

# Revolution Within Socialism— The Economics of 'Perestroika'

Second in a series.

In his book, "Perestroika," Soviet Communist Party General Secretary Mikhail Gorbachev calls the present reorganization of the Soviet economy "the most important and most radical program for economic reform our country has had since Lenin introduced his New Economic Policy in 1921."

This is no exaggeration.

The changes are so sweeping and so fundamental that speculation on a Soviet reversion to capitalism is threatening to overtake Trivial Pursuit as the most popular indoor sport in U.S. intellectual circles. (In general, the underlying premise of such discourse is that perestroika doesn't have a chance unless it goes "all the way" and transforms the Soviet Union into a capitalist country.)

But such commentary is not confined to the wishful thinking of anticommunist Western pundits. Gorbachev himself notes that there are those in the Soviet Union—and one must assume that some are influential voices—think that the reforms may be "undermining the foundations of socialism."

Although in both East and West these speculations have a certain self-serving character, there is no doubt but that perestroika is introducing practices and concepts which are at variance with certain long-held ideas of the "principles" of socialism.

Among these are: a qualitative alteration in the economic planning mechanism by which—over the next several years—the vast majority of Soviet enterprises will become self-supporting and self-financing; establishing competition—in terms of price, quality, service, etc.—as an economic norm between enterprises; developing a wage structure which is likely to produce greater, rather than lesser, inequalities in the incomes of Soviet workers; permitting, indeed encouraging, a wide array of privately and cooperatively owned enterprises which will function largely outside the overall economic plan.

There is little point in disguising the fact that these innovations are—to say the least—startling departures from the socialist "model" under which the Soviet Union has functioned for the past 50 years. Their introduction, therefore, poses two provocative questions: Why are such drastic changes in the Soviet economy being undertaken? And what do they signify in terms of the present leadership's conception of socialism?

## PLANNING MECHANISM

The central theme of the economic reform is to replace a planning mechanism based on "administrative" methods with one based on economic processes. Under the old system of centralized planning, elaborately detailed plans affecting every aspect of the Soviet economy were developed by a host of central planning bureaus. In the concrete, these plans allocated resources and labor to all Soviet enterprises, established production quotas, set prices and wages, approved (or disapproved) requests for new machinery or other suggested innovations, etc.

As the Soviet economy sank into a period of what Gorbachev has called "stagnation" in the late 1970s, a growing number of Soviet economists and theoreticians—most of whom felt obliged, in the intellectual climate of the time, to keep their views relatively private—came to the conclusion that the root cause of the developing crisis was to be found in this "administrative" view of the economy.

One of these, Professor Gavriil Popov of Moscow University, now a principal architect of the reform program, argues as follows: "The greatest flaw in administrative methods is that they fail entirely

to take the criterion of economic efficiency into account. Administrative methods are perfectly all right in the army, and law-enforcement agencies. In the economy, however, the situation is quite different. Injunctive practices are incompatible with it." (*New Times*, #31, 1987.)

At the same time, Popov acknowledges that there probably was no historically viable alternative to the "administrative" system developed initially in the early '30s. "The chief reason," he says, "was that socialism had to be built in a country whose economic system allowed for a socialist revolution and made it possible. At the same time, this country was at a level of development which provided no economic basis of the kind required by the new system.... The way I personally see it, the situation in and outside Russia then was such as to leave no alternative to administrative methods of building socialism."

Contrary to many simplistic commentaries, the old planning mechanism developed during Stalin's time not only "worked," it had actually undergone significant modifications over the years. Each of these alterations represented attempts to bring the system into line with changing economic realities. In the mid-fifties, and then again in the mid-sixties, whole programs of economic reform were introduced. In general, these changes alleviated some of the most severe of the developing problems—but only for a while.

As often happens with pragmatic adjustments, however, many of the changes gave rise to equally severe new problems. By the mid-seventies, the failure to solve some of the more fundamental contradictions of the planning mechanism and the accumulation of new negative tendencies brought the Soviet economy to a danger point. In contrast to the goals of socialist planning—a balanced economy, efficient use of resources, constant revolutionizing of the productive forces, rates of growth and living standards outstripping capitalism—the Soviets contemplated a starkly different reality: falling growth rates, enormous waste of labor and resources, a conspicuous lag in the introduction of new scientific processes and technology into industry, and a growing extra-legal, underground economy. Accompanying these negative economic phenomena was evidence of extensive corruption in the managerial apparatus and widespread cynicism and alienation among workers.

In time, it became clear that these were not problems of a transitory nature. "We have learned to live with a shortage-prone and ill-balanced economy for decades," notes Leonid Abalkin, director of the Institute of Economics of the USSR's Academy of Sciences and a prominent Gorbachev adviser.

## STRUCTURAL CRISIS

The scale and quality of Gorbachev's attempt to overcome the "stagnation" suggests that what all this added up to, in effect, was something no one had ever before contemplated—a structural crisis of socialism. For perestroika goes far beyond previous adjustments and modifications. Gorbachev's program of radical economic reform is an attempt to revolutionize the very structure of the Soviet economic system. Fundamentally, it calls into question the idea that certain principles of the old system represent "natural" and "eternal" characteristics of socialism; and in doing so, it has dared to introduce concepts—markets, the law of value, commodity-money relations, credit, etc.—which had, for a long time, been considered purely capitalist categories.

Thus, Soviet economist Oleg Bogomol-

ov argues that "the use value of a commodity—that is, its correspondence with the actual requirements of society—is finally brought forth on the market, where demand and supply confront each other," and that this is true not only for capitalist society but socialist society as well. For, he goes on, "whether the commodity possesses corresponding consumer properties and to what extent it possesses them should be determined not by its producer, not even by the ministry or Gosplan (the State Planning Committee), but by the consumer in the process of sale and purchase on the market." (*Moscow News*, August 2, 1987.)

In other words, according to Bogomolov, the determination of a commodity's actual use value is settled only by the willingness of consumers to purchase it under conditions where a relatively "free

**Perestroika is a qualitative alteration in the economic planning mechanism. Enterprises will become self-supporting and self-financing.**

choice" of products can be made. "The consumer," he asserts, "must be guaranteed the right to 'vote' freely with the ruble for the adequate quality of goods and their broad assortment, for the conscientious and competent commodity producer and a fair price."

In a similar vein, Abalkin states: "If certain economic forms such as market, banks and credit enhance production efficiency, accelerate scientific and technological progress, rationalize the structure of the national economy, and do not contradict our principles, that is, do not lead to exploitation, to the oppression of certain social groups, these forms must be made the most of.... The difference between our society and capitalism lies not in the form, but in the social and class essence of production relations."

A closer examination of the reforms themselves underscores the extent to which these new concepts about the nature of socialism are now finding concrete expression in Soviet society.

## SELF-FINANCING

The linchpin of the economic reform is a new Law on State Enterprises, adopted last fall and, as of January 1, now being implemented in roughly 60% of Soviet enterprises. The remaining 40%, which includes the bulk of heavy industry, will be brought into the new system over the course of the next three years. It is expected that by 1991 all economic activity—with the exception of military production—will function on the new basis.

Under the new law, enterprises are supposed to become self-supporting and self-financing. What this means is that within the framework of state ownership and an obligation to fulfill state orders for specific commodities, the management of each enterprise will decide for itself such questions as quality control, variations in style, purchases of new equipment, size of its labor force, etc. Each enterprise will purchase whatever raw materials, machinery and energy supply it may need either from the state or directly from other enterprises. It will also

accept orders directly from other enterprises at agreed-upon prices. It may also decide to invest its resources in new products where it has reason to believe that a market for such goods or services may exist. Its income will come from the sale of its products to retail and wholesale outlets or to the state.

The enterprise's relation to the central planning mechanism will take the form of state purchasing orders which will take priority over other economic activity.

According to the present system, all profits from each enterprise are taxed by the state at 100%. Under the new system, the enterprise will decide for itself how to use its profits—although, presumably, some portion of them will be taxed. They can be used to raise wages (for both workers and management), invest in new technology, open up new areas of production, provide additional social services to both workers and entire communities, go into a reserve fund, etc. If enterprises show a loss, the state will not, presumably, bail them out with subsidies.

## ECONOMIC DISCIPLINE

Underlying this drastic change is the hope that the principle of self-financing will impose an economic discipline on each enterprise by tying rewards—wage levels, bonuses, improved social conditions—to efficiency, high quality of product and labor productivity. Such an arrangement, it is also hoped, will provide an incentive for the more rapid and thorough integration of scientific and technological breakthroughs into the economy. Inversely, penalties—up to and including bankruptcy of the enterprise—would be the consequence of failure to meet these criteria.

Soviet economist Abel Aganbegyan, one of Gorbachev's key advisers, has used the example of the Soviet footwear industry to underscore the inefficiency and waste which the old system fostered. Noting that "in 1985, we manufactured 788 million pairs of leather footwear against the U.S.' 300 million," Aganbegyan says that while the U.S. has "footwear galore, all styles, and comparatively inexpensive, our shoe shops, too, are bursting with goods, but there is 'nothing' to buy." The problem, says the economist, is that the quality of the Soviet products is comparatively poor, there is little choice in styles, and, accordingly, consumer resistance is high.

But under the old system, the shoe manufacturers had done their job. They had met their quota as set by the state plan—and it was not their responsibility if the finished products wound up in warehouses instead of on consumers' feet. With no incentive to produce quality goods, or to take consumer tastes into account, or even to operate efficiently—and with no penalty for either the failure of their product or the exorbitant costs of production—the industry remained impervious to change. "In many respects," says Aganbegyan, "our footwear industry is just wasting leather and other materials." (*Moscow News*, #35, 1987.)

A system of self-financing will, presumably, overcome such problems throughout the Soviet economy. But implicit in the reforms, too, are a number of other developments with overtones of capitalism. Competition between enterprises producing goods or services in the same field is not only anticipated, but seen as a positive development. A tendency toward wage-leveling—often hailed in the past as a sign of socialism's "progress"—will be reversed as wages are tied to productivity and the overall financial health of an enterprise. Forms of unemployment may appear in Soviet society. And privately owned enterprises—by individuals, families and voluntary cooperatives—seem destined to occupy a larger and more legitimate place in the economy.

These and other questions relating to the economic reforms will be addressed in the next article in this series. □