

“Gorbachev and Economic Reform in the Soviet Union”

Marshall I. Goldman*

Unlike his predecessors, Mikhail S. Gorbachev has captured the imagination and praise of most of the world. Ironically, he seems to be much more popular in Western Europe and even the United States than he is in his own country. In contrast to the usual situation, those of us in the outside world are pleased with what we see as his success thus far in improving international relations and striving for change, the right kind of change, in particular in the Soviet Union, and we hope that he will continue. In contrast a surprisingly large number of people within the Soviet Union see little progress. In fact, many in the Soviet Union feel that the cost of Gorbachev's reforms far outweigh the benefits. What is it Gorbachev is attempting to do, why is he doing it, why is he meeting resistance, and what is there in all of this for the United States?

I.

When Leonid Brezhnev died in November, 1982, the Soviet economic system was in need of a fundamental overhaul. Economic growth had come to a halt and in many instances had actually become negative. Moreover, as Soviet economists themselves now acknowledge, what growth there was, often looked better on paper than in fact. The goods produced were of poor quality and in many cases were of no practical use. There had been four consecutive bad harvests and despite unusually large grain imports, it was necessary nonetheless to introduce formal food rationing in over a dozen large cities.

Yuri Andropov restored some order and discipline to the system but because he lived such a short time after being made General Secretary, his premature death left the Soviet people as cynical and dispirited as before, particularly when it was announced that the equally ill Konstantin Chernenko would be Andropov's successor. As anticipated, Chernenko, despite his promises, did not follow through on Andropov's initiatives and the economic and political systems began to slip again.

Gorbachev was acutely aware of how serious the Soviet condition was. Once installed as General Secretary (it seems like it was a decade ago, not the three years it will be on March 11), Gorbachev moved quickly to bring order and discipline to the system. Taking a leaf from Andropov his mentor, Gorbachev, too, called for more discipline and a crackdown on alcoholism. Typically he also ordered some increased centralization, some decentralization, an economic speed-up (*uskorenie*), more technological growth, and more investment in the machine-tool industry. Just as with Andropov, this prescription brought some short run improvement, but in no way addressed any of the basic needs of the society or far-reaching reforms.

*Class of 1919 Professor of Economics, Wellesley College, and Associate Director, Russian Research Center, Harvard University. Invited Luncheon Address, Eastern Economic Association, March 11, 1988, Boston, Mass. This paper is taken from testimony prepared for the U.S. Congress: "Gorbachev: Is He Too Good to be True"?, presented to the House Committee on Foreign Affairs, February 8, 1988.

Only gradually did Gorbachev discover he would have to try an entirely different approach. The realization apparently came to him as he moved about the country trying to promote his package of discipline, sobriety, and uskorenje. Unlike most of his predecessors, Gorbachev decided the best way to do this was to enter into a real dialogue with the groups he encountered. Admittedly, many meetings were stiff and formal, but a surprisingly large number allowed for actual, and in some cases, clearly spontaneous interaction.

But a strange thing happened along the way; instead of Gorbachev's convincing the crowds to adopt his traditional set of panaceas, they managed to convince him that conditions were much graver than Gorbachev had originally anticipated and that the reform would have to be much more far-reaching than Gorbachev had thought. As a member of the Politburo, undoubtedly Gorbachev knew that much needed to be done, but having been sheltered by the trappings of power such as his limousine, his access to special stores and special resorts, Gorbachev seemed genuinely surprised by the dismal conditions he found. On a visit to Tyumen in September, 1985, he was openly dismayed to learn that this West Siberian city with 400,000 people lacked a single movie theater. On his return he reportedly told Agel Aganbegian, one of his chief reformers, that "Conditions in Tyumen were even worse than you said." Similarly, during an October, 1987 trip to Murmansk, Gorbachev confessed that "It was distressing and hurtful to listen to worker rebukes yesterday," as they complained to him of the lack of amenities. Ten days later, in a pattern that has been repeated over and over again, he heard the same complaints in Leningrad.

Gorbachev learned something else he apparently had not originally anticipated. His problem is not only one dealing with economics, but also with political conditions and the two are interconnected. A major cause of the poor morale and work habits was worker alienation. After seventy years of arrogant behavior of party officials, there was a clear perception that the bulk of the rewards in the Soviet system went to the party oligarchy. Why work hard when the bulk of the fruits of their work went primarily to party bigwigs, the *shishki*. Moreover, under Brezhnev these *shishki* or members of the nomenklatura could count on life tenure and acted accordingly.

II.

Gorbachev quickly concluded therefore that to generate a feeling of participation and sharing among the populace he would have to go much further than he originally seemed to anticipate. In what seemed to be a trial and error process, he gradually began to call for considerably bolder measures. These measures encompassed not only significantly more radical economic measures, but equally radical political changes.

Recognizing that something had to be done to call the party aristocracy to account, Gorbachev first urged an increasingly greater role for glasnost'. In a speech in the Soviet Far East, for example, he told local party officials, somewhat unrealistically, that they should do all they could to foster criticism by the local class of abuses by those same local party officials. As Gorbachev noted, since the Soviet Union lacks a multiparty system, glasnost' or open criticism in the local press about party excesses would have to serve as one of the main checks of such abuse. However, eventually he came to recognize that asking the fox to call in the hunter is probably an ineffective way to protect the chickens; Gorbachev began to look for more far-reaching solutions. This in large part explains his call in September 1986, a year and a half after coming to power, for something more than glasnost'. Gorbachev then began to call for democratization. Eventually Gorbachev's democratization came to mean at least in principle,

not only elections, but more than one candidate and secret ballots. All of this was in the name of attracting popular support, including a sense that no one could expect lifetime tenure in office regardless of how powerful they might be.

Gorbachev's thinking about economic reforms evolved in much the same way. With time he went beyond discipline and mere centralization and decentralization. Similarly, uskorenje no longer became such an urgent matter. Gorbachev recognized that among other malaises the country was suffering from was the hardening of its centrally planned arteries. He began to move to curb central decision-making and to transfer day to day production decisions by the country's factories. At the same time he decided that it was necessary to force enterprise managers to make decisions for themselves. Thus, as of January 1988, Gorbachev has ordered that factories producing sixty percent of the Soviet Union's industrial output can no longer expect subsidies if they are not profitable. In principle they must pay their own bills, make their own decisions as to whom to hire, what to produce and how to do it.

The expectation is that by shifting decision-making power away from Moscow, factory managers will be more responsive to consumer needs. That same motivation led Soviet officials to authorize private and cooperative business undertakings. Private enterprises are still unable to hire (or exploit) anyone other than family members, but private businesses should still make possible an improvement in services.

Something similar is now possible on the Soviet farm. While Soviet peasants have long been able to cultivate their own private plots, the appeal to private initiative has been broadened to include the operation of certain general farm activities. The peasant families can now contract with the farm management to raise farm livestock as a sort of sub-contractor. They can also continue to grow crops in a similar fashion. Moreover, the farm as a unit is allowed to sell up to thirty percent of its output directly to retailers on collective farm markets in the city.

Equally far-reaching is the decision to allow capitalist corporations to enter into joint ventures with Soviet firms which will operate within the Soviet Union. This breach of the ideology of the past is designed to facilitate the flow and constant renewing of technology without the need to spend or borrow convertible currency. The capitalist partners, who can own up to forty-nine percent of the venture, will supply the needed capital as their share of the operation.

III.

Without doubt the reforms now being proposed represent a radical departure from the past. The problem is, however, that while the political reforms seem to work all too effectively, the economic reforms are being resisted and there is little to show for all that has been promised. Gosplan and the ministries continue to play an important role. They still have the power to make administrative appointments and to issue what are called "government orders" or *goszakazy* from the factories. These orders are intended to ensure that the government needs continue to be filled, but as might be expected, these orders are being abused. One factory manager reported, for example, that its *goszakazy* total 103% of the factory's planned output.

The same distortions have severely compromised most of the other reform efforts. Thus except for some in the minority republics, relatively few individuals have decided to set themselves up in legal private businesses. That in part is a consequence of the continuing ambiguity towards private business of party officials. There are still periodic crackdowns on "speculation" and on "unearned income" and this predictably encompasses legitimate private operations as well. Similarly Soviet peasants have shown extreme reticence about shifting to a

contract responsibility system—at least in the growing of crops. Soviet officials privately explain that this reflects the long memories peasants have of what happened to kulaks during the collectivization drive. There can be no guarantee that there will be no return to similar hysteria. Finally, in contrast to the several thousand joint ventures that sprung up all over China, after a year, the Soviets have signed only twenty or so formal joint contracts.

Against this background it should come as no surprise that thus far Gorbachev has little to show for his perestroika effort. In fact, there are wide-spread reports that food supplies, particularly meat and vegetables, are in shorter supply than they were several years ago. For example, meat disappeared from the diplomatic beriozka store in Moscow, something unprecedented given the special status of this store. But while the expected economic benefits of perestroika have yet to come, the costs have been widely evident. Those who want a drink must stand in line now for two to three hours. The average worker is now being ordered to work harder: some are required to work second or third shifts and if the quality of the work they produce is too low, their wages are docked. No wonder surveys, including one taken in Novosibirsk, show that only thirty percent of the workers surveyed support perestroika. The remainder are either expressly opposed (twenty percent) or indifferent.

But if there is little to show for economic reform except on paper, the political reforms seem to have brought up an immediate response. Unfortunately some elements, especially conservatives, feel that there has been too much political change. Suddenly everything that has been sacred before now is being profaned. Bukharin is praised, newspapers ask the unaskable, movies show the unshowable, and television discusses the undiscussable. Tatars march in Red Square, Kazakhs riot in Alma-Ata, the Lithuanians, Latvians and Estonians protest their annexation, the Armenians march against pollution and discrimination by Azerbizhanians. To the conservatives this is all too much. After waiting to make sure that this is all really happening, they began to react. One immediate consequence was the firing of Boris Yel'tsin, the head of the Moscow Party Organization. He is blamed both for the lack of improvement of consumer goods and the releasing of this political glasnost'. There are those who see the humiliation of Yel'tsin, however, as a veiled attack on Gorbachev as well.

IV.

Gorbachev's determination to improve the Soviet economy has inevitable consequences for Soviet international policy as well. Gorbachev cannot free up the resources he needs to satisfy the population's pent-up demand as long as the Soviet Union continues to spend 14–16% of its GNP on defense. Unlike Deng Xiaoping, who had the same problem but was able unilaterally to cut back his military expenditures to about 7% of China's GNP, Gorbachev can only reduce his military budget in conjunction with a halt in similar spending or at least some halt in the arms race by the United States. That more than anything else explains why the Soviet Union reversed itself and went back to the arms talks in Geneva after Andropov pulled out Soviet negotiators in 1983. It also explains Gorbachev's eagerness to sign the INF agreement, even if the Soviet Union must open itself up to unparalleled verification provisions and agree to eliminate five warheads for every one that the United States immobilizes. This new, more relaxed stance has also resulted in an improved atmosphere in Western Europe and a declared Soviet willingness to withdraw from Afghanistan and cooperate rather than make trouble in the Persian Gulf (as we might have expected in pre-Gorbachev years).

For the United States, this switch from Soviet foreign adventurism to the concentration by Gorbachev on domestic problems has bought us unparalleled opportunities. After decades of

may-saying, the Soviet Union in less than three years has agreed to the concepts of verification and asymmetrical arms reductions and even destruction of those arms. But while this wins applause here, just as do the political and economic reforms of Gorbachev, his foreign policy reforms have also provoked considerable concern among many within the Soviet Union. Gorbachev himself has acknowledged in his meeting with members of Congress during the Washington summit, that if the Soviet Union had prided itself on having achieved parity with the United States before the INF agreement, what will it have once it has agreed to destroy five medium- and short-range missiles for every one removed by the United States? Admittedly the INF missiles account for only 3–5% of total Soviet missile forces, but it does suggest some exaggeration somewhere.

Nor has the Soviet discussion about withdrawal from Afghanistan and all that goes with such a retreat excited universal enthusiasm. Inevitably glasnost has brought with it stories about Soviet fighting in Afghanistan, which in turn has generated a more pessimistic anti-war sentiment in Soviet media. In the past, the Soviets sought to stimulate such sentiments in the West, all the while sparing the Soviet Union from such subversive thinking. The open appearance of such attitudes in the Soviet Union, along with sharp criticism of bribe taking by army officers to keep the children of the influential out of Afghanistan, plus attacks on other forms of corruption among Soviet officers has been very disquieting for the Soviet military. Heretofore the military was one institution above reproach. No wonder perestroika, especially when it subordinates Soviet military needs and prestige to domestic, economic and international politics is a worrisome thing for many members of the military. One of those distressed is General Dmitri Yazov, the Soviet Minister of Defense, who has openly criticized the drift towards growing pacifism.

V.

As long as Gorbachev is firmly in control and determined to move forward with his reforms, the likelihood is that the Soviet Union will continue to seek to improve relations with the United States and agree to asymmetrical weapons agreements. This does not mean that Gorbachev can be too forthcoming, especially as opposition to making too many concessions builds up in the Soviet Union. Under the circumstances, the United States should continue to seek accommodation with Gorbachev. However, in exchange for concessions on arms control and an improved Soviet response to dissidence and immigration inside the Soviet Union, we in the United States can probably facilitate the process if we are more forthcoming on some other issues, particularly in the field of trade. Since he is having so much difficulty producing results for his economic reforms inside the Soviet Union, it would help Gorbachev if he could point to some economic payoff elsewhere and foreign trade would be at least a partial substitute.

Even most of the cynics outside the Soviet Union have now come to concede that at least some things are different in Gorbachev's Soviet Union. However, there is no guarantee that Gorbachev will hold to his reforms. He may decide for expediency to go slower and to make more compromises. For that matter, there is nothing to ensure that Gorbachev can even continue to hold on to his post. Ultimately the decision as to whether Gorbachev goes or stays or compromises will be made by those in the Soviet Union, but to the extent that the United States can show good faith when it deals with him, by ratifying the INF agreement and by agreeing to improved economic concessions, there is a good chance that Gorbachev's efforts will be facilitated. Given the resistance and even opposition he faces at home, this could be very important for him.