 13 January 1988). The number is very small for a country with a population of 285 million but the starting point was almost nil only a year or two before.

Individual labour activity is gaining momentum, mainly in services as well, and some unjustified restrictions have been removed in this area. Approximately 0.4 million persons were engaged in individual labour activities by 1988. Special legislation was adopted for legitimating this type of business (Law on Individual Labour Activity, November 1986).

New methods of realization of each form of property are also emerging. First of all, in agriculture a system of leasing land to small units or to families is developing dynamically. (It is more or less similar to the "responsibility system" or family contracts in China). It is argued that the period of leasing must be up to 50 years in order to encourage peasants to invest in the land and facilities. Leasing is likely to be practiced within the industry and in services as well.

Share-holding is a new form of ownership for the USSR. An experiment was carried out in an engineering factory in Lvov where stock was sold to the personnel, but nothing definite about the future of this system in the USSR can at this stage be said.

The general idea is that all the three economic sectors - public, co-operative and individual - should exist and evolve simultaneously, complementing each other and interacting. Economic competition between sectors is presumed to be an antidote against monopolism and stagnation. Competition between sectors and between enterprises from the same sector is expected to improve the overall economic efficiency, and to foster a more rational employment of existent facilities. In the opinion of Wassily Leontief, a "socialist entrepreneurship sector" if created in the USSR, would permit national income growth rates to increase up to 10% per year (USA - Economics, Policy, Ideology). The very existence of three alternative sectors would allow the use of the "human factor", i.e. to mobilize through the personal interests of the citizens their vast creative energy, which previously could not find application. It is important to note that some kinds of businesses, induced by economic necessity, had been a part of the "shadow economy" before, and that now they are not "underground" any longer, i.e. their legitimacy is recognized.

The mentioned concept of a pluralist socialist economy (in the sense of different sectors co-existing and enjoying equal rights) marked an important break-through in theory and in practice, because over the decades (with the exception of several years in the 1920s) practical policies encouraged only the state sector and discriminated against other sectors, especially the individual one.

#### 4. Reform of pricing

Reform of pricing is without any doubt one of the key elements of the whole economic restructuring. At present, the Soviet pricing system is a disaster. In fact, there is not very much of a "system", because prices used to be set by arbitrary decisions without regard to the solvent demand, to real value, or to the prices of other commodities. Large amounts of distortions caused by incompetent and subjective pricing have accumulated in the course of the last decades, and they continue to provide producers with false

orientations, encouraging inefficiency of certain enterprises and sectors.

In agriculture, low prices for foodstuffs are sustained with the help of government subsidies which total about 60 - 70 bn roubles per year. It corresponds to roughly 2/3 of the taxes on trade turnover accumulated by the state budget. In other words, there is a mechanism of taking money from the population in the form of over-priced industrial consumer goods, and returning it in the form of subsidies on foodstuffs. This mechanism fosters inefficiency in both agriculture and light industry. However, pricing in the consumer section has always been rather a political and ideological issue than an economic one. The mere fact of unchanged prices for basic foodstuffs and services (e.g. housing, urban transports) was generally considered the main indicator of a stable and improving standard of living, though some of these foodstuffs were simply unavailable at official prices or then they were rationed. The non-economic stance is very hard to give its way to a more realistic approach which calls for a revision of the price correlations and the methodology of pricing.

For a better equilibrium in the consumer's market, one may suggest banning all subsidies to foodstuffs and reducing simultaneously the prices for industrial consumer goods. Meanwhile, a price increase alone is not sufficient to improve supply to the market, while it may have negative social effects. Unlike Western economies, a price shock in the non-market Soviet economy would yield a very brief effect (if any) in bringing together supply and demand, and then demand would again outstrip supply, thus reproducing the shortage which existed before. It is also substantial that some advanced collective farms as well as farms under the leasing contracts managed to reduce costs of agricultural products below the mark of state purchasing prices. So, instead of increasing these prices, efficient producers should be created and given motivation, while the most inefficient ones should be re-organized.

As for the industry, there is also debate about how to replace the "expense-oriented" pricing by a system which places foremost the socially-indispensable outlay and not the individual one. It should be recognized that no definite policy based on solid theoretical concept of reforming pricing has been worked out yet. The central problem is not solved: who sets the prices and how? The majority of submitted proposals start from the fact that it will still be the state management bodies who will effect pricing by different normative methods. The concept of centrally-set prices managed to become fixed already in some of the recent documents on the economic reform. Thus, the Law on State Enterprise (Association) contains the obligation of enterprises to use centrally-set prices and tariffs, except for individually ordered products, or for new and recently developed items, etc. (Law of the USSR on State Enterprise, p.50).

In the co-operative sector, convened prices that reflect the correlation between demand and supply can be used far more widely. According to the Law on Co-Operation, a co-operative sells its products and renders services at prices convened with the buyer or set independently by the seller. Along with this, centrally-set prices may also be used, if a co-operative fulfils a state procurement or if it uses raw and intermediate materials purchased from the state at subsidized prices. Market competition is meant to make the prices/tariffs for goods and services decline. (This has not become evident yet because of the many technical restrictions to the formation of new co-operatives so that those already established find themselves in a monopolistic position).

Dualism of pricing in the public sector (or better to say, the first round in favour of administrative pricing vs. market pricing) is somehow understandable for the initial phase of the reform. However, any compromise can later on be shifted to one of the extremes, and Soviet economic history leaves little doubt about which of the extremes it will be. If prices are left vulnerable to human arbitrarism, then the

probability of wrong decisions will always be present. The measuring effect of prices on producers will be limited. E.g. it is considered now that prices for raw materials, fuels, and some other inputs are "low". But it is almost impossible to determine how "low" they are, so consequently any human decision to set a more "rational" price can, in fact, do even more harm, or at least to promote another system of fixed and inflexible prices (at a higher level). As for industrial products, there is the danger that agents (enterprises, sectors) which have an influential lobby among decision-makers can get unjustified price advantages. Evidently, a radical economic restructuring and creation of market should imply a real liberalization of a major part of prices. This concept has not been accepted by all scholars yet, let alone by the policy-makers. At the same time, negative developments in pricing in some Eastern European socialist countries warn about a difference between an authentic liberalization and a false one based on simulation of international price trends. (See Török).

##### 5. Social aspects: costs and benefits

Economic restructuring triggers quite a few problems in the social sphere. Firstly, consumption patterns of the population may get changed as a result of the price reform. Secondly, employment issues are involved. Thirdly, there will be changes in the approach to distribution problems. The final goal of the reform is, naturally, to increase the standards of living for the Soviet people. Nevertheless, in a short- and medium-term perspective, the reform may produce disturbances which should be treated very carefully. (It is also important to be sure that "short-term disturbances" in the social sphere will indeed be "short-term" ones).

The government assures that price changes for basic foodstuffs (if realized) will be off-set fully to the low-income groups of the population by means of special compensations so that the living standards will not be seriously affected. Anxiety about the efficiency of these measures still remains. Increases in the prices for meat, milk

products and bread may discourage their consumption by the low- and medium-income citizens (that is not the goal of the reform) while the off-setting measures may be used for purchasing other consumer articles. In many cases public opinion is against any price reform because past experience has instructed people that "reform" means just an increase in all prices without a visible change in the supply or in the quality of goods and services. To my regret, there is no sufficient evidence to prove that this time the rule will be broken. Enterprises, ministries and organizations are likely to use the price reform just for improving their own position at the expense of consumers, since it requires less efforts than to increase efficiency and quality standards, to look for demand. Food prices are a particularly delicate issue. It is to be noted that Soviet households spend on food about one-half their family budget (in the USA, the corresponding figure is less than 20%).<sup>7</sup> Uncertainty about the eventual price reform is also increased by the fact that its actual form or shape is still unknown to the public.

Restructuring poses employment problems as well. A transfusion of labour resources from one sector to another is needed, mainly from "old" branches of industry and from the management corps into modern sectors and into services. At present the structure of employment in the USSR has a higher share of material production and a lower share of services than in developed market-economy countries: in 1987 industry and construction employed 38% of the manpower; agriculture and forestry 19%; transports and telecommunications 9%.

Productivity of labour in the Soviet economy is now far below the Western standard: it is 2,5 times lower throughout the economy, 40% lower in industry and construction, and 5 time lower in agriculture (World Economy and International Relations, No.12 (1987), pp. 141-142). Twenty or twenty-five percent of all labour engaged in industry is excessive (Shmeliov, 1988(a) p.182). Workers do not feel enough incentives (or pressures) to be innovative, active and disciplined. For instance, unreasonable absenteeism from work

is estimated as 4 million persons every day (Selyunin, 1988(a), p. 164). Altogether, economic mobility of manpower is not a nice perspective for the working who are too accustomed to job security. A guarantee of a job for everyone is in many cases taken for granted, as a sort of philanthropy, without any obligation on one's side.

Distribution problems consist primarily in abolishing the equalitarian stereotypes. Recent resolutions of the government underline the need to observe strictly the principle of distribution conforming the quantity and quality of one's labour input. It is pretended to renounce decisively any wage-levelling. In theory everyone agrees with it, but as soon as concrete cases are handled, the new approach often retreats, and attempts to set a "fair limit" on wage are made.

In the public sector, the enterprises had the right to choose among two models of cost-accounting, and the majority of them adopted the model which determines the wage fund beforehand while practical results affect only bonuses. The other version of cost-accounting is more consistent, because it deduced all kinds of remuneration from the revenues obtained by the enterprise. In reality, numerous examples were reported when administrative intervention took place in order to prevent a production unit or separate workers from earning "too much".

For all radicalism of the economic reform, the socialist state should not be expected to apply Darwinism to the society, nor to reject all its social and moral features for the sake of economic efficiency. Problems of social justice arising from the imperfect distribution which a market effects, can be treated and corrected to a rational extent by the state's social policies.

The reform, if successful, is meant to contribute to individual freedom of choice<sup>8</sup>, through reduction of state interference into economic decision-making, co-existence of different sectors, growth of social welfare. Economic

restructuring is accompanied by a general democratization of the society, so the concept of liberty as an intrinsic value is becoming common.

It is absolutely clear that a comprehensive reform of the political system is conditio sine qua non. A lack of democratization and of individual independence can easily strangle any economic reforms. The experience of the other socialist countries also proves this conclusion. Issues of the political reform were discussed recently at the CPSU 19th National Conference (June 1988). The main idea is to improve, to make work mechanisms of socialist democracy with the view of moving towards working people's self-government. Reform of the legislative system is being carried out. Another important issue is now the re-definition of functions and spheres of competence between party, political and economic structures, in order to impede incompetent interference and the abuse of power.

#### 6. Adjustment to the world economy and involvement into international division of labour

Due to specific conditions of socio-economic and political development, the Soviet economy now found itself isolated, separated from the outside world by currency, structural, institutional, administrative and other barriers.

External environment, economic too, was for a long time unfavourable and even hostile to the USSR, so the latter could only rely on itself. Independence from spontaneous processes in the capitalist market and from eventual economic actions of Western governments was seen (not without reason) as a pledge of security and internal stability. At the same time, separation from the outside world was somehow initiated by the ideology of Stalin's regime. Autarchy from other countries turned out to be one of the consequences of distorted exchange relations between domestic economic agents.

Since the international situation has changed considerably, the delinkage from the world economy is not



fulfilling its defensive role any more and represents a constraint to the development of the Soviet economy. It is characterized by a chronic lag behind international standards of quality, technological level, competitiveness of products, efficiency of production; by wastes of time due to insufficient participation in international technological exchange. At present the degree of involvement of the USSR in the international division of labour may be regarded as low: share of exports to gross national product is nearly 8.3% (USSR in Figures in 1987, pp. 14, 39). Expansion of foreign economic co-operation is an important method of modernizing the Soviet economy.

With respect to short-term adjustment to the world economy, it is to be pointed out that developments in the world market produce their effect on the Soviet national economy in a specific and indirect way.

The problem is mainly the institutional framework of economic relations with other countries. Up to very recently the mechanism of foreign economic relations represented a kind of buffer that rather separated domestic economic agents from the external market than connected them. Over-centralization of export/import activity (based on a bureaucratic interpretation of the state monopoly of foreign trade) placed trade flows under severe control. This system, of course, protected national producers from business fluctuations and from crises abroad. It also allowed to maintain an approximate balance of imports and exports, so that USSR could invariably enjoy a high solvency. The foreign debt of the Soviet Union presents a far less dramatic problem than that of certain countries in Eastern and Southern Europe (Poland, Hungary, Yugoslavia, etc.). According to Western estimates, net debt of the USSR is slightly above \$20 billion (The Economist, 30 July 1988, p. 78).

The defects of the centralized system of foreign economic relations have common roots with its advantages. Being heavily protected from foreign competition, producers find

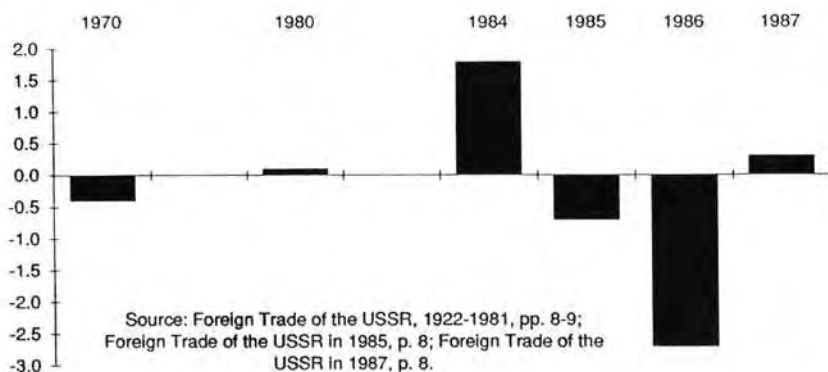
institutional, structural, psychological, and technical obstacles to entry to the world market. They are not ready nor interested in disputing leadership or gaining a share in that market.

The above helps to understand, why the export structure of the USSR is so strongly dominated by fuels and raw materials. In 1987 fuels and electricity alone accounted for 46.5% of the total export value, while machinery and equipment made up only 15.5%; chemicals 3.4%; industrial consumer goods 2.6% (Foreign Trade of the USSR in 1987, p. 18. See also Table 3). In the trade with developed market-economy countries, this trend is more explicit. Calculations based on UN statistics show that just 8.2% of Soviet exports to the West are made up by finished industrial products (UN Monthly Bulletin of Statistics). There is an evident lack of adjustment to the structure of demand, since more than 60% of the non-socialist world's imports consist of manufactured industrial articles, and only 40% of raw materials.

The low competitiveness of the major part of Soviet industrial production leaves no choice other than to lay an emphasis on exports of primary goods. Such a structure of exports generates instability, because world prices for these products are less stable and do not tend to rise like the prices for manufactures. In 1985-86 a harsh fall of oil prices led to a similarly harsh cut of Soviet export earnings and created problems for the balance of payments, especially for that in freely-convertible currencies (see Figure 2 and Table 5).

In 1986 the terms of Soviet trade with developed market-economy countries deteriorated 40% and in 1987 a further 10% (The Economist, 30 July 1988, p.70) It was a very palpable

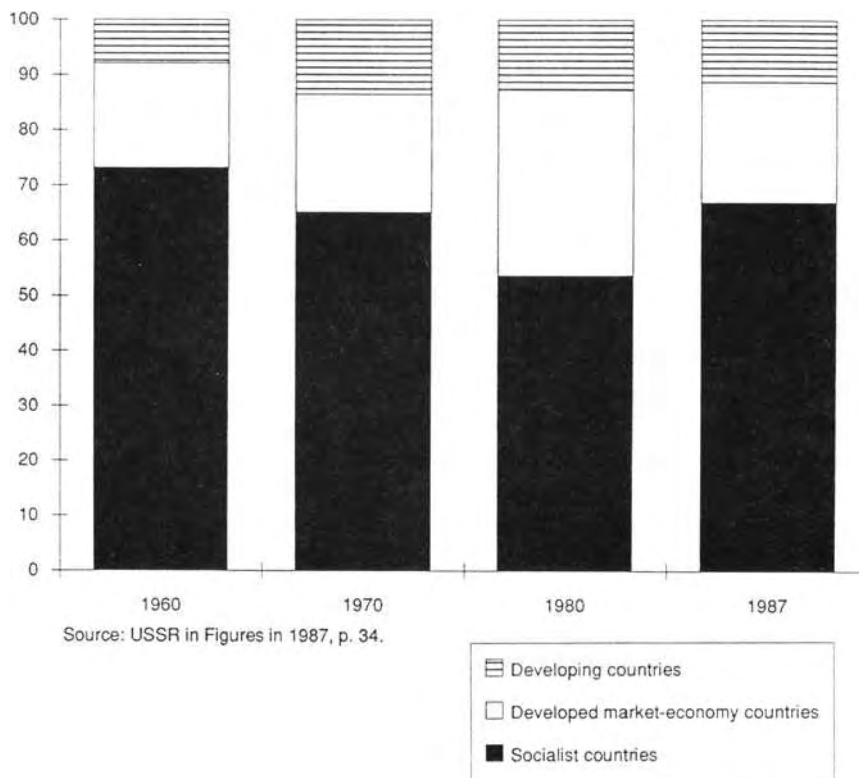
FIGURE 2. Balance of trade between USSR and developed market-economy countries (billions of roubles, current prices)



shock after a decade of "oil-based welfare". Restriction on hard-currency imports proved to be the main tool of short-term adjustment policy. (The USSR preferred this instead of a risky increase of debt. The example of some Eastern European countries had been instructive enough). In 1984-87 imports from the West decreased by 30%, confusing some investment programmes that counted on foreign equipment and technology, and reducing also the volumes of high quality products to be supplied to the consumer market. Correspondingly, the share of developed market-economy countries in Soviet foreign trade turnover fell from 33.6% in 1980 to 21.8% in 1987. (See Figure 3 and Table 6).

Socialist countries, first of all CMEA-members, are the Soviet Union's most important partners in trade and co-operation, so the strategy of international division of labour includes first of all development of economic interaction with socialist countries. At the session of the Council for Mutual Economic Assistance in the summer of 1988, a resolution was taken on creation in the perspective of a joint CMEA market for goods, services and production inputs. Along with internal economic reforms in several countries, a restructuring of the machinery of mutual co-operation within CMEA is now pursued,

FIGURE 3. Soviet foreign trade by groups of countries (per cent)



with the view of bringing it from the inter-governmental to micro-economic level, improving its efficiency and mutual advantage, and simplifying all procedures.

In the longer run, improvement of external stability may be achieved mainly by consolidation of Soviet industry's export capacity. Economic and institutional measures are worked out for putting national producers closer to foreign

markets. In conformity with governmental resolution No. 991 (adopted in 1986) "Measures for Up-Grading the Management of Foreign Economic Relations", since 1987 twenty-two sectoral ministries have the right to realize foreign trade transactions through special organic units. Seventy-seven industrial enterprises and associations are also empowered to deal broad. These numbers keep on growing. Producers hold already 65% of all machinery and equipment exports from the USSR (Foreign Trade).

A considerable part of import demand is in reality irrational. Large amounts of imported machinery, industrial consumers and especially foodstuffs could be replaced by national products with no damage to efficiency, just by improving economic motivation of domestic products. In many cases imported machinery is not even erected. In the Soviet agriculture the losses of grain constitute at least 20% of annual production, for meat this figure is 10-15%, for fruits and vegetables, 60-70% (Shmeliov, 1988 (a), p.180). At the same time the country imports all these products in vast quantities. A primitive calculation shows that if losses of grain (about 40 million tons) are eliminated, then hard-currency imports of grain would become unnecessary. Nevertheless, a more substantiated demand does not imply further cuts of all imports. If international co-operation in the production sphere gains strength, then increasing shares of exports and imports will go through this channel.

The whole problem of openness of the economy is now at stake, though it is reflected in the "reform package" documents in most general terms. (By the way, expanding international co-operation and trade is not synonymous with opening the economy. Export share in GNP gives only a rough idea of openness and sometimes even misleads.) For the USSR these problems have a historical background that gives evidence of the possibility of attaining very high growth rates and carrying out a technological transformation while being delinked from the world economy, although making use of Western technological advances. It seems that a final point

has not been put yet in the discussion about interrelation of growth and openness of Third World countries (See Taylor).

It is quite natural that the USSR with its dimensions of potential market, availability of natural and labour resources, should give priority to internal needs and pursue a more inward-looking development. Of course, it is also essential to perceive signals coming from the world since they express objective processes and mark global trends. The problem is to what extent those external requirements should rule in the Soviet national economy, or say, what is strategically more important - to approximate as much as possible to international proportions (at the expense of immense social costs and total re-orientation of the economy) or to create a reliable internal mechanism of economic growth and cautiously to make it compatible with trends of the world economy, though without a complete opening up? The answer is not so obvious (even if the question is correctly formulated). For the USSR the feasibility of the second option is higher than for small Eastern European socialist countries. In all cases, openness is not the final result, but an instrument of growth and progress.

## 7. Other issues

Soviet economic reform is not limited to the elements specified in this chapter. All other spheres of the economic life are to be reformed as well, first of all the financial system, the administration, and the legislation on economic issues.

The financial, banking and credit systems of the USSR are underdeveloped, and they do not effect their innate functions. Banks are not the centres of economic power; their role is formal or merely supervisory. Interest rate is nominal. Credits and loans given to agricultural and industrial enterprises in many cases become grants: agriculture alone has nearly 140 bn roubles of debts, that are unlikely to be paid off (Shmeliov, 1988(b), p. 172). Monetary and credit policies

are, in fact, pro-inflationary. "Soft budget constraint" and paternalism are so dominant, that money is something of secondary importance for resource allocation. The reform of banking system has just begun, some new specialized banks were set up (e.g. Agro-Industrial Bank, People's Savings Bank). On many occasions the banks try to open up new activities, e.g. to back the emerging co-operative movement in services and manufacturing, or to form a consortium in agro-industry (Financial Times, 16 August 1988).

Sectoral management of the economy is being reorganized now with the purpose of reducing the size of the administrative machine. Several dozens of ministries and state committees exist at the national level alone, that composes an extremely rigid system with trends to isolation and self-service of each sector. The idea of the managerial reform is to aggregate all ministries and bodies into several big blocks. Thus, within the Council of Ministers (government) were created Bureau for Engineering, Bureau for Social Issues, Foreign Economic Relations Commission, and so on. All administrative structures were given tasks to reduce the number of employees. Several administrative bodies in charge of adjacent areas were merged into one: e.g. a unique State Committee for Public Education now exists in the place of three organizations which had previously supervised different levels of education. In many cases, however, the emerging new structures do not substitute the former ones, and they keep on existing simultaneously. Another problem is that a reduction of administrative personnel should appear as the effect of elimination of functions, mainly those of petty tutelage over enterprises. Otherwise, the administrative machine within a short time will inexorably re-establish and even increase its staff.

Legislation on economic issues still contains many restrictive and prohibitive clauses which restrain individual and collective autonomy. The general principle now proclaimed is: All that is not forbidden is allowed. The realization of this principle implies not only revision of laws, but

abolition of sectoral instruction, orders, decrees, etc. This work is only beginning, and out of hundreds of thousands acts that strangle socialist entrepreneurship, only a very small part (about 1/10) have been cancelled.

### Chapter III

#### PROBLEMS OF IMPLEMENTATION

##### 1. Alternatives for the reform

Economic reform is absolutely necessary for the USSR from all points of view. Not only the country's position in the world economy, but living standards and even political stability are at stake, not to mention international image and the attractiveness of the socialist system. If the restructuring does not come true, then nothing will prevent further economic degradation with all its social and political implications. In this sense, there is no way back to the "administrative economy". At the same time, different options concerning the radicalism and the pace of the reform do exist. One can easily find plenty of radicalism in resolutions, programmes, scholar papers, press publications in the part relating to criticism of the former economic system. At the same time, the "constructive" philosophy contained in these documents is not necessarily as radical. Two big options may be distinguished as far as the shape of future Soviet economy is concerned:

- a genuinely radical reform that will produce a new model of socialist economy based on market mechanism guided by central planning and management; and
- a reform that will remove the most obsolete and inefficient blocks of the "administrative economy" without changing the overall structure and balance of economic power between different levels of management.

If the pace of the economic reform is discussed, then there are also two (at least) major scenarios:



- a fast radical restructuring (sort of "shock therapy") followed by a period of adjustment, treatment of by-effects, consolidation; and
- gradual transition towards a new economic mechanism (featured by a "dualism" for a long period, when the old and the new forms and elements co-exist).

All these alternatives result from a combination of multiple factors which are not constant but vary continuously. Some preliminary conclusions about probability of one or the other scenario will be made at the end of this chapter, after an analysis of different constraints faced by the economic reform.

## 2. Resource and technological constraints

A restructuring of the economic machine requires institutional measures and resource inputs as well. The inertia of extensive development (i.e., by involving additional resources) is not overcome yet, so demand keeps on growing, while supply can not grow at the same pace. Inflow of additional labour into production will be none or negligible, and so will the increase in the supply of some important basic materials. Ecological situation is becoming more and more unfavourable in different parts of the country. A considerable share of the fixed assets is out-dated, so they need to be modernized or replaced by technologies of a new generation. Engineering is the key-point in this respect, but during many years it did not receive enough investment, and only now a visible shift of structural policies in favour of this sector is coming true. It will not be easy to modernize within several years the output through the industry and to make a jump ahead in the quality of manufactures. Here, resource allocation problems arise, and all depends on correct priorities given within the economy. No country can afford a simultaneous growth of investments in all sectors.

Resource and equipment limitations can be to some extent alleviated if at least the first elements of the new economic mechanism gain strength, or namely the wholesale trade in

producers' goods. It will loosen the demand pressure on both resource-based sectors and manufacturing. Let us call a concrete example. There are more tractors than tractor operators in the agriculture now, but due to quality and other reasons the demand for new agricultural machinery was high, or better to say, artificially high (for many units this machinery was given in a grant-type credit or at subsidized prices). Now, when collective farms and state farms acquired broader financial independence, they cut almost immediately their orders for machinery by 1/3 (Lacis, p. 176). In industry, a better utilization of capital stock and introduction of two or three turns per working day may diminish harshly the demand for new investment equipment as well.

Technology and innovation are probably one of the weakest points of the restructuring. Incentives for innovation are yet more administrative than economic. At the enterprise level innovation is, as a rule, rejected because quantitative criteria of assessing the performance still stay at the head. Investment into R & D remains problematic for the majority of enterprises for the reason that they still can not dispose completely of their profits.

Science and technology represent, on one hand, a constraint, but on the other hand, they could be an important resource for the restructuring. If all the 1.5 million researchers are put into more perfect institutional and economic conditions, and if the system that rejects innovations at every level of management is replaced, then Soviet scientific potential will back the technological transformation.

### 3. External constraints

Further involvement of the USSR in the international division of labour and utilization of its advantages for economic restructuring's sake face a number of constraints, e.g.: (a) the situation of the balance of payments: (b) the mechanism of foreign economic co-operation; (c) problems of

access to advanced foreign technology; (d) non-convertibility of Soviet national currency, the rouble; and (e) incompatibility of prices in the USSR with those in the world market.

Problems of balance of payments still remain, despite a slight growth of world prices for oil. Both exports and imports are still below the 1985 level. Most probably, this stagnation will last several years, so considerable increases of imports may be achieved only through external borrowing.

The new institutional framework of foreign trade is not fully operational yet. Decentralization of decision-making in foreign trade showed that enterprises and ministries are more successful in their independent imports than in exports. (Evidently, this is not a specifically Soviet case.) Having obtained foreign trade rights, these agents are not in a position to use them due to many reasons. A lion's share of high-quality and competitive output is normally covered by state orders, so the enterprises are left with little manoeuvring room for their own export ventures. In many cases knowledge and expertise are lacking at the enterprise level when it concerns external markets. Specialization and co-operation of production with foreign partners are making their way very slowly, because they still do not have enough economic incentives.

Access to advanced foreign technology for the sake of modernization encounters a series of barriers. Some limitations are imposed by the weak export performance in Western markets and, therefore, by the lack of hard currency. Often enough Western countries ban exports of modern technology to the USSR (COCOM lists, etc.). Finally, socialist countries not always can provide Soviet industry with the required large-scale technology of the new generation.

Non-convertibility of the rouble into other currencies impedes the producers' activity in external markets and hinders specialization, co-operation of production and joint

ventures with foreign participation. This problem is not merely a technical one, because until the creation of a market is completed, foreign partners will be unable to spend or to invest in the USSR the amounts of roubles they earn here. The attractiveness of the rouble as an international currency is very questionable under the present exchange rates vis-à-vis Western currencies.

Not long ago differentiated exchange rates were fixed for exchanging the proceeds of enterprises' exports and imports into domestic currency. There are several thousands of these exchange rates, implying a "case-by-case" approach. This artificial system does not allow domestic producers to meet real international standards and adjust to them; it encourages inefficient production and exports.

Realistic exchange rates of the rouble and convertibility are interdependent. In theory, the evolution should go towards a single exchange rate, but it is impossible to calculate it, given the present situation of internal finances.<sup>9</sup> Prior to introducing convertibility, some internal pre-requisites have to be fulfilled, namely development of domestic money circulation, an improvement of the rouble's purchasing power and an active and strong monetary policy. Convertibility is not feasible unless economic agents can use freely their own financial resources.

Movement towards international convertibility of the rouble will most probably begin with the currencies of other CMEA countries, maybe in the 1990s. Agreements have been concluded already with Bulgaria and Czechoslovakia on utilization of national currencies in payments that result from mutual co-operation. As to the Western currencies, it may take more time to introduce even a partial convertibility at the level of central banks.

Prices for goods and services in the USSR are incompatible with world correlations of prices. In many cases Soviet domestic prices are upside-down, i.e. raw materials,

fuels, and equipment are under-priced, while industrial consumer goods are over-priced. This creates absurd distortions in foreign trade, when the export of fuels and the import of industrial consumers are the most profitable items. N. Shmeliiov (1987, p.151) suggests to subordinate firstly Soviet wholesale prices, and then retail prices to the world price levels. This is an uneasy choice, and a typical case: long-term adjustment brings with it short- and medium-term destabilization. Adoption of world prices would require multi-billion subsidies to many sectors and to the whole population (to off-set the falls in consumption), but no-one knows how long the adjustment period will last and whether the state budget is able to manage it or not.

Introduction of world prices by an administrative act does not seem a very good idea. First of all, which prices should be taken as a pattern? World prices for agricultural products do not reflect objective regularities (national or international outlay). They are the result of the strongest protectionism and subsidizing. For industrial products, prices are also distorted by many factors, especially prices for hi-tech goods. If intermediate products and components are observed, prices for these products are simply unknown, or they are "transfer prices" which can in no way suit for the wholesale trade in the USSR. Perhaps, in the near future, it will be impossible to renounce with one wave of the hand to national outlay as price base. A gradual approximation to the world price regularities might begin with the more advanced or internationally involved sectors of the economy.

Joint ventures have their importance as active agents or accelerators of marketization of the Soviet economy. Yet it is an exaggeration to see joint ventures as the major tool to make "perestroika" work (Financial Times, 15 June 1988). After all, their share in gross output is unlikely to become very high.

#### 4. Social constraints

Driving forces of the economic reform are the key-issue for understanding its prospects. A national consensus about the need for reforms is evident, but there may be and there are contrary interests and expectations that each strata has. Reforms do not find an opposition as such from any of the classes or big social groups (workers, peasants, intellectuals). However, what we see is that only a part of each of these<sup>o</sup> groups can be considered as active and consequent promoters of the restructuring. The country's supreme leadership is explicitly reform-minded and so are some of the economic managers, as well as the most mobile and skilled workers and peasants.

There are about 18 million professional administrators and officials in the Soviet Union. The greater part of them are honest, professional and hard-working people. Nevertheless, their position and functions in the economy inevitably become challenged by the reform under way. Speaking out in favour of restructuring (even of a "radical" one), these people now do everything in order to prove their own "indispensability" for the society. Policies worked out by the management apparatus always provide it with the opportunity to retain a strong hold over the economy. Public opinion is becoming stronger in the Soviet Union, but it is still unable to overcome the bureaucratic world with all its intricacies, especially because the mechanisms and traditions of democratic participation in decision-making are weak.

It would be an inadmissible simplification if professional bureaucrats were judged the only opposers of the radical reform. Years and decades of stagnation and irresponsibility have spoilt at least partially the nation's work ethics and moral. Managers have not had from the beginning a spirit of entrepreneurs, and workers generally are reluctant to make more efforts and to depend on the results of their performance. Few people want to put at stake their present position even if it is not good. Equalitarian

traditions and spirit are extraordinarily powerful in the USSR. Those workers who earn "much" (although by legal ways) are often condemned. Bureaucracy uses these feelings and uncertainties to its own favour. Attempts to blame the restructuring and democratization for every negative phenomenon are not rare. Terminological black-mailing also exists, when policies aimed at construction of a market are interpreted as "total surrender" and "a retreat back to capitalism".

The main problem is, meanwhile, whether the population is ready to bear the inevitable costs of the restructuring. Let us remember that standards of living are much lower in the USSR than in other industrialized countries.<sup>10</sup> Low-income groups of the population, which are rather numerous, do not have much room for belt-tightening, and this prevents from using shock-therapy methods that could affect prices and consumption, at least in a shorter run.

In spite of all this, public opinion is now changing surprisingly fast. General passivity and apathy are not overcome yet, but they are not so immobilizing and overall as before. Policy of "glasnost" (openness) is making a highly valuable contribution. There is a feature in the Soviet people that once they get convinced in something, they can stand any imaginable difficulties and act self-sacrificingly for the purpose. Human values are, perhaps, the main social resource of the "perestroika" (restructuring). This idealism is sometimes underestimated by foreign observers who trust only economic incentives. The latter are essential too, of course. Everyone wants "perestroika" to bring right away tangible improvements into the standard of living. From this point of view, the present situation is quite alarming because the main problems in providing people with basic consumer articles are not solved, and the situation in the consumer market became somewhat worse in 1987. Some economists argue that it is indispensable to produce right now "supply shocks", maybe through increases in consumer imports, even if in credit (Shmeliov, 1988(b), p.168). All resources should be

concentrated now on the social issues (housing, alimentation, medical care, recreation, etc.) in order to consolidate people's support to the reform in general. Market mechanism is yet unable to assure soon a considerable improvement in supply, so at this phase it can be reached only by mandatory tools. In August 1988 the Soviet government decreed a programme to raise the quantity and quality of consumer goods. The programme assigns higher volumes of output to all enterprises and ministries that produce consumer articles.<sup>11</sup>

##### 5. By-effects of the reform

It is difficult to identify precisely the by-effects of the economic reform, because many of these phenomena had existed in hidden forms long before the reform was launched.

This is especially true with respect to inflation, which has always existed, though the official economic science pretended to ignore it.<sup>12</sup> Sources for a hidden inflationary process were more than enough - weak monetary and credit policies; soft budget constraints; periodical pump into channels of circulation of money not covered by goods and other values; losses; military and administrative expenditure, etc. If a market is created, then these factors may come to the surface. At the same time, some elements of the reform can not fail to be pro-inflationary. Liberalization of prices can trigger a fast increase in prices, at least until an equilibrium is reached. Open manifestations of inflation will replace its hidden forms, and they should be treated by a resolute monetary, fiscal and credit policies.

On the other hand, the reform will pose some specific problems, which are the by-effects of the restructuring, namely labour re-allocation problems and perspectives of economic stratification of the population.

Intensification of the economy leads inevitably to liberation of labour in productive sectors. State experts estimate that up to the year 2000 about 16 million redundant jobs will be cut. As early as by 1990 new terms of labour



remuneration will allow to release nearly 3 million persons (Pravda, 21 January 1988)

The experience of reforms in other socialist countries (e.g. Poland, Hungary) proves that plans of releasing redundant manpower are never accomplished. Even in this case, the amounts of liberated labour will be considerable. It is a new problem for the Soviet economy, where relative labour shortages have existed always since the 1930s. In the West, structural policies and modernization are followed by increases of unemployment. In the USSR, this outcome is not necessary, because a planned economy opens perspectives for settling the arising employment problems. (Pravda, 2 December 1987). Huge amounts of labour can be absorbed by the services sector, or by new high-tech sectors, or by the dynamically developing regions in the eastern parts of the country. In real terms, unemployment is little probable.

Preventive measures of therapy are being worked out. In January 1988 a special governmental resolution was taken on providing efficient employment to the population, improving the system of employment and reinforcing social guarantees for the working. (Pravda, 19 January 1988). The resolution fixed duties of enterprises and organizations in the employment of liberated workers and employees, their re-training. Redistribution of the released labour into the co-operative and individual sectors is also one of the ways out. (The bureaucracy and other opposers to the reform come up with demagogical "warnings" about the "menace of unemployment for the working", with the purpose to discourage people from far-reaching changes. Perhaps, a part of workers, mainly those who are less skilled, share these concerns.)

Problems of economic stratification have two dimensions, i.e. real developments and their subjective perception by the citizens. Actually, there is not so much to be afraid of. A stratification does exist today too, but privileged positions are taken by those engaged in parasitising bodies and social structures, or by individuals who have enormous incomes

obtained illegally (bribery, theft, de-facto privatization of social property, etc.), i.e. by those who in no way deserve these privileges. In some cases the stratification emanates from the sphere of political and social life and not from the economy - for instance, there are groups of the population whose incomes in monetary terms are not high but who have a more important asset - the access to goods and services.

Considering all this, one can only welcome an economic stratification in favour of hard working people, if it replaces the previous system. It is also important that social security mechanism is strong enough in the USSR so it is unlikely that many people become underprivileged to an alarming extent. After all, it is not the economy but the state bodies who are in charge of performing social policy and providing social security.

The way in which the majority of the population assesses the stratification phenomenon, is less optimistic. The appearance of new "entrepreneurs" with very high incomes (according to Soviet standards) from co-operative and individual ventures, creates a new type of social tension. It provokes many complaints from citizens engaged in the public sector and underpaid (as a rule, in correspondence with real performance, intensity and social value of the work). However, common people's attitude towards the "entrepreneurs" is negative, as a rule, especially for the reason of high prices charged by co-operatives for their goods and services.

#### 6. General evaluation of the course of economic restructuring

Only two or three years have passed since the beginning of the economic reform in the USSR, so it is not possible yet to make any definite evaluations. The Soviet economy is just in the initial stage of transformation, in a kind of transitional period.

Gross economic indicators are now rather contradictory and leave room for opposite conclusions. Officially it has

been argued that the country managed to detain negative trends capable to evolve into a crisis and that the national economy is really getting out of heavy stagnation. Other evaluations are less optimistic - for instance, one of the leading Soviet economists L. Abalkin said in his speech at the Party's 19th National Conference (June 1988) that in spite of some positive signs, the economy had not passed a radical turning point and had not gone out of stagnation (Pravda, 30 June 1988).

Practically all experts agree that the economic reform is advancing very hard, making its way through diverse constraints. Initially it was expected to complete the restructuring before the end of the 1980s and to enter the new decade with a modernized economic mechanism and with high rates of growth. In practice, however, the process proved to be much slower. The "brake mechanism" is still very strong, and its dismantling is yet a target to be accomplished.

If the contents of the economic reform is concerned, some preliminary can be made. Firstly, all reform policies should really form a "package". Now it has become apparent that different institutional measures and policies are not synchronized enough. Some aspects of the reform still lag behind (e.g. pricing, planning, wages, banking and credit, taxation, administration), thus hindering any substantial advance in other directions. About 60% of all industrial enterprises since 1988 enjoy self-support and self-financing (theoretically), but it is a mere formality before wholesale trade in capital goods is introduced, ministries and other bodies give up sending detailed commands, credit system becomes operational, incomes are distributed by the unit independently, planning is restructured, and so on.

There is enough evidence to prove that practical implementation of the reform does not go exactly along the lines traced by governmental and party resolutions. In two words, the emerging model is quite moderate.

Mandatory planning was replaced by state orders. In non-socialist economies a state order is always welcome, and companies compete for obtaining it. In our case, it is different. Firstly, state orders are not profitable enough. Secondly, state orders tend to cover the major part of enterprises' capacities, in certain cases up to 100% and even 110%. There is practically no way to reject such an order or to choose among different orders. Clear it is that the old evil of state tutelage and over-management survives under a "modern" framework.

Reform policies provided for a transition from administrative to economic levers of control and regulation. These levers appear in the form of normatives (sets of indicators that stipulate the distribution of profits, payments to the state budget and to the ministries, wages, taxes, etc.). This system is certainly a step forward from administrative command machinery, but it has many limitations. Under normative economic management, the ministries again appropriated the right to dispose of enterprises' profits: they simply established normatives under which the enterprises have to transfer up to 90% of their profits to the budget and to the ministries. I.e., re-distribution of profits from well-performing agents to chronic loss-makers is not gone.

The new Law on Enterprise states that profits are the main exponent of performance. This allows two different interpretations:

- (a) there is someone who assesses the performance through the volume of profits, and applies bonuses or reprisals to the enterprise;
- (b) the economic environment itself enforces the enterprise to maximize profits in order to survive; these profits are distributed independently after paying off obligatory taxes.

The emerging model is thus far based on the first interpretation. From this point of view, the machinery of giving economic commands to each unit also affects the

independence of the enterprises ; it is not radically different in essence from the previous model, despite the most radical terminology. Normative economic management is not yet a socialist market.

Something is wrong with the machinery of implementation of the reform. The impact of some important and far-reaching decisions often disperses like water in the sand. General guidelines are submitted for further concretization to state committees, ministries and bodies, and at this level the cardinal decisions are distorted and neutralized. For example, all campaigns for reducing the number of offices, ministries, employees, and thus loosening their grip on economic activity, yielded small results. Administrators just move from one office to another, while practical managers feel no alleviation in the burden of reports.

A kind of dualism now exists in the Soviet economy, with elements of both the old and the new model of management (the former prevails so far). It gives the impression that the process advances by a gradual mutation and "growing into" a new body. From the point of view of internal stability, this scenario is preferable because it allows to avoid sharp shocks. On the other hand, an evolutionary scenario raises the bureaucracy's chances to survive and to retain the control. One can not exclude that reform opposers are now unable to confront "perestroika" openly, so they encourage dualism of reform policies in order to shift later on the balance between direct management and autonomous self-regulation back to the former of these alternatives.

There might be one more scenario still, that after the initial phase, the reform architects will realize more precisely the algorithm and shape of further policies and will give additional momentum to the reform. It is the scenario upon which this author rests his hopes.

## Chapter IV

MEDIUM- AND LONG-TERM DEVELOPMENT PROBLEMS1. Changes in the structure of production

Today's structure of output is a legacy of the previous period with its expense-orientation, rigid partition between sectors, emphasis on intermediate indicators instead of final products. Heavy industry prevails, and the country holds world records in the output of oil, coal, iron, steel, cement and some other basic products, but social facilities created by the economy are insufficient.

One of the essential claims is that the economy should turn its face to the satisfaction of social needs, i.e. to improvement of the living standards.

Figures provided by the official statistics say that about 1/4 of the national income utilized goes for accumulation, and 3/4 for consumption. Nevertheless, Soviet economist V. Selyunin, 1988(b), calculated that these figures are not exact, and that actually the consumption accounts for only 60% of the national income, while accumulation for 40%. Such a high share of the latter could be acceptable for a period of war but not for a normal situation. The share of consumer goods in total industrial output is progressively shrinking: 1928 - 60,5%, 1940 - 39%, 1960 - 27.5%, 1985 - 25.2%, 1986 - 24.7%. One may conclude that the economy is oriented to itself, but not to the people's needs. The correlation between consumers' and producer's goods is reproduced again and again, being that the share of the former keeps on declining. It is a sort of economy that is eating itself. There is no limiting lever on growth of output (in the form of effective demand, for example), so the machine can only stop when all natural resources are exhausted.

From the social point of view, an acceleration of development with the above-mentioned proportions unchanged, will yield very little benefit to the living standards of the

population. A shift at inter-sector and intra-sector levels in favour of consumer goods and services should take place. Concrete correlations inside each sector will depend on the demand.

At the same time, the center of economic decision-making will use available investments to encourage the most advanced and strategically important branches, especially those having a high R & D component. A new structural policy is now pursued and it gives priority to the engineering sector that will assure a technological transformation of the whole industry and agriculture.

The new economic model is supposed to make the sectoral structure of output and employment, i.e. to facilitate reallocations of resources from one sector to another. Planned allocation of new investments is one part of the story; it should comprise also mechanisms for pressing redundant resources from declining sectors and for the entry of new agents into dynamic sectors.

## 2. Rates of growth

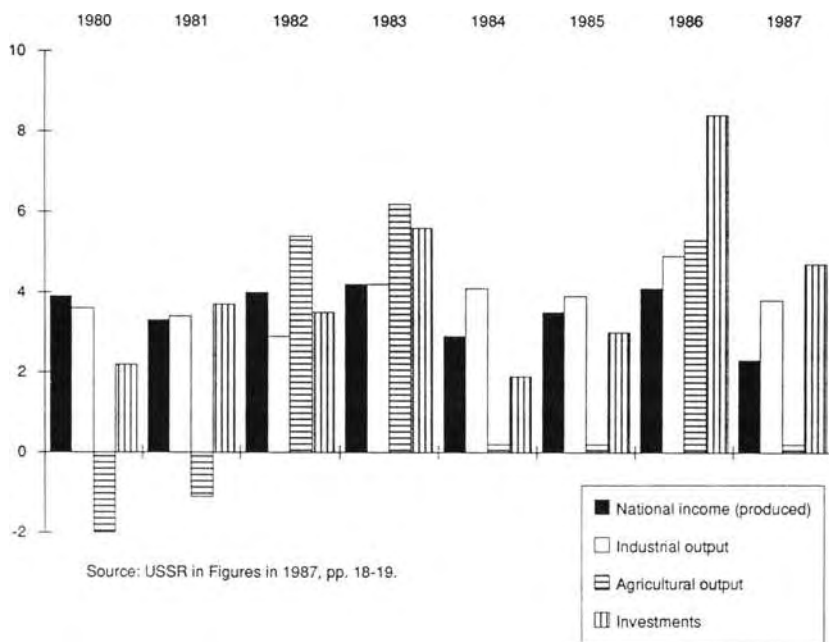
Rates of growth have been considered in the Soviet Union for a long time as the most illustrative indicator of economic performance. The five-year plan for 1986-90 was elaborated with the assumption that the "brake mechanism" or inertia would be destroyed, and annual rates of growth would go up to 3,5 or 4% in order to make 5% per year in 1990s. It was and still is strongly reasoned also by the necessity to get additional resources for the fulfilment of investment and social welfare programmes.

The present five-year plan starts from the old machinery of management; it is incompatible with the new mechanism. If plan targets are pursued, then it will be an attempt to adjust new forms to old contents. (Popov, p.170). One of the basic assumptions of this plan is that shortages should be eliminated and additional resources should be obtained by

growth of output. This is evidently an illusion, but a very common and enduring one.

In 1985-86, when the economic reform policies were announced, there were two equally important key-words - "perestroika" (restructuring) and "uskoreniye" (acceleration). From a scientific point of view, quantitative and qualitative

FIGURE 4. Rates of development of the Soviet economy, 1980-1987 ( in per cent )



transformations at once are incompatible. If growth rates and output levels are pursued, it impedes a real economic restructuring. Prior to the dismantling of the old economic machine, an acceleration of growth rates can only be unhealthy, it will make no good at all. A compelled development of all sectors and branches does not let change the structure of output, then the progressive demolition of natural resources will go on. Before a market is constructed



in the USSR, demand and supply will not be adjusted, so a growth of output includes in many cases products that are unnecessary or not in demand.

Therefore, for the present stage of the reform, there should be a clear priority of targets to achieve and acceleration of growth rates is a secondary problem vis-à-vis structural change and adjustment. However, it is very hard to stop idolizing the rates of growth and to admit that during the transitional period to resource-saving type of development, these rates may be low or nil or even negative (though it is not necessarily a pre-condition of restructuring.)

The figures for 1987 lie more or less along the trends of 1980s (see Figure 4 and Table 7). Quantitative indicators are not so bad. At the same time, some qualitative indices cause concerns. For example, in the last two years the increase of investments into the economy exceeded all other indicators, that means a declining return (see also the index of labour productivity). During 1987 no visible changes took place in the economy's absorptiveness of new technologies; material-intensity of output did not decline at all while energy-intensity even increased by 0.2% (USSR in Figures in 1987, p.71)

The Soviet economy is at a turning point now. Before it is passed, there is perhaps no sense in making guesses about the rates of growth in medium- and long-term perspective, or in constructing econometric models. If the new economic mechanism succeeds, then the whole economy may change up a gear, and the growth rates will exceed one's expectations because the potential capacities are very vast.

#### CONCLUSIONS

Practical implementation of the economic reform in the USSR has just begun, so there is not much experience in this

sphere yet. Many important aspects of the reform are still at the phase of discussions. In this sense, other socialist countries that have been carrying out reforms for longer periods of time (e.g. Hungary, China, Poland) can present more evidence of stabilization and adjustment policies and their effects, as well as of limitations and by-effects that are only revealed in progress. (See Kolodko, 1988(b); Török; Zhang).

Nevertheless, economic restructuring and the whole process of renovation in the Soviet Union attracts general attention, bearing in mind this country's global economic and political positions. It may compose a completely new situation for the socialist sector of the world economy.

The way how "perestroika" works is able to produce a strong demonstration effect on the countries which are looking for an adequate strategy of socio-economic development, or namely the Third World countries. It is not a secret that shortcomings in Soviet economic performance and relatively low living standards of the population have created an image of socialism that is not very attractive. The Soviet Union is now very critical of its former economic system. Efforts are being made to replace it, so that the expression "Soviet-type economy" could lose its actual negative meaning and acquire a different sense. The new model is expected to be more efficient, while the main social achievements of our type of society are retained and reinforced.

To conclude, it is to be pointed out that the picture drawn in the paper refers to this very moment of the economic reform, although some general assessments appear too. The process under way in the USSR is going forward, and new developments take place almost every month. Correspondingly, the strategy and tactics of the reform are being adjusted, including the sequence of different measures and the new tools to be employed. It is a sort of "learning by doing" process. Therefore, some important further shifts may occur even before this paper is circulated.

## NOTES

<sup>1</sup> According to the official exchange rate, 1 rouble is equal to approximately 1.7 US dollars.

<sup>2</sup> O.R. Lacis estimates that this figure was at least 169.5 bn roubles higher than the normal level of inventories under given rates of growth of output, i.e. deposits outstrip output (see Kommunist).

<sup>3</sup> One attempt of such evaluation gave the result that in the early 1980s the share of satisfied consumers' demand was 58% for foodstuffs, 49% for fabrics, wearing apparel and footwear, 27% for paid services (see Proceedings of the USSR Academy of Sciences), though the methodology of this kind of calculations is quite doubtful, because in a disbalanced economy with shortages, unrealistic prices and wages, the quantitative measurements are hypothetical and subjective.

<sup>4</sup> Problems of functioning of the Soviet, and more generally of the so-called "Soviet-type economy", were analysed with more or less accuracy in many books and papers, e.g. Kornai (1980, 1982), Nove (1986), Wiles (1982), Ellman (1982). The author is far from associating with all views and evaluations expressed in this literature, however, the latter forms a sort of inventory of the Soviet economy's major and minor defects.

<sup>5</sup> For details on the outline of economic restructuring see, e.g. Aganbegyan (1988), Ryzhkov (1987), Radical Restructuring of Management (1987), Skorov (1987).

<sup>6</sup> See, e.g. Höhmnn, Ickes, Pringle, Schroeder, Winiecki.

<sup>7</sup> There is no reliable statistics on this issue. An estimate made by R. Simonyan says that 45 % of family budget in the USSR is spent on food (Izvestia, 7 July 1988), but this figure may be higher.

<sup>8</sup> A concept of individual freedom within the context of economic reform in socialist countries was elaborated by Kornai (1988, pp. 234-236)

<sup>9</sup> Some problems of real exchange rate for the rouble and of convertibility are analysed by Doronin.

<sup>10</sup> For methodological reasons it is complicated to compare standards of living and levels of consumption in the USSR and in the West. Soviet researcher R. Simonyan assessed in 1988 that consumption per capita is almost three times lower in the USSR than in the USA (Izvestia, 7 July 1988). Perhaps, it is even a slightly optimistic evaluation, but other data are unavailable.

<sup>11</sup> For further details, see Financial Times, 22 August 1988.

<sup>12</sup> In the Western economic literature there are many papers devoted to hidden inflation in the USSR - e.g. see Howard, Kolodko 1988 (a), Kolodko and McMahon, Nuti, Steiner. These papers can not rely upon a solid statistical base, so any quantitative assessments of inflation in the Soviet economy are embarrassed.

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\* Part of the sources quoted are available only in the Russian language, so their titles are given in my translation followed by the mark R. Assuming that the absolute majority of readers of this paper can not make use of Russian sources, I avoided redundant references to these sources, even if there are rather relevant works on the subjects discussed.

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TABLE 2.

*Rates of growth of the Soviet economy (yearly averages, per cent)*

Indicator / Years	1961-1965	1966-1970	1971-1975	1976-1980	1981-1985
Gross domestic product	6.5	7.4	6.3	4.2	3.5
National income (produced)	6.5	7.8	5.7	4.3	3.6
Industrial output	8.6	8.5	7.4	4.4	3.7
producers' goods	9.6	8.6	7.8	4.7	3.6
consumer goods	6.3	8.4	6.5	3.8	3.9
Agricultural output	2.2	3.9	2.5	1.7	1.0
Capital investments	5.4	7.3	6.7	3.7	3.7
Productivity of labour	6.1	6.8	4.5	3.3	3.1
Real per capita incomes	3.6	5.9	4.4	3.4	2.1
Foreign trade turnover (in comparable prices)	7.1	8.3	7.7	5.3	3.9

Source: USSR in Figures in 1987, pp. 15-17.



**TABLE 3.**  
*Commodity structure of Soviet exports (per cent)*

<b>Year</b>	<b>1950</b>	<b>1960</b>	<b>1970</b>	<b>1980</b>	<b>1985</b>	<b>1987</b>
<b>Total</b>	100.0	100.0	100.0	100.0	100.0	100.0
<b>Machinery, equipment, means of transport</b>	12.3	20.7	21.5	15.8	13.9	15.5
<b>Fuels and electricity</b>	3.9	16.2	15.6	46.9	52.7	46.5
<b>Metals, ores, metal articles</b>	10.8	20.2	19.6	8.8	7.5	8.5
<b>Chemical products, fertilizer, rubber</b>	4.0	2.9	3.5	3.3	3.9	3.4
<b>Timber, cellulose, and paper products</b>	3.1	5.5	6.5	4.1	3.0	3.3
<b>Raw and intermediate textile materials</b>	11.2	6.5	3.4	1.9	1.3	1.5
<b>Foodstuffs and raw materials for their production</b>	21.1	13.1	8.4	1.9	1.5	1.6
<b>Industrial consumer articles</b>	4.9	2.9	2.7	2.5	2.0	2.6

Source: USSR in Figures in 1987, p. 32.

**TABLE 4.**  
*Commodity structure of Soviet imports (per cent)*

Year	1950	1960	1970	1980	1985	1987
<b>Total</b>	100.0	100.0	100.0	100.0	100.0	100.0
<b>Machinery, equipment, means of transport</b>	22.4	31.1	35.6	33.9	37.1	41.4
<b>Fuels and electricity</b>	11.8	4.2	2.0	3.0	5.3	3.9
<b>Metals, ores, metal articles</b>	14.1	15.6	9.6	10.8	8.3	8.1
<b>Chemical products, fertilizers, rubber</b>	6.9	6.0	5.7	5.3	5.0	5.3
<b>Timber, cellulose, and paper products</b>	3.8	1.9	2.1	2.0	1.3	1.2
<b>Raw and intermediate textile materials</b>	7.8	6.5	4.8	2.2	1.7	1.5
<b>Foodstuffs and raw materials for their production</b>	19.7	13.1	15.8	24.2	21.1	16.1
<b>Industrial consumer articles</b>	7.4	16.9	18.3	12.1	12.6	13.0

Source: USSR in Figures in 1987, p. 33.

TABLE 5.

*Exports, imports and balance of trade of the USSR (billions of roubles, current prices)*

Year	1970	1980	1985	1986	1987
<i>Total</i>					
Exports	11.5	49.6	72.7	68.3	68.2
Imports	10.6	44.5	69.4	62.6	60.7
Balance	0.9	5.1	3.3	5.7	7.5
<i>Socialist countries</i>					
Exports	7.5	26.9	44.5	45.7	44.2
Imports	6.9	23.7	42.5	41.8	42.1
Balance	0.6	3.2	2.0	3.9	2.1
<i>Developed market-economy countries</i>					
Exports	2.2	15.8	18.6	13.1	14.2
Imports	2.5	15.7	19.3	15.9	13.9
Balance	-0.3	0.1	-0.7	-2.8	0.3
<i>Developing countries</i>					
Exports	1.8	6.9	9.6	9.5	9.8
Imports	1.2	5.1	7.6	4.9	4.7
Balance	0.6	1.8	2.0	4.6	5.1

Source: USSR in Figures in 1987, p. 30.

**TABLE 6.**  
*Soviet foreign trade by groups of countries (per cent)*

Year	1960	1970	1980	1985	1987
<i>Exports</i>					
<b>Total</b>	100.0	100.0	100.0	100.0	100.0
<b>Socialist countries</b>	75.7	65.4	54.2	61.2	64.9
<b>Developed market-economy countries</b>	18.2	18.7	32.0	25.6	20.8
<b>Developing countries</b>	6.1	15.9	13.8	13.2	14.3
<i>Imports</i>					
<b>Total</b>	100.0	100.0	100.0	100.0	100.0
<b>Socialist countries</b>	70.7	65.1	53.2	61.2	69.4
<b>Developed market-economy countries</b>	19.8	24.1	35.4	27.8	22.8
<b>Developing countries</b>	9.5	10.8	11.4	11.0	7.8

Source: USSR In Figures in 1987, p. 34.

TABLE 7.

*Rates of development of the Soviet economy, 1980-1987 (as percentage of the previous year)*

Year	1980	1981	1982	1983	1984	1985	1986	1987
National income (produced)	3.9	3.3	4.0	4.2	2.9	3.5	4.1	2.3
Industrial output	3.6	3.4	2.9	4.2	4.1	3.9	4.9	3.8
Agricultural output	-2.0	-1.1	5.4	6.2	0.2	0.2	5.3	0.2
Investments	2.2	3.7	3.5	5.6	1.9	3.0	8.4	4.7
Productivity of labour	3.2	2.6	3.2	3.7	2.6	3.2	3.8	2.4
Real incomes per capita	3.7	3.3	0.1	2.0	2.7	2.5	2.5	2.0

Source: USSR in Figures in 1987, pp. 18-19.

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