

Perestroika

Mikhail Gorbachev came to power in the Soviet Union preaching especially, Perestroika or reconstruction of the economy. For nearly five years he has attempted to invigorate the soviet economy by applying a bewildering array of unorthodox approaches and new methods of management to the old Stalinist system of central planning. Despite this, the soviet economy is on the verge of collapse. Perestroika and Glasnost for us in the Western World has signified a new era behind the iron curtain, for the people of the Soviet Union, it has meant rationing, shortages and long queues for the most basic goods and watching others getting rich quickly in co-ops by essentially reselling state goods at a higher price. Quite simply, efforts to restructure the economy have floundered. This essay is an attempt to analyse Perestroika, what it involves, why it has failed so far and what steps must be taken in the future to ensure its success.

Perestroika is not an isolated reform process, it is one part of a three pronged process of change, the other two being - Glasnost and democratization. However it is Perestroika that gives real meaning to what would otherwise be the hollow rhetoric of Glasnost. It is not, however, about returning to Capitalism or even abandoning central planning, it's merely a relaxing of its rigidity. A type of trimming of the bureaucratic part that exists. Its aim is to create a centrally planned economy with a modern industrial base, which takes account of local initiative and enterprise.

Perestroika is certainly a radical reform process but it does not involve rapid changes. Gorbachev envisages Perestroika as occurring in several 'waves' over a period of twenty to thirty years. It was the 27th party congress that gave the first general outline of Perestroika. There were to be three stages of Perestroika (1) the preparatory stage from 1985-1987. This involved improving labour and social discipline, an anti-alcohol and corruption campaign and new laws on quality control in factories, supervised by Gospriemka. The laws on co-ops were changed to allow for greater scope for collective bodies. The plan also included massive investment in new technology and moves to democratize the work place, with the election of managers from 1987. Moves on joint ventures and foreign trade contracts were also invited.

Stage 2, the transitional stage, was intended to be from 1989 to 1990. However much of it is running behind schedule. It involved increasing enterprise autonomy, with two thirds of all state enterprises moving to cost accounting, with a profit making goal. This quite simply hasn't happened. Stage 2 was also to have included a trimming of the central bureaucracy. This has only really been started. In theory about 50% of all ministerial staff was to be cut in 1989-90. There is no real evidence of this happening. It is in the whole area of price reform that the stage has really fallen behind however. Soviet prices are based on costs of production not on demand. This system is outdated and must be changed. Milk and meat prices were last increased in 1962. It is estimated that if supply and demand were allowed to balance prices would increase by 49%, a phenomenon known as "repressed inflation". This would obviously create discontent among the people, but it is a step that has to be taken if Gorbachev is really serious about restructuring the economy. To put it bluntly, Gorbachev has flunked it on the whole issue of price reform.

Agricultural reform has taken place to some degree. This is an extremely sensitive area for Gorbachev, as collectivisation is seen as one of the key tenets of Marxism-Leninism. In March 1989 new laws permitting family farming under 50 year renewable leases were passed. An indication of just how inefficient the agricultural system is, can be shown by statistics on output in the sector. The 3% of soviet arable land that is privately owned accounts for 30% of total output. The new legislation is only a short term solution however, and little has been done to tackle the infrastructural problems that lead to the loss of 30-40% of output.

Stage 3 of the plan was to have been the "take off". By 1992 it was hoped that the economy would be working according to plan and an acceleration of growth would occur, with the aim being to double GNP by the year 2000. Quite obviously this just is not happening. Immense problems have emerged. There exists in the Soviet Union a motivational crisis. That is understandable under the circumstances. Why should people respond positively to promises of long term benefits, when in the short term living and working conditions deteriorate. Perestroika will be judged on whether or not it can put food in the shops: Gorbachev's solution to the crisis has been to introduce Glasnost and ever increasing moves towards democracy, but up until now this has appealed more to the intelligentsia than to the working class. The retail sector is in disarray, prices are low but the goods are of poor quality and long queues exist for the most basic of commodities. Gorbachev has recognised the problem and has increased the importation of consumer goods and food, this has caused balance of payment, problems, and Sitaryan, the new foreign trade supremo, has called for import limits to be introduced.

Room for manoeuvre in spending is further curtailed by the 120 billion roubles budget deficit which Pavlov the finance minister hopes to halve in the next year through defence cuts and the issuing of government bonds. Pavlov has stated that a money market will be introduced in the Soviet Union this year and that capital expenditure will be cut in an effort to tackle consumer goods shortages.

Gorbachev's united decentralization process has also caused problems. In the short term anyway it will strengthen the hand of local party officials. Therefore unless there are wholesale personnel changes there is potential for greater obstructionism and inertia in the system. It also seems to have stirred up a hornets nest of nationalist passions. Nationalism of the like we have seen recently is a very real threat to Perestroika. The economic structure of the Soviet Union is glued together by a high degree of specialisation in different regions, deliberately done to make them interdependent. The Soviet Union can survive without the Baltic Republics but the secession of Azerbaijan for example would seriously undermine Gorbachev and his reforming policies.

The motivational crisis I spoke of is further exacerbated by a cultural inertia. The old culture whereby the people were bolstered by the state with no incentives for working hard or efficiently will be difficult to change. Gospriemka rejected six billion roubles worth of goods last year which were unable to reach the required standards. Furthermore, the introduction of new technology means the workforce has to be completely retrained. The new co-ops allowed, in an attempt to overcome shortages, have been obstructed by local authorities and there is popular resentment and discontent at these profiteering "Yuccies".

Probably the biggest obstacle to Perestroika is the number of people who stand to lose by its completion. The conservatives in the party, led by Ligachev, who, significantly, still remains in the Politburo, have objected on ideological grounds. They oppose family farming and fear that reform, if it is carried too far, will lead to social disorder. The current nationalities problem strengthens their view. There are various other groups such as the bureaucracy-millions of Brezhnev-created civil servants who are hampering Perestroika to protect their own interests, and the military who will lose. Even the working class are losing out in the short term.

The combined effect of these obstacles to Perestroika have brought the Soviet economy to a virtual standstill with industrial unrest and dislocation of the old planning system. Agricultural output declined by 2% in 1989, inflation is at least 10% and some economists claim that there was actually negative growth in the economy last year. 13 million of a workforce of 164 million (8%) are unemployed. Unsatisfied demand was estimated at 115 billion roubles. Wages increased by 9% whereas labour productivity improved by only 2.5%. Labour discipline, one of the fundamental aims of Perestroika, reached rock bottom with

seven million workdays lost through strikes. The recent coal strikes will, according to some estimates cost the economy 100 million roubles. The promise during the resulting negotiations of price increase will have to be passed on to other industries despite the fact that the government is committed to freezing prices. This means a further increase in retail price subsidies will be introduced thereby compounding the current budgetary problems. The reorganisation of the Soviet oil and gas industry with new decentralising decision-making has led to chaos, and there has been a fall in output in both. The crisis in the oil and gas industry mirrors the dislocation of the rest of the Soviet economy.

The two biggest ailments of government finance are the huge budget deficit and the failure to obtain an adequate return on investment. The entire state investment programme must be reviewed from scratch. An example of the inefficiency of the programme exists in the coal industry where one third of all investment is in the declining Donbas mine. The productivity of the Kuzloas mine is three times higher, but no deep mine has been dug there since the 1960's.

Some economists argue that enterprise sales should be introduced with cross shareholdings eventually traded on a stock exchange, which would be an effective way of increasing the efficiency of investment. An essential first step however, is the abolishment of the two tier price system and the introduction of a progressive tax system (as opposed to the current universal 13% rate). Indirect taxation is also a thorny issue. It should be linked with reform of retail prices now apparently scheduled for 1991.

Perestroika is at a crossroads now. Gorbachev's new blueprint which includes the abandonment of the party monopoly seems to suggest that more radical reform is on the way. Certainly, if Lenoid Abalkin's radical plan, on where Perestroika should be taking the Soviet economy, is eventually adopted, the original boundaries of Perestroika will have been breached and the Soviet Union will be on the road to a market manifesto for social democracy. Abalkin pulls no punches in his criticism of Perestroika to date. "We have not met any of our projected results over the last four years, we must give up this dogmatic misconception that income from property is incompatible with socialism". He proposes a phased timetable for transition to a new financial and banking system, the introduction of a capital market, the removal of subsidies from loss making state enterprises and collectives and the introduction of a comprehensive social security policy to protect the poorest from the effects of inflation.

However the current government programme stops short of Abalkin's plan due to fears of "serious socio-economic upheavals". Price reform has been postponed. Reform still remains within the parameters of the old planning system. But it has become increasingly obvious that this is insufficient to solve the Soviet Union's woes. The government must have more of a function of regulation than planning. Personnel changes must be continued. Plans continue to go astray as Gorbachev depends on the bureaucracy to implement reforms. They are obviously loath to do so as they have their jobs and privileges to protect. These planning bodies must be restructured.

I feel it is virtually certain and necessary that privatisation will occur in the Soviet Union. However it will be a slow process and doubts must exist as to whether people will buy shares. Nevertheless shares could be made eligible to all with money coupons used for bidding. The shareholders could elect a board of directors who would appoint managers. They would be given 10% of shares with the understanding that they would only see them after five years, thereby acting as a disincentive to quick profits at the expense of long term expansion. By doing this the government would be establishing specific owners of enterprises instead of owners of the whole industry under the nomenclature. If the government was to liberalise domestic prices and the exchange rate without doing it, it would lead to rampant inflation. This privatisation is essential both in industry and in agriculture. More autonomy is needed to revitalise production.

The amazing paradox of Perestroika is that great central control is required to achieve the major decentralisation of economic control and power. If Gorbachev succeeds he will lose his centralised power to forces that could undercut the political authority of the regime (William Odom). Despite this, I have no doubt that Gorbachev has moved on from his early desire for limited reforms. He certainly wavered. But for this to survive there can be no stopping now. Perestroika has acquired a wide scope and become a necessity for the people, but the forces against it are still strong. Gorbachev is being attacked by the left, the right and also the general public, but Perestroika will survive because there is no coherent programme to replace Gorbachev's policies.

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