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# **Analysis of the Government-Directed Economy in the USSR**

## **Politico-Economic Model**

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Submitted for the Degree of MLitt  
The Institute of Russian and East European Studies  
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## ABSTRACT

The traditional approach in economic Sovietology has emphasised the ideological content, corresponding to the major "isms", such as, capitalism, socialism and communism, and regarded property relations as the essential element in distinguishing systems. However, from an organisational viewpoint, the economic experience in both East and West have more in common. The difference is lying in degree of government involvement in individual economic decision-making, not in fundamental kind. In this context, my first attempt is to develop a general politico-economic model, indicating and emphasising dynamic interrelations between collective political processes and individual economic activities in a political economy. The methodological and theoretical approach and theories of the 'modern political economy' is applied to understand the real nature and problem of the Soviet system as an extreme model of 'non-market' government-command system. With this unified conceptual and analytical framework, the true nature and actual operation of the Soviet government-directed model are examined, indicating its intrinsic information and incentive problems.

The evolution of the Soviet government directed socialist system was the outcome of the Soviet regime's ultimate goal: rapid economic growth to catch up the advanced Western countries while maintaining and strengthening the political and economic dictatorship of the Communist Party. This government-directed politico-economic model was designed and intended for the party leadership to direct the whole political economy in order to achieve these goal as fast as possible. Its basic nature can be characterised by the totalitarian political nature under the dictatorship of the Communist Party and the government-directed economic nature, such as the centralised economic hierarchy, the government planning mechanism, and the socialist motivation mechanism. However, the Soviet government planning mechanism, without an active role of market mechanism, was unable to provide sufficient information to economic actors concerning co-ordination errors and any incentive weapons to eliminate these errors. In practice, the Soviet economic participants possessed neither sufficient information nor incentives to appraise the alternative use of scarce resources in production.

These information and incentive problems were likely to generate chronic co-ordination problems in individual economic activities, which induced unique intrinsic economic phenomena: 'economic bureaucratism', 'centralised pluralism', 'non-scarcity information', 'supply uncertainty', 'success indicator problems', 'soft budget constraints', and 'economic security'. Confronted with these conditions, each participant, in practice, engaged in operational 'opportunistic behaviours' in activities of 'tactical planning', 'securing plan-fulfilment', and 'low incentive work', which were often not compatible with the intended goals. The outcomes were just 'extensive' and 'intensive' aspects were neglected. For that reason, the party leadership turned its attention towards raising efficiency through better utilisation of inputs, increasing the quality of products and opening up for technological innovation in the production units. Notwithstanding the reform policies of 'further perfection' and later 'perestroika', the regime's attempted reform within the framework of the government-directed model failed and the regime collapsed dramatically. This grand Soviet experience would provide us with important general lessons for long-term stability and dynamism in any political economy.

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If I am a lucky person, it is simply because I have devoted parents who are always willing to sacrifice themselves for their children and happy family who always delightfully encourage me in doing my hardest. However, I can never forget their patience, encouragement, and endless love. Especially, I am so much indebted to my parents not only for their financial but also for their inspirational support during my study in Glasgow. It is, therefore, my duty and honour to devote this humble work of mine to my wonderful mother and father.

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## INTRODUCTION

The history of the twentieth century has been hugely affected by the rise and fall of the Soviet-type system of political economy and is now being powerfully affected by the consequences of its transformation to the new form of political economy. The advent of the communist regime in the Union of Soviet Socialist Republics (USSR) and its spread to Eastern Europe and China after World War II spawned the new fields of Sovietology, including the economics of socialist central planning and comparative economic systems. The work in these fields was carried out for several decades amidst the shifting, highly politicised, and ideologically charged atmospherics of the Cold War. Over the years, specialists on the Soviet economy have tried to formulate paradigms for understanding how the Soviet-type economic system worked without market exchange and for predicting their likely future performance. Their efforts produced a huge literature, often controversial, detailing our understandings of this Soviet-type non-market economy, measuring its performance and relative achievements overtime, and analysing and interpreting economic developments and policy actions as they unfolded throughout the Cold War.<sup>1</sup>

The felt need for some sort of paradigm, that would enable us better to understand and predict the behaviour of the Soviet-type (largely non-market) economy, produced a parade of "models." Gregory Grossman applied the paradigm of the "command economy" and developed "a Theory of the Command Economy."<sup>2</sup> With the resurgence of mathematical economics in the Soviet Union in 1960s, there as well as in the West, the Soviet economy came to be characterised as the "imperative" or "directive" type of government planning economy, in contrast to the "indicative" planning practised in some market economies. Although the term "centrally planned economy" was commonly applied to the Soviet economy up to the end, the usefulness of that term as a general paradigm always was diminished by observations of large and frequent deviations between plans and their implementation in practice.<sup>3</sup> Accordingly, focusing on the practical problems of central planning in the Soviet economy, two theoretical paradigms were proposed: that of the permanent "shortage economy" developed by Janos Kornai and that of the "general disequilibrium" economy elaborated prominently



by Richard Portes.<sup>4</sup>

The Soviet-type economic system has also often been described by the inseparability of economy from the politics, as Alec Nove argued that "Politics and economics, political organs and managerial functions, do indeed intertwine."<sup>5</sup> In accordance, some scholars adapted the paradigms of other disciplines and sought frameworks that are more general. Robert Campbell attempted to develop a general theory of the "administered economy."<sup>6</sup> In the same context, Rush Greenslade argued that the Soviet economy should be viewed as a huge collection of bureaucracies in a hierarchy and might best be understood in terms of the theory of bureaucracy being developed in the West.<sup>7</sup> Following from this, the development by political scientists of pluralistic, interest-group models to analyse communist societies stimulated efforts by economists to employ theories of bargaining and game theory to elucidate the workings of the economy, focusing on the behaviour of Soviet bureaucracy.<sup>8</sup> Paul Gregory, for instance, used a principal-agent approach derived from the economics of regulation to characterise relations among Soviet economic institutions.<sup>9</sup> Considerable attention among economists and political scientists in Sovietology has thus been devoted to recognition both to 'bureaucratic pluralism' in the policy process and to the centrality of the interaction between politics and economics in the Soviet system.

The paradigms and models in economic Sovietology have provided analytical foundation to understand how the Soviet-type economy was operating without active market exchange and co-ordination. In spite of their contributions, Sovietology, particularly in economy, has come under attack from many quarters in the wake of the collapse of the Soviet-type economy in 1980s. The criticisms cover the range from failure to predict the demise of the Soviet-type economic system and overestimation of its performance in a variety of areas to a failure to understand the 'true' nature of the Soviet-type system itself.<sup>10</sup> Reflecting heavily the ideologically charged and highly politicised atmospheres of the Cold War, scholars had focused on the antagonistic concepts and characteristics distinguishing their systems from other systems, such as 'capitalism versus socialism', 'market versus planning', and 'democracy versus totalitarianism'. They, therefore, failed to grasp the common structural problems in

government managed economies that even appeared severely in the Soviet-type government command economy. From an organisational viewpoint, the economic experience in both East and West have more in common than is generally recognised. The difference is lying in degree of government involvement in individual economic decision-making, and is not fundamental in kind.

In this context, my first attempt is to develop a general politico-economic model, indicating and emphasising dynamic interrelations between collective political processes and individual economic activities in a political economy. The traditional approach to the political economy has emphasised the ideological content, corresponding to the major "isms", such as, capitalism, socialism and communism, and regarded property relations as the essential element in distinguishing systems. I will apply the theoretical and methodological approach of the 'modern political economy'.<sup>11</sup> The approach of the modern political economy and much of theories in this field, of course, are directed at the functioning of political decision-making and non-market mechanism under conditions of capitalist democracy and, therefore, it is not immediately applicable to the Soviet-type system. But, this methodological and theoretical works can be applied in order to understand the real nature and problem of the Soviet-type system, which can be defined an extreme model of 'non-market' system.

While politics and economics coexisted as the single discipline of political economy for much of the period of modern scholarship, these fields were formally split in the late nineteenth century toward a high degree of specialisation. Economists concentrated on market activities and, for the most part, took the political and institutional structures as given. Political scientists, on the other hand, devoted their energies to understand how institutions interacted with individuals and were shaped by individuals in essentially non-market situations. Although such specialisation promoted the rapid development of knowledge in each area of "politics" and "economics", the problem comes, too, when the divisions of inquiry mask important issues. A rejoining of political science and economics into political economy has been in progress in areas where the disciplinary divisions are most distorting. Thus, the reconstitution of political economy is designed to reunite the separate perspectives in those areas where the interaction of individuals,

institutions, and markets is paramount. The unified approach of new political economy is promising for its natural relevance to the problems of government economic policy making, regulation of industry, legislative structure and performance, and the development or conversion of economic and political systems.

The theoretical and methodological accounts on the 'non-market' decision-making mechanisms has been developed by scholars working within the Public Choice schools of economic analysis.<sup>12</sup> The public choice approach applies the 'methodological individualism', which is based on the same human behavioural hypothesis as general economics. Individuals and organisational units, including enterprises, interest groups and government bureaucratic organisations, will react to utility and costs in a predictable and systematic way, and they are rational and seeking self-interests within the rule of the law in the society. They view political actors in the same manner as they view economic actors—as self-interested individuals—, not as benevolent despots. This does not mean that economists must model political actors as *homo economicus* or wealth maximising agents. Political agents have goals and they arrange their means to attain those goals, which could include ideological pursuits, high ideals or monetary reward. What matters for economic analysis is the implications for the analysis of market economic activities and political processes that follow from viewing individuals as purposive actors. Such a position of value freedom may prove helpful in catching a clear picture of what is the real problem and what it is supposed to be reformed.

Sharpening of conceptual and analytical tools, I will develop a unified politico-economic model showing that how the essential political and economic elements in a modern society are interrelated. This model will present the internal logic and historical dynamics of the politico-economic system and will provide an analytical framework to the task of understanding the internal logic and problems of the Soviet-type government-directed model. With this unified conceptual and analytical framework, I will examine the nature of the Soviet government-directed system of political economy, indicating its intrinsic information and incentive problems. Next, I will examine its operation discussing major political and economic participants' opportunistic behaviours and its performance. Finally, I will discuss the implication of

the past Soviet experience to the preconditions for the long-term stability and dynamism in the political economy. The grand experience under the Soviet regime would provide us with important general lessons for long-term stability and dynamism in any political economy.

## ANALITICAL FRAMEWORK

### *Politico-Economic Model*

In a modern society, all human activities involve decision, that is, choice between alternative courses of action and their combinations, which demand usage of some scarce material and human resources. The decision involves the consideration of available alternative choices to reach the intended goals. Human activities appear as 'economic' if the accompanying allocation of these resources is considered from the angle of the associated costs and the benefit value of the outcome. Thus, the adjective 'economic' refers to one particular aspect of human activities which have economic angle, that is, resource-allocation and cost-benefit side. In this context, *economic activities* can be defined as human activities of making decisions and their implementation concerning the allocation of scarce material and human resources to achieve intended benefits from these activities bearing their opportunity costs.

In each economic activity, scarce economic resources are allocated and human participants are involved. These *economic resources* include raw natural resources, processed material resources, human resources, and technology, otherwise the classical assortment of resources are land, capital, and labour. The raw natural resources, land in the old parlance, include water, air, gravity, as well as physical, chemical, and biological properties of inorganic and organic things. The processed material resources, so-called capital, are materials and fixed producer durables, such as not just machine tools but also means of transportation and communication and records of information, etc. The human resources, called labour, are a reservoir of physical and mental services, a stock of capacity to work, skills, and accumulated knowledge attached to human beings. The technology is the stock of technical knowledge<sup>13</sup> incorporated in the human and manufactured productive assets.

The *economic participants* who take part in economic activities and by whom economic decisions are made and implemented are naturally people considered as individuals, but it is more useful to think of them as aggregated groups or organised units for definite purposes. These organisational units include economic units, for example, enterprises

and households, and administrative units like economic ministries in government. The economic units bring forth material labour, goods and services. For instance, households supply labour and consume produced goods and services for final satisfaction and enterprises purchase resources which are needed for production and sell produced goods and services. The administrative units that constitute the administrative structure in a government are organised to implement government economic policies and regulate the economic activities of individual economic units.<sup>14</sup>

From their economic activities, participants wish to attain satisfaction of wants, needs, and desires, which are the ultimate goals of their participation, so-called *preferences*. In order to pursue these goals, they engage in their individual economic activities. While their participation in economic activity, they establish exchange linkages of information, goods and services with other participants. These linkages and exchange among them become stabilised through consistent and systematic repetition reflecting their advantageous character to them. These established and stabilised linkages make up *organisational structures* among all economic participants and *process mechanisms* which have a logical sequence; information gathering—decision making—decision implementation—outcomes—feedback. These organisational linkages and structures among participants and process mechanisms of their economic activities are institutionalised by social sanctions of approval and disapproval and become *economic institutions*.

However, members of a society are willing to take part in economic activities so as to achieve not only their own individual goals but also to increase social benefits from the society through their individual economic activities. As long as their economic activities are related with socially collective decisions to achieve the collective goals of the society, so-called *social goals*, their economic activities can not be separated from the politics. The politics is the process by which members of a society reach collective decisions for the society as well as for themselves. When we consider these individual preferences for the social benefits from the society, each member has different individual preferences and there, furthermore, exist mutual inconsistencies and trade-offs among those collective goals and their various preferences for them. For those

reasons, these various individual preferences must be settled into social goals by political institutions through the collective political activity..

The inseparability of the economy from the politics and the mutual interdependence between them constitute a politico-economic system within a boundary of broad socio-economic environment. The politico-economic system can be defined as a socially established set of mechanisms and institutions for the economic decision making and implementation concerning allocation, production, distribution, and consumption in order to achieve aggregated goals of a society including individual goals as well as social collective goals. Any society and its members have to resolve the fundamental economic questions derived from the “law of scarcity” in the allocation of resources from the angle of cost-benefit side in its politico-economic system: what and how much goods and services are to be produced; what production methods are used to produce them; how income, wealth and other factors that contribute to people’s welfare are distributed; and who makes which economic decisions.

**Figure 1, Politico-Economic Model (Overview)**

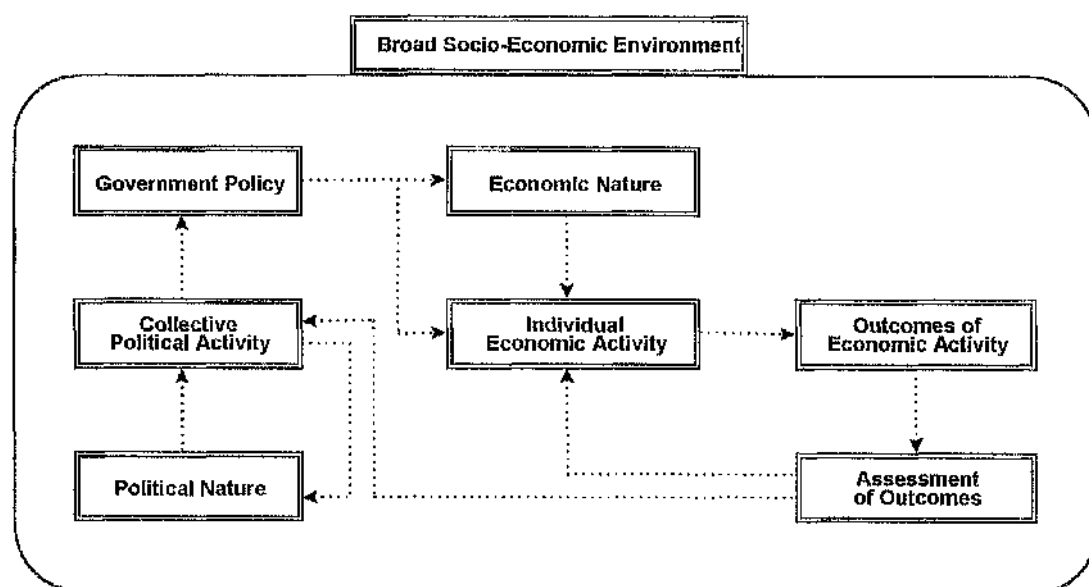


Figure 1 is illustrating the components and the operation of a politico-economic system in a brief framework indicating the mutual interdependence between political and economic factors. In the system, economy and polity are closely linked systematically

by feedback. The upper link shows political intervention through government policy to the economy by changing the economic nature of its system and by inducing economic regulations in order to achieve social collective goals. The lower link shows influence of economic conditions and its economic performance on the political sector, which would change the political nature of its system and government policy.

### ***Nature of Politico-Economic Model***

In the politico-economic system, each participant willing to take part in individual political and economic activities to satisfy their individual own preferences and goals, but their individual activities are restricted and influenced by the prevailing political and economic features of the system. Thus, the nature of the system can be characterised by its four major elements—the political power structure, the information mechanism, the decision-making structure, and the motivation mechanism—in the politico-economic system. The characters of these elements are the outcomes of the collective political activity closely related with the political nature of the system, since the ultimate reinforcement of economic institutions and mechanisms takes place through legal codes and legal sanctions. Under the conditions of quantitative as well as qualitative changes in the broad socio-economic environment, these elements should be continually modified to overcome intrinsic problems and to improve the performance of politico-economic system in response to new judgements and new predictions in the society.

### **Political Power Structure**

The various individual preferences in the society must be settled into social goals by political process through the collective political activity. The rules and procedures of setting social goals and the collective political activities are dependent upon the *political power structure* in the system, which determines whose preference is more influential in the political process. Accordingly, the political power structure indicates who has real power to set social goals and elaborate government policies to achieve these goals. It can be useful to understand the political power structure as the extent of power concentration ranging from totalitarian, authoritarian, to liberal democratic



structures. The more totalitarian the political power structure is, the more influential the ruling political party or the political leadership who compose the government is in the process of setting social goals and making government policies. The number and characteristics of their political parties and the political autonomy of pluralistic interest groups and mass communication system in fact can determine the extent of concentration.

The *authoritarian structure* means only one party is actually allowed to operate in the politics and therefore no organised political opposition exists. Citizens are unable to organise into competing political parties or clearly identifiable interest groups. There is no alternative set of political leaders that can take the place of existing elite for implementing new policy programs. The alteration of government personnel and policies must, therefore, take place within the single party, often only after the death or purging of the dominant leader in the party. The majority of citizens do not have any institutionalised role in government policy-making. The political public communication is strictly controlled according to what the government and its ruling party allow.<sup>15</sup> The *totalitarian structure* can be described as the extreme type of authoritarian structure. In addition to the characteristics of authoritarian structure already cited, there exists an official ideology, for instance, communism in the former Soviet Union, which members of the society must adhere to and which covers all aspects of life in the society including the direction of the entire political economy.<sup>16</sup>

The most obvious measure of *liberal democracy* is universal suffrage: the right of all citizens to vote. Universal suffrage is expressed by voting for representatives who then are responsible for making public policies and supervising the administration of public policy. Furthermore, citizens must be able to participate in competitive elections, in which personnel and policy choices are structured by the competition of two or more political parties, so as to give meaningful expression to the rights of universal suffrage in the context of representative government. A variety of special interest groups must exist and function independently from the government, even as they attempt to influence government policies. The high political autonomy of interest groups is based, in part, on equally autonomous systems of public communication and

mass media system.<sup>17</sup> In addition, the society should be governed in accordance with the law and any changes in the society, including the political and economic changes, occur within the framework of the constitutional law through reaching social consensus.

### **Information Mechanism**

The *information mechanism* is a mechanism for the provision of information and the economic co-ordination in the politico-economic system. The key role of the information mechanism is to reduce the uncertainty connected with participants' decisions-making, which was induced by the changes in the broad socio-economic environment. The crucial function of the information mechanism is the *co-ordination process* by which each decision-maker attains right and sufficient information about the given state of socio-economic environment as well as the decisions of other decision-makers that are interdependent with his own decisions. The co-ordination process enables them to determine whether their proposed action will maximise their utility of goals, given the present state of the environment and the proposed actions of other decision-makers. There are three main types of information mechanisms: the free market price mechanism, the regulated market price mechanism, and the government command mechanism.<sup>18</sup>

In the *free market price mechanism*, the actual provision of information and co-ordination process are solely based on fluctuations of free market prices to equilibrate the demand and supply for each good and service, and for each factor of production. The free market prices carry information for economic decision-making and flexibly reflect the changes in the invested amount of work and relative scarcity of resources. The market prices include not only prices of goods and services in consumer and producer markets, but also wages in labour markets, and interest rates in financial markets. For the effective function of the free market price mechanism, the economic decision-making authorities should be in the hands of each individual economic participant. The participants are free to spend their income as they wish, including the purchase of property, and to signal his preferences by independent selling and buying actions in the markets. For the voluntary exchanges of resources, goods, services, and information in the market, they have organic linkages with others. Through the market

transaction, information flows horizontally.

In the *regulated market price mechanism*, the actual provision of information and co-ordination process for individual economic activities are primarily based on fluctuations in the market prices. However, these market prices are regulated by price regulations politically and administratively elaborated by the government, including prices of products and services, wages of labour forces, interest rates of credit, taxes and subsidies, and duties and tariffs of export and import. These price regulations provide additional information in individual market activities. Each participant is free to engage in market activities and make individual decisions and actions in the market, but their choices of actions are restricted by government price regulations. Consequently, each economic unit has not only horizontal linkages with other participants in the form of market exchange, but also functional linkages with administrative units who are responsible for the elaboration and implementation of price regulations according to the government fiscal or monetary policies so as to achieve social collective goals. For the enforcement of equilibrium in its functional domain, the administrative units are organised on the basis of specialised functions such as finance, trade, or price control.

In the *government command mechanism*, the politically and administratively elaborated targets for each basic economic unit specify major aspects of individual economic activities in the form of directly addressed and precisely specified directives as command, such as how, how much, and what is to be produced and how, how much, and what kinds of resources to be allocated, and so on. Each individual economic unit produces only according to precisely specified production targets, and all goods and services are centrally rationed through the administrative supply system. Market prices do not have any co-ordinating role in the economic decision-making, therefore money becomes unnecessary as a regulator, and no direct horizontal market relationships are necessary between economic units. The administrative units of the government are organised to direct the individual economic activities based on the specific branches like products, product groups, or services. Accordingly, economic participants including administrative units are organised hierarchically and information flows from the highest administrative units, through the lowest administrative units, to

the basic economic units in the form of directives.

### Decision-Making Structure

The *decision-making structure* is an organisational structure of decision-making arrangements in the politico-economic system.<sup>19</sup> The economic participants have linkages to other participants—among basic economic units, between economic units and administrative units, or among administrative units—in the exchange of information, goods, and services. These linkages create the organisational structures of the system. We can distinguish between three types of organisational structures: the hierarchical structure, the functional structure, and the organic structure.<sup>20</sup> Each politico-economic system has a set of combinations of those three structures. In the *hierarchical structure*, economic participants are vertically organised according to specific branches like products, product groups, or services. In the *functional structure*, they are organised on the basis of specialised functions like finance, trade, or price control. In the *organic structure*, they, mainly basic economic units, are organised on the basis of horizontal linkages, where there are no superior and subordinate units.

The most important issue here is the arrangement of the economic decision-making authorities. To address this question, it is necessary to specify what decision-making authority is, and then to determine who exercises that authority over what decisions. The *decision-making authority* over a given decision will be defined as the legitimate power either to choose directly among the set of alternative actions into which the decisions can be resolved, or influence directly or indirectly other decision-makers' choices of actions by giving them incentives to choose what action to take. The sources of decision-making authority are tradition, coercion, ownership, information, and delegation of authority, for example, position in an administrative bureaucracy or election to office.<sup>21</sup> These sources of authority need not be exclusive, thus a decision-maker may derive his power from several sources. The government and its administrative units obtain delegated decision-making authority backed by coercive power in order to increase social welfare of the society.

In practice, it is virtually impossible to delineate precisely the allocation of decision-

making authorities in the system. Nevertheless, it would be sufficient to determine certain broad features of decision-making arrangements, particularly the extent to which decision-making authorities are concentrated. Systems analysts have generally viewed this question in terms of *centralisation* or *decentralisation* of the decision-making authorities. The degree of centralisation can be analysed in terms of the extent of control exercised by the higher echelons over the decision-making authority of the lower echelons. The extent of control primarily over the number and relative importance of the decisions controlled by higher echelons, and secondly on the form in which the higher echelons exercise authority. In the hierarchical structure, the decision-making authorities are more centralised than in the functional structure. In the organic structure, on the other hand, the authorities are decentralised and there is no hierarchical level. The degree of centralisation in the politico-economic system, therefore, can be recognised by the composition of these structures.

### **Motivation Mechanism**

The *motivation mechanism* is a mechanism for motivating economic participants to achieve the social collective goals rather than only to seek individual private self-interested goals.<sup>22</sup> The economic participants are generally motivated to pursue their own self-interests and private goals determined by themselves, but they as a member of the society are also supposed to fulfil the social collective goals as well for the increase in social welfare of all. However, the pursuing of their individual own goals is often in conflict with the fulfilment of the socially determined collective goals. A distinction exists between the social goals determined by the political activity and the structure of the aggregated individual private goals. To what extent should individuals be allowed to pursue their own self-interest? To what extent should the political authorities of the government direct areas of their economic behaviour? A central issue of the political economy always has been the looking for the solutions of these fundamental questions of appropriate rewards to induce the achievement of social collective goal.

When a conflict between individual goals and collective goals occurs, the essential component is *incentives*, that is, a set of events that can be and are manipulated socially in order to make individual participants fulfil the social goals. The incentives may be

material or moral incentives and is usually a combination of the two. *Material incentives* are defined as rewards that would promote desirable activities for achieving social collective goals by giving the recipient a greater claim over material goods than one who has performed less well. *Moral incentives* are rewards for socially desirable activities by appealing to the recipient's responsibility to society and accordingly raising the recipient's social status within the society. Whatever incentives or combination of incentives is used, to be effective it must correspond to the participants' individual self preferences. In addition, incentives are more effective if each participant knows precisely what action he must choose in order to get rewards, if the participant is certain that the rewards will actually be forthcoming, and if there are no conflicting incentives.

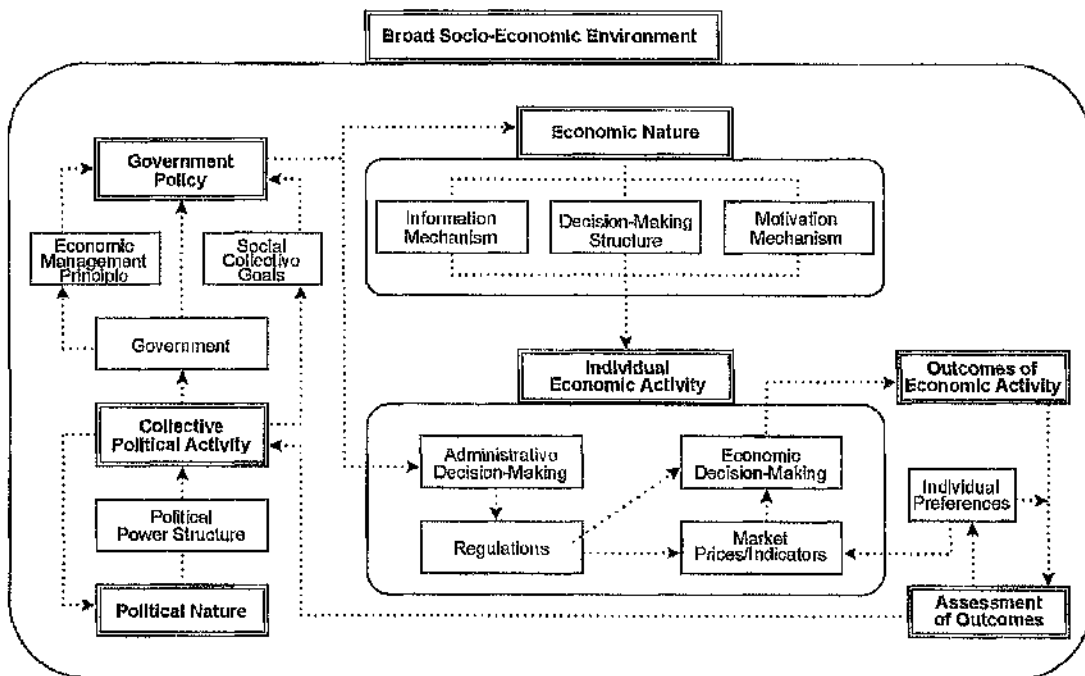
The economic motivations are closely linked to property-holding arrangements, namely *ownership rights of the means of production*.<sup>23</sup> These property ownership rights are the essential part of the motivation mechanism. Ownership right is an amalgam of right that individuals may have claims to these objects or services and these rights may affect its disposition and its utilisation.<sup>24</sup> There are two broad forms of property ownership: private and public ownership. Private ownership has the effect of mobilising individuals to husband resources effectively, but the justification for material rewards with private ownership leads to often substantial income differentials. When ownership rights of the means of production become public, proprietorial material incentives of the private ownership are replaced by moral incentives to increase social collective benefits. However, public ownership produces a situation where since everyone owns everything nobody owns anything. Consequently, property is not cared for and resources are easily wasted.

### ***Operation of Politico-Economic Model***

Figure 2 presents the analytical framework for the politico-economic system, indicating its major components and interrelationships among key variables determining its performance.<sup>25</sup> Such key components are the broad socio-economic environment, including individual preferences and social collective goals; the political nature of the system, such as the political power structure; collective political activities; government policy; the economic nature of the system, such as the information mechanism, the

decision-making structure, and the motivation mechanism; individual economic activities; the outcomes of the economic activities; and individual and social assessment of the outcomes. These components and the interaction between them will be examined and discussed in detail. The major important sets of variables determining the performance of the politico-economic system are the political and economic nature of the system and government policy.

**Figure 2, Politico-Economic Model (Analytical Framework)**



## Government Policy

The government is one significant participant in a politico-economic system and the government policy is one of the most important variables determining the performance of the system. In contemporary party politics, the ruling political party forms the government and the governing principles of the ruling party have an important effect upon setting social goals and making government policies. The decision-making authority delegated to the government is based upon the *social contract*—a balance (or sometimes an imbalance) between economic, political, and civil guarantees and restrictions—between citizens and their government in a modern society, which

legitimises the authority of the leadership to rule, and guarantees controlled social behaviour on the part of majority of its citizens in order to increase collective benefits of the society.<sup>26</sup> The citizens enter into a social contract in order to pursue their self-interest as well as increase collective benefits. They agree to obey the laws and the government agrees to respect the citizens' rights. The citizens relinquish the liberty to do whatever they want and accept the constraints and obligations induced by their government in return for its collective benefits.

The rules and procedures of collective political activity and the government policy-making are dependent on the prevailing political nature of the system, mainly the political power structure. The more totalitarian the political power structure, the more influential the ruling political party or the political leadership that compose the government is in the process of setting social goals and making government policies. In a democratic society, political activity and government policy-making are essentially bargaining between the various preferences and therefore political decision-making can be best understood as political bargaining. The social goals and the government policies to achieve these socially decided goals are the consequence of pressures exerted by various preferences and the political bargaining. It can be very useful to divide government policies into two categories, the policies to modify the economic nature of the system and the policies to regulate individual economic activities for improving the performance of the system.

### *Principle for Economic Management*

In order to improve the performance of the system, the government can modify the economic nature of the system, i.e., information mechanism, decision-making structure, and motivation mechanism. The economic nature of the system is closely related with the *principle for economic management* of the government, which exerts great influence on choosing a different set of information mechanisms, decision-making structures, and motivation mechanisms in the system.<sup>27</sup> Chosen the combination, the government manages the economy and co-ordinates other individual participants' economic activities through its social and economic policies to induce some direct regulations or indirect price regulations for the achievement of social goals determined through the



collective political activities. In modern societies, the alternatives of economic management principle can be categorised into three broad types on the basis of the major dominant co-ordination mechanisms chosen by the present government: *laissez-faire* management, functional management, and directive management.

The principle of *laissez-faire management* means that the economy should be managed autonomously by individual participants themselves to achieve self-interests without any government obstruction. The basic assumption is that pursuing own interests through one's individual economic activities leads to achieve the best benefits for all as if by an "invisible hand", so that any government interference with free competition in the market is almost certain to be injurious. This principle implies that the economic decisions of allocation, production, and distribution should be co-ordinated and self-regulated by a free competitive market exchange mechanism. For the effective function of the free market exchange mechanism, economic units should be free to spend their income as they wish, including the purchase of property. The private ownership right is usually considered essential attributes of the *laissez-faire* management and the free market exchange mechanism. Theoretical analysis emphasises the efficiency of the free market co-ordination, whereas interpretations of human motivation stress its incentives to work, save, invest, and innovate. The classical *laissez-faire* policy was conducted by the British government in the nineteenth century, according to the principle of *laissez-faire* management.

The principle of the *functional management* implies that the economic decisions of allocation, production and distribution are basically made by individuals in the market, but the market regulations, such as price controls, subsidies, taxation, and non-price regulations from the government restrict available alternatives of their choices. The logic of this principle is that some market regulations are necessary to overcome some shortcomings, such as cyclical instability and economic inequity of the free market exchange mechanism, while maintaining some of its efficiency and incentive attributes. The government provides special financial incentives for particular types of economic activities with inducing market regulations for the particular purpose of increasing collective benefits and social welfare, for instance, reducing the price fluctuations

sometimes found in free markets; encouraging people on a low income to purchase the necessities of life; and stimulating the growth of important economic sectors. After the outbreak of the Great Depression in 1930s, most governments in Western industrialised countries followed this principle of functional management and intervened in individual market activities through government social and economic policies.

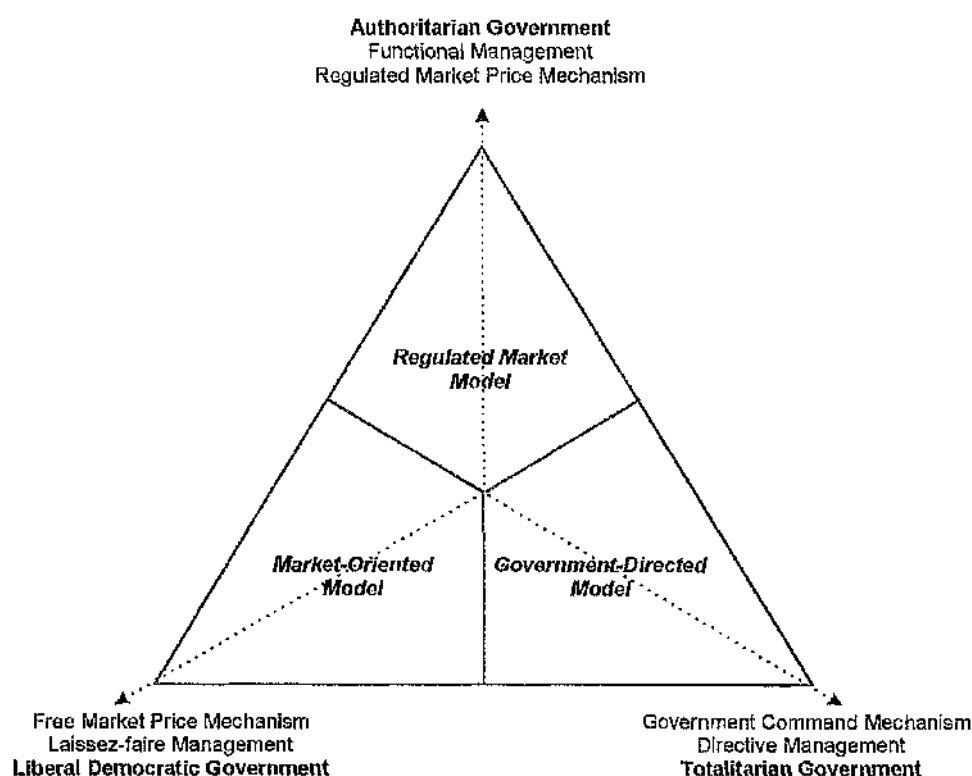
Finally, the principle of the *directive management* suggests that the economy should be guided and directed centrally in the form of precisely specified directive regulations or commands. The basic assumption is that the shortcomings of *laissez-faire* management and the free market exchange mechanism are so severe that only deliberately and rationally elaborated collective political decisions from the government would co-ordinate individual economic activities and guide the whole economy into the socially optimal state of social welfare. In many societies, some economic activities, which exhibit the characteristics of monopolies, scale economies and externalities, are commonly directed by the government with public ownership and considered essential for the growth of the economy. The Soviet government in the former USSR and subsequent socialist governments in Europe, Asia, Latin America, Africa and elsewhere adapted the principle of directive management.

### *Types of Politico-Economic Model*

In the politico-economic system, the principle for economic management of the government exerts important influence on the formation, transformation, or reformation of its economic nature. Based on historical and empirical surveys, the political power structure in the politico-economic system seems to be related to the choice of key economic variables, namely, the principle for economic management and accordingly the information mechanism, the decision-making structure and the motivation mechanism in the political economy. The three-dimensional figure 3 shows the possible types of the politico-economic model on the basis of key political and economic alternatives in the politico-economic system, i.e., its political power structure, its principle for economic management, and dominant co-ordination mechanism. The possible types of politico-economic systems can be broadly divided into three

categories: the market-oriented system, the regulated market system, and the government-directed system.

**Figure 3, Types of Politico-Economic Model**



In the *market-oriented model*, the economic decisions of allocation, production, and distribution are primarily made by individuals through their activities in free markets without considerable government intervention, according to the principle of *laissez-faire* management. Usually, the government makes and implements the price policy, the differentiated tax policy, or the governmental investment policy so as to implement social goals in those areas, but the share of functional economic regulations or economic directives from the government is very limited. This market-oriented model is characterised by the dominance of the free market prices mechanism with horizontal linkages and information flows, the decentralised organic decision-making structure, and proprietorial material incentives with private ownership and active role of economic competition in the motivation mechanism. These characters in the system require the

liberal democratic social and political environment as an effective condition for the free market exchange co-ordination.

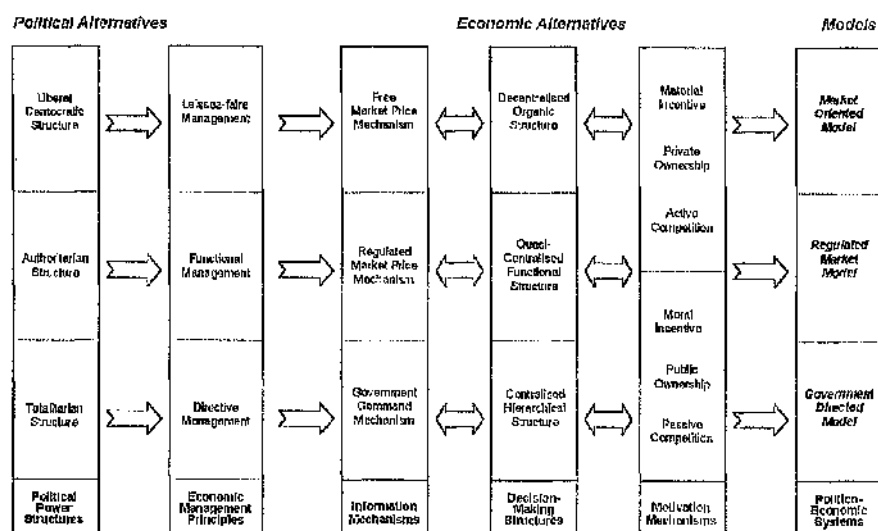
In the *regulated market model*, the economic activities are co-ordinated by market forces, but with considerable government functional intervention according to the principle of functional management. The government controls market forces with indirect market regulations through fiscal or monetary policies, such as price controls, subsidies, taxation, and non-price regulations, which aim at achieving social collective goals by introducing incentives and disincentives into economic activities in the market. The dominance of the regulated market price mechanism with diagonal linkages and information flows, the quasi-centralised functional decision-making structure, and material and moral incentives with private ownership and the passive role of economic competition distinguish this model. The division from the market-oriented model depends on the degree of government intervention and market regulation into the price establishments in the market. The degree of government intervention in market economic activities is greatly influenced by the authoritarian nature of political power structure.

In the *government-directed model*, the totalitarian government directs almost the whole national economic activities through the government economic administration. The national economy operates as one single large enterprise, which is managed by the highly centralised administrative bureaucracy. All economic activity is concentrated on the achievement of key social goals like victory in war, rapid industrialisation, pursuing the ideological aim, and so on, which necessitates direct political intervention in economic activities. Through government planning and political co-ordination, the whole economy is guided into the direction of achieving these ultimate social goals. This government-directed model is characterised by the dominance of the government command mechanism with vertical linkages and information flows, the centralised hierarchic structure, and moral incentives in the motivation mechanism to achieve the social goals usually combined with public ownership rights and no active role of economic competition.

Figure 4 provides logical linkages and influences among these key political and

economic variables, suggesting an available set of alternatives in the politico-economic system. Each type of the politico-economic model can be characterised by the political alternatives of the political power structure, the alternative principle for economic management of the government, and the economic alternatives of a certain combination of information mechanisms, decision-making structures, motivation mechanisms among others. The ruling political party forms the government and chooses an alternative principle for economic management through the political activities in the system. This political process is largely determined by the current nature of the political power structure. Given the principle for economic management, the main co-ordination mechanism is decided. For the effective function of this co-ordination mechanism, a certain combination of informational linkages, decision-making structures, incentives, ownership rights, and the role of economic competition. All these elements characterise the current politico-economic system.

**Figure 4, Logical Linkages among Key Variables**



## Individual Economic Activities

With the guidance of a particular government policy, the administrative units in the

government elaborate specific regulations or directives and implement them for the purpose of co-ordinating and inducing other individual economic participants' decisions to choose socially favourable alternatives. These regulations are closely linked to the economic nature of the system, in particular, the co-ordination mechanism. Some functional market regulations, such as price controls, subsidies, taxation, and non-price regulations, provide additional information for individual economic units and manipulate available alternatives of their decisions and their actions in the market. Furthermore, government directives are issued in the form of directly addressed and precisely specified instructions for the individual economic units' decisions of allocation, production and distribution. In a situation of a rapidly changing socio-economic environment, the administrative directives and regulations should provide individual economic participants with sufficient and correct information in the right time to accommodate not only quantitative but also qualitative changes in the environment for the effective co-ordination.

Given the economic nature of the system, each individual economic participant gathers information about the present state of the environment, such as scarcity of resources, technology, and future possibilities, through the information mechanism institutionalised in the system. Once all available information is fed into the decision-making stage, each individual participant makes their decisions and take actions mainly to seek their own self-interested goals. Nevertheless, the individual decisions and actions of economic units are restricted directly by the government directives or regulations, elaborated collectively and induced by the government through administrative units. In consequence, individual participants gather information, make decisions and take actions to pursue their private goals within the limitations of their capability of collecting information, their decision-making authority, and their allowed motivation and given incentives in the current politico-economic system. In a modern political economy, free and regulated market price mechanisms and the government command mechanism coexist and their active roles are determined by the principle for economic management of the government.

In any political economy, the roles of the individual market activity and the government

administrative activity are both important and therefore the private market sector and the public administrative sector both coexist. The only difference is the extent and intensity of government administrative influence on individual private economic activities or of political intervention to the economy. The extreme model of the market-oriented *laissez-faire* system can be found in Victorian Britain, where most economic activities, including the provision of welfare services, was undertaken by the private sector and the government had a minimal role in maintaining the framework of law, order and external security required for the operation of the free market coordination. At the other extreme, the model of government- directed command system can be seen in the former Soviet Union, where most economic decisions were taken by the government and most goods and services were produced and distributed administratively by the public sector and the administrative bureaucracy. However, neither of these politico-economic systems corresponds entirely to their theoretical extreme.

### **Outcomes and Assessment**

The collective political activity, the government policy and the individual economic activity end in some results. These outcomes change the state of the socio-economic environment, such as available resources, technology, and attainable production possibilities with these resources and technology. These economic outcomes may correspond individually to private goals and socially to social collective goals, but more often, these outcomes would more or less diverge from them. At this stage, each participant judges these outcomes as well as the performance of the present nature of the politico-economic system by their own *performance criteria*. Their assessment of these outcomes alters their individual preferences, which make up their new preference orders for their own goals and social collective goals. According to these new preference and performance criteria, each participant will judge the next stage of economic outcomes and the performance of the system again. The individual participants are able to signal immediately their changed preferences through buying and selling actions in the market. Besides, they can transfer their preferences by political activities like campaigning as interest groups for specific government policies

and voting as voters to change the government. This circulation of interrelationship recurs consistently and systematically with the lapse of time.

### *Social Goals (Performance Criteria)*

Each society chooses a different type of the politico-economic system, simply because each society has different orders of social preferences for social collective goals to achieve through consistent and systemic economic activities in the system. There are many social collective goals that are of vital concern to the members of a society and by which the performance of the current nature of politico economic system can be judged. However, there exist mutual inconsistency and trade-offs among them and the social preference orders for these social collective goals are changing with time in a situation of a rapidly and continuously changing socio-economic environment. The major important social collective goals and performance criteria that are generally accepted in the modern political economy include economic growth, economic efficiency, economic stability, economic balance, economic equity, and national security and power.

*Economic growth* means increases in the volume of output that an economy generates over time or increases in output per capita. Growth in the volume of output per capita over time will normally bring about growth in the economic and social welfare in the same direction. *Economic efficiency* is the effectiveness of utilising available resources including knowledge at a particular point in time (static efficiency) or through time (dynamic efficiency). *Economic stability* involves the absence of significant fluctuations in growth rates, the maintenance of acceptable rates of unemployment and the avoidance of excessive inflation whether or not the inflation and the unemployment are cyclical. *Economic balance* refers to physical or financial equilibrium over time in all markets and balance of the state budget. *Economic equity* means some notion of equity in the distribution of income and wealth or in the opportunity to obtain income or wealth among society members. *National security and power* signifies the ability to devote sufficient human and capital resources to the political and military power from an economic point of view.<sup>28</sup>

When we consider these economic and non-economic social collective goals, there exist



mutual inconsistencies and trade-offs among these goals. The economic growth will produce negative effects on social welfare, for instance, environmental disruption and pollution. Economic growth and economic efficiency are not the same. The economy may grow through increases in efficiency, that is, by finding better ways of doing things with the same resources, or by expanding at the amount of resources but using that resources at a constant rate of effectiveness. The former is often termed intensive growth, the latter extensive growth. The equity of income distribution involves fairness, but what is considered fair will differ from case to case and will likely evolve over time as a social judgement. The economic equity in a society would vary over the time and differ under socialism and capitalism. The comparative analysis of different economic systems may provide us with important evidence on the economic equity-efficiency trade-off. There can also be trade-offs between the goal of national existence and power and the other economic goals. Consequently, not all goals can be achieved simultaneously and therefore some preference ordering of goals are essential to understand a political economy.

### **Political Adaptation**

The politico-economic system operates within a broad socio-economic environment, which contains the known stock of resources, preferences of the population, including their ideologies, the prevailing legal system, and the foreign relations with other countries and international organisations. This broad environment is changing all the time not just by political and economic activities within the society, but also by external influences exerted by other countries and international organisations and additionally random factors, such as the weather and natural disasters. If economic activities in the political economy were conducted in an unchanging socio-economic environment, it would be possible and advisable to formalise the solutions to resolve main economic questions. However, the broad socio-economic environment is changing rapidly in many ways. Accordingly, the uncertainty introduced by these changes is extremely important to understand the operation of the politico-economic system. The decisions, including the government policy, taken by participants in the system should be flexible enough to accommodate these quantitative as well as qualitative changes in the socio-

economic environment.

In addition, the nature of the politico-economic system must be modified continuously in response to new judgements and new predictions in the society in order to improve the performance of its system under these changing conditions. An optimal nature of the system for satisfying every individual preferences and every important social collective goals to achieve does not exist in reality, mainly because the individual preferences and the preference ordering of social goals are changing at all times and there exist mutual inconsistency and trade-offs among social collective goals. The continuity of the system's integrity as an evolving social unit and the government legitimacy, therefore, lean heavily on the flexibility of political institutions and on the capacity of the government to adapt the various demands created by economic and social changes in the environments. The extent of popular influence on the political adaptation and political changes is closely related with the political power structure in the system. The pressures for political adaptation changes are especially strong in periods of rapid social and economic development. The development introduces modernising elements in the political economy, which entails the emergence of new groups of citizens, whose evolving interests or preferences mobilise them to impose new demands on the political economy.<sup>29</sup>

In the democratic society, government policy-making is essentially one of bargaining between the various preferences.<sup>30</sup> The government policy is, therefore, the consequence of pressures exerted by various preferential interest groups in the context of particular rules and procedures which form political and legal systems and so flexible to respond to the new demands and pressures in a society.<sup>31</sup> Not only political adaptation, sometimes radical, for policy changes but also political changes in the composition of political leadership and the succession of one government after another have all been accomplished within the established constitutional framework. However, the political changes can take place outside of the context of an established and enduring constitutional framework. When the political leadership and the government do not respond to the new judgements and the new pressures expressed by the population and fail to reach the new form of social consensus, they may have

recourse to violence, civil war, or the rewriting of fundamental codes of operation and organisation in the authoritarian, more totalitarian, society. Any political changes taken place within and outside of the constitutional framework are likely to induce radical alteration of government policies and modification of the nature of the politico-economic system.

### *Two Opposite Tendencies for Reformation*

There exist two opposite tendencies, which intend to alter the nature of the politico-economic system. The first tendency comes from the assumption that the *laissez-faire* management can achieve a high degree of co-ordination efficiency in the complex and advanced industrial economy. Free market prices signal the relative scarcities of resources and provide the information that economic actors must process in making optimal decisions. In addition, the free market mechanism, through the incentives of profit and loss, mobilises individuals to discover new ways of arranging or rearranging means to obtain socially desirable goals. In other words, the interaction between *ex ante* expectations and *ex post* realisation in the market process motivates individuals to learn how better to pursue their goals as well as collective goals. The ability of the entrepreneurial process of competitive markets to reveal error and motivate learning is perhaps its most significant weapon in combating the problem of economic co-ordination. The institutions of competitive free markets provide signals to economic actors concerning errors and motivate the learning that leads to the mutual adjustments among market participants to eliminate the previous errors of profit opportunities hitherto unrecognised and losses suffered as a result of failed projects.

The judgements about its advantages and shortcomings of *laissez-faire* management have varied among individuals and societies, often based on ideological objectives. Faced with problems of imperfect competition from increasing returns to scale or barriers to entry; externalities causing discrepancies between private and social rates of return; economic instability caused by fluctuations in prices, unemployment rate and output; and unequal distribution of income, wealth, power, and opportunity in the market mechanism, some form of political regulations and administrative economic planning for the economic co-ordination came to be viewed as the most viable

alternative. Consequently, the opposite tendency pushes the political economy in the direction of more government intervention. The major arguments for government involvement for the economic management, supported by the theories of welfare economics, representative democracy and neo-Marxist of political economy, claim either that real markets are not perfectly competitive or that individual resources are distributed so inequitably that market outcomes are not fair. Nevertheless, due to the logic of political and bureaucratic decision-making, there are the fundamental information and incentive problems in the government economic co-ordination, too.

In the field of new political economy, specifically in the area of public choice, their theoretical analysis of political decision-making reveals the logic of political decision making in a representative democracy. The underlying assumption is that major political actors—individual voters, interest groups, politicians, and policy-makers in the government—behave with self-interested motivations so as to maximise their own personal interests in respect to public policies. Consequently, the rule of factions is a logical outcome of representative democracy. This logic of politics produces concentrated benefits and short-sightedness bias with regard to public policy. The political decision-making under representative democracy are biased to concentrate benefits on the well-organised and well-informed and disperse costs on the ill-organised and uninformed mass of citizens. As a result, public policy in the Western democracies, therefore, contains both a concentrated benefit and a short-sightedness bias and popular economic policies are those that will tend to yield short-term and easily identifiable benefits at the expense of long-term and largely hidden costs.<sup>32</sup>

Furthermore, the principal-agent problem exists between voter and politician in the political decision-making and another principal-agent problem between politician and administrative bureaucracy and another between the head of bureau and their subordinates within the government administrative bureaucracy.<sup>33</sup> Political actors must devise a monitoring mechanism and an incentive mechanism to ensure that the bureaucracy acts in line with their social collective benefits. However, there are definite limits to the supervisory capacity of political actors. These limits vary inversely with the degree of co-ordination required to accomplish the task assigned. In

a large organisation, the higher the degree of co-ordination required the lower the limit of supervisory capacity. However, the bureaucratic agent may find it in his interest to act in a manner inconsistent with the goals that the principal has set because of informational asymmetries. The principal-agent problem, therefore, exists whenever a principal relies on agents to carry out its goals. Consequently, the political co-ordination mechanism does not possess the disciplinary devices that a market mechanism does to overcome strategic incentive problems.

## NATURE

The government-directed politico-economic model in the former USSR was designed and intended for the party leadership to direct the whole political economy in order to achieve the regime's goal of building a socialism as fast as possible. The party leadership determined social goals and guidelines. In accordance with which, the government set its policies. Given the government policy, central-planning organs elaborated national economic plans and allocated plan-targets to each individual economic unit in the centralised economic hierarchy. Almost all economic units were owned by the state and directed by government regulations—plan targets and norms—to fulfil their obligatory assignments. The implementation of the plan-targets was ensured by all-round involvement of not only government bureaucrats but also by the party-controlled economic apparatus. The basic nature of the Soviet-type government-directed politico-economic model is characterised by the totalitarian political power structure; the centralised economic hierarchy, the government planning mechanism, and the socialist motivation mechanism.

### *Totalitarian Political Nature*

The political power structure is precisely the source from which the chief regularities of the political economy can be deduced. Janos Kornai suggested "the key to an understanding of the socialist system is to examine the structure of [political] power" in the system.<sup>34</sup> The Soviet polity was made up of a unique blend of institutions and procedures. There were three interlocking hierarchies of political power: the hierarchy of soviets, crowned by the Supreme Soviet; the hierarchy of ministries, headed by the Council of Ministers; and the hierarchy of the Communist Party. In several ways, the political power structure in the Soviet model was said to be totalitarian in nature, as described by the 'dictatorship of the Communist Party'. The classic definition of totalitarianism provided by Carl Friedrich and Zbigniew Brezezinski has six key elements:

1. an official ideology to which adherence is demanded: the ideology is intended to achieve a 'perfect final stage of mankind';
2. a single mass party, hierarchically organised, closely interwoven with the

- state bureaucracy, and typically led by one man;
- 3. monopolistic control of the military by the party;
- 4. a similar monopoly of means of effective communication;
- 5. a system of terroristic police control; and
- 6. central direction and control of the entire economy.<sup>35</sup>

In the Soviet system, there was an official ideology, namely socialism and no open competition between alternative ideologies among the population was allowed. The Communist Party was not only a political party but also the dominant 'leading and guiding force of the Soviet society'.<sup>36</sup> No other political party was allowed to operate and even any organised opposition within the party was banned. The principle of 'democratic centralism' was extended from the party to the rest of the society and thus the Soviet political and administrative procedures reflected an unitary organisational practice. The vast party apparatus set out to convince people to support the party and its politics, using the whole arsenal of education and modern political propaganda served by the press and other mass media and educational, scientific and cultural activity. In addition, the mass organisations, such as the trade unions, the All-Union Leninist League of Communist Youth (*Komsomols*), and the women's unions, were manipulated mainly to convey the ideas and intentions of the party to the sectors of society corresponding to each organisation. Consequently, the Soviet political power structure was "indivisible and totalitarian" and controlled by the Communist Party.<sup>37</sup>

### **Structures of Political Institutions**

The Union of Soviet Socialist Republics (USSR) was a federal state, consisting of fifteen Soviet Socialist Union Republics. The union republics were divided into territories (*krai*), found only in the Russian Soviet Federal Socialist Republic (RSFSR), and regions (*oblasti*). The eight largest union republics were divided into regions. The remaining union republics and the regions of the eight largest union republics were divided into districts (*raiony*). A number of nationalities which were not sufficiently numerous to have their own union republics were organised into autonomous soviet socialist republics (ASSR), autonomous regions (*oblasti*) or autonomous areas (*okrugi*), which were subordinated to the union republics. Town-districts, urban settlements and villages constituted the lowest level of state authority. Although formally federal in

structure, the local administration represented the single, indivisible authority of the state in a particular locality. All Soviet state institutions functioned as parts of a single giant state bureaucracy under the principle of 'democratic centralism'.

### *Soviets*

The *Soviets of People's Deputies* were elected at all levels of the above state divisions,; the Supreme Soviet of the USSR; the Supreme Soviets of the union republics; the Supreme Soviet of the autonomous republics; territorial and regional Soviets; Soviets of autonomous regions and areas; district, city, town-district, urban settlement, and village Soviets.<sup>38</sup> From 1937 until 1988 all these soviets of people's deputies were headed by the USSR Supreme Soviet, which consisted of two chambers: the Soviet of the Union and the Soviet of Nationalities. The former was elected on the basis of electoral districts with an equal number of inhabitants and the latter was elected according to the following formula: 32 deputies from each union republic, 11 deputies from each autonomous republic, 5 deputies from each autonomous region, and 1 deputy from each autonomous area. Each chamber had 750 elected deputies who served five-year terms. Sessions of the Supreme Soviet formally convened in Moscow twice a year only for a couple of days.<sup>39</sup>

Article 2 of the 1977 Soviet Constitution stated that 'all power in the USSR belongs to the people. The people exercise state power through soviets of people's deputies, which constitute the political foundation of the USSR'. According to Article 108, the *Supreme Soviet of the USSR* was 'the highest body of state authority' of the USSR, which was authorised to adopt and amend the constitution, to supervise the work of all other state bodies, and to approve the state budget and economic plans for economic and social development.<sup>40</sup> The Supreme Soviet, therefore, had the legislative authority and, as a representative institution, endowed the Soviet regime and the system with formal legitimacy. However, up to the mid-1980s the activity of the Supreme Soviet declined in practice, for instance, in the frequency and length of sessions or the numbers of speeches, while the volume of legislation passed remained fairly constant.<sup>41</sup> The Supreme Soviet never rejected a legislative proposal of the party leadership or failed to approve a party nominee for government office and no deputy has ever voted against a



proposal of the party leadership.<sup>42</sup>

Due to the infrequency and brevity of the sessions, the *Presidium* of the Supreme Soviet, elected from among its deputies in the Supreme Soviet, carried on its work between sessions. The membership of the Presidium included a chairman (or president) and a first deputy-chairman, fifteen deputy-chairmen who were also chairman of their respective Union Republic Supreme Soviets, a secretary, and twenty-one additional members designated by the party leadership from among the deputies to the Supreme Soviet. The Soviet Constitution authorised the Presidium to promulgate edicts and decrees without the requirement for subsequent legislative approval.<sup>43</sup> Although formal meetings of the entire Presidium occurred about every two months, the staff functioned continuously throughout the year. The Supreme Soviet conducted some of its business in *standing commissions* (seventeen members in each chamber in 1985) concerning social and economic affairs, which had legal authorities to initiate legislation, to oversee the activities of specific government ministries, to institute investigations into the fulfilment of laws, and to have access to all information and government officials necessary to the performance of their duties. Standing commissions normally convened in the last few weeks before a semi-annual convocation of the Supreme Soviet itself.<sup>44</sup>

The hierarchy of soviets in 1985 was made up of the Supreme Soviet of the USSR at the top, 15 supreme soviets of the union republics, 20 supreme soviets of autonomous republics, 129 territorial and regional soviets, 8 soviets of autonomous regions, 10 soviets of autonomous areas, 3,113 district soviets, 2,137 city soviets, 645 town-district soviets, 3,828 urban settlement soviets and 42,176 village soviets, a total of 52,074 soviets of people's deputies.<sup>45</sup> At the regional and local levels, the soviets had a single chamber, ranging in membership from 33 deputies at the village level, 78 in the districts, 134 in the cities, to 218 in the regions and had an executive committee and a presidium (with the exception of village soviets).<sup>46</sup> They also had standing commissions to assist the executive bodies in their work. Locally they met more frequently than their national counterparts. According to the constitution, the soviets at every level did 'direct all sectors of the state, economic, and social and cultural development, either

directly or through bodies instituted by them, take decisions and ensure their execution, and verify their implication'.<sup>47</sup>

### *Government*

The Soviet government was "the integrated bureaucratic system of economic and political power"—an enormous bureaucratic complex, responsible for the national planning and management of economy and society, from the farms, shops, and factories to the armed forces and educational institutions.<sup>48</sup> The development of the governmental structure reflected two kinds of need: the specialised administration and management on specific aspects of an overall task, and the functional co-ordination over the activities of the separated administrative government units and basic economic units to ensure they were contributing to common objectives. In response to these two needs, two types of government organisations emerged: *ministries* that managed specific sectors of the economy and society and *state committees* whose main purpose was to co-ordinate the activities of ministries in related functional matters common to all ministries. The governmental structure of the federal union government was duplicated in the union republics and the autonomous republics on smaller scales.

The highest body of the governmental hierarchy was the *Council of Ministers of the USSR*, which was made up of a total of 118 members in 1984—a chairman, 3 first deputy-chairmen, 11 deputy-chairmen, 63 ministers, 22 chairmen of various state committees, 15 chairmen of the councils of ministers of the union republics, and 3 national administrators with ministerial status, —over half of whom were involved with managing the economy.<sup>49</sup> According to Article 128 of the constitution, the Council of Ministers was 'the highest executive and administrative organ of state power' dealing with a large volume of legislative activity as a source of the majority of decrees in the country and was responsible to the Supreme Soviet.<sup>50</sup> The Council was such a large body for the day-to-day running of the country that it conducted its work through an executive committee (*presidium*), composed of the chairman, first vice-chairmen, and vice-chairmen, and its branch departments (*otdels*). The Council of Ministers was more involved with implementing the policy decided by the central body in the party rather than policy-making.

The *ministry* was usually responsible for one vertically organised branch such as agriculture or defence, which directly supervised individual basic economic units like enterprises, state farms, and collective farms. The routine business of a ministry was handled by its collegium staffed by the minister, the deputy ministers, the heads of the chief administrations, and the directors of major units. Each ministry consisted of functional departments, such as, a finance department, a planning department, a supply department, a cadres department, and a summary department, in addition to a number of main administrations in charge of most of the ministry's operational and administrative work. Besides, *state committees* often cut across several branches for the planning and co-ordination of economic activities on an economy-wide basis. Other committees were responsible for sport, religious affairs, state prizes, and so on. The state committees and ministries themselves fell into three categories: *all-union* under the direct control from Moscow, *union-republic* under the dual authority of Moscow and the republican Councils of Ministers, and *republican* under the republican Councils of Ministers.<sup>51</sup>

### *Communist Party*

The ultimate source of all authority within the party was nominally the *all-union Party Congress*, made up of about 5,000 delegates from all levels of the party hierarchy. The Party Congress was held only at infrequent intervals convening once every five years, or so, for a week, hence the *Central Committee of the CPSU* handled all party affairs between Party Congresses.<sup>52</sup> One of the significant functions of the Congress was the formal election of the members of the Central Committee. Since the membership of the Central Committee expanded and its sessions became less frequent, its original role was entrusted to the smaller body, the *Politburo*, which was elected from the Central Committee. The Politburo was responsible for the day-to-day running of the party's affairs.<sup>53</sup> Some two dozen full and candidate members of the Politburo met every Thursday and chaired by the General Secretary elected in the Central Committee. The Politburo was the most important policy-setting body and "the real cabinet of the Soviet system" and acted as "a board of directors" which had the supreme governing power not only over the Communist Party but also over all matters of public interest in the Soviet

society.<sup>54</sup>

The sessions of the Central Committee, firstly, gave authoritative endorsement to the policies agreed on in the Politburo and secondly gauged the broad consensus of the party throughout the country as a basis for future policy-making. In addition, the Central Committee had a *Secretariat*, composed of 10 to 12 secretaries, which usually met on Wednesdays to draft proposals for the next day's Politburo meeting. The *General Secretary* as a head of the Secretariat was merely the one who executed the decisions of the party leadership between sessions of the Politburo. The Secretariat headed the vast *apparatus* of appointed officials, who were divided into some 25 departments. The important departments were administration, party organisation, ideology, defence industries, and international (foreign) affairs, with a special department for the KGB. The secretariat departments had close links with the ministries.<sup>55</sup> The Secretariat was a "shadow ministerial system" assisted by a staff of *apparatchiki*, the full-time party functionaries who oversaw the implementation of Politburo decisions.<sup>56</sup> Accordingly, the party apparatus played a very important role not only in the party but also in the whole Soviet system.

At the republican, provincial, city, and district levels there was the internal structure of *the local party organisations*. At each level, the highest authority was the congress in an union republic (except the RSFSR), or the conference at lower levels. The congress or conference elected a executive committee--the central committee and the politburo at the union republic level, the province party committees (*obkom*), the city party committees (*gorkom*), and the regional party committees (*raikom*). Each level in the giant pyramid, from the republican committee, obkom, down to the raikom, had a bureau, a secretariat and apparatchiki as full-time party officials. They were estimated to number about a quarter of a million and 83 per cent of them were employed by gorkomy and raikomy.<sup>57</sup> The base of the party hierarchy was *primary party organisations* (PPOs, formerly called party cells), which were overwhelmingly organised in workplaces and only rarely on a territorial basis. All PPOs had a secretary, a bureau if the organisation is large enough, and a committee in the 45,000 very large organisations.<sup>58</sup>

The structure of the Communist Party had a hierarchical dimension, reflecting its function of leading the whole society as the 'guiding and leading force'. It was composed of party organisations at every level of state administration, from the national organs in Moscow, to republic and regional levels, to large and small cities, and down to the most remote villages. The 'democratic centralism,' formulated by Lenin, was the key principle for governing the organisation of the Communist Party, and indeed of the whole society. Rule 19 of the CPSU signified five important elements of the democratic centralism:

1. the election of all leading bodies, from the lowest to the highest;
2. periodical reports of party bodies to their organisations and to higher bodies;
3. strict party discipline and subordination of the minority to the majority;
4. the obligatory nature of decisions by higher bodies for lower bodies; and
5. collective spirit in the word of all organisations and the personal responsibility of every communist for the fulfilment of his party assignments.

All organisations were elected from the lower to the higher level and they were accountable to the people. The decisions of higher organs were binding for lower organs. All important decisions were made at the highest levels of a hierarchy and only the less important, detailed decisions were delegated to lower levels.

Traditionally, 'centralism' predominated over 'democracy' and the election process was governed from the top down. The centralisation and the subordination of the party hierarchy were mainly enforced by the Secretariat that was responsible for day-to-day decisions. Each committee had a number of party departments to supervise the administrative affairs, ideological work, and personnel appointment in each level. The PPOs had broad responsibilities, including admission of new members, mobilising fellow workers in Party-sponsored activities, and carrying out various tasks delegated to them by higher organs of the party. All lines in the party apparatus ran directly to Moscow, suggesting a significant centralisation of power.

### **Dictatorship of the Communist Party**

The 1977 Soviet constitution said little about the relationship between soviet,

governmental and party hierarchies, and there had was no formal separation of political powers until 1989. Although the Supreme Soviet was the highest state body, it had been undermined politically by the central party organs and administratively by the central government body. After the Bolshevik Revolution, the soviets were transformed from revolutionary organisations into the nucleus of the state administration in the new country of USSR. In principle, the basis of legitimising the Soviet system was the soviets. However, the actual operation of the Soviet system was governed more by an “unwritten constitution” of informal rules and convention than by formal statute.<sup>60</sup> The gulf between principle and practice was complicated by the undefined dictatorial role of the Communist Party in the Soviet society. Following the Marxist-Leninist principles of ‘socialism’, the ‘leading role of the Communist Party’ and ‘democratic centralism’ justified the Communist Party’s right to direct all aspects of Soviet society.

### *Socialism*

The official Soviet ideology of ‘socialism’ opposed individualism, self-interest, competition, private ownership of the means of production, and the individual market co-ordination mechanism. Instead, it advocated community and fraternity, equality or egalitarianism, collective activity, public, mainly state, ownership, and collective political co-ordination mechanism. The Communist Party had a belief of ‘socialism’s sense of superiority’. Marx and later Lenin emphasised that socialism’s superiority was manifested in not only moral ascendancy but also economic achievement. In this context, the Soviet regime was convinced that socialist ownership and production relations would offer more favourable conditions for developing the forces of production than the capitalist. Hence, socialist ownership in the form of mainly state properties and central government planning was regarded as the foundation of the politico-economic system, where government should exercise control over the measures of labour and their consumption to give individuals more and more real opportunities to apply their creative energies, abilities, and talents in their work.<sup>61</sup>

In the economic sense, Soviet socialism firmly rejected the concept of ‘market socialism’—the market is politically neutral and therefore may be utilised under

socialism as long as scarcity of resources exists. The property-class-market approach to socialism dominated in the Soviet regime, which regarded 'the market' as an intrinsic component of the capitalist mode of production. Only through market operation might surplus value be extracted from the working class and production of services and commodities was for exchange, which could only take place through the market. This approach defined capitalism as an organic system based on a property/class/market nexus. The Soviet regime insisted that socialism not only abolished the ownership relations of capitalism by replacing private property but also replaced market relations by political co-ordination through central government planning. Accordingly, under socialism a different set of property, class and central political co-ordination replaced the property/class/market nexus of capitalism. The logic of this position was that if market co-ordination were adopted, they would undermine socialist society in a distributive sense, so that greater wealth could accrue to some than to others, which in turn would lead to the growth of a property-owning class. Furthermore, market co-ordination was thought to be an irrational logic, the sum of individual preferences failing to constitute the social collective benefits.<sup>62</sup>

### *Leading Role of the Communist Party*

Under socialism, the working class had power, but it did not exercise its power directly. Hence, the Communist Party guided 'the general perspective of the development of society' as the dominant 'leading and guiding force of Soviet society' on behalf of the working class, simply because the party understood the interests of the society better than the millions of people outside the party. The Communist Party was the very vanguard of the working class and so ultimately also of the whole Soviet society. The authority and power of the party was, therefore, legitimated by the manifest expression of the people's interests and the repository of permanent public goods. The party organisations persuaded the public of the legitimacy of party directorship and the correctness of the goals articulated by the party leadership using the whole arsenal of education and modern political propaganda. Consequently, the dictatorship of the Communist Party was legitimated and substituted the dictatorship of the proletariat by "self-definition" and the Communist Party leadership determined the goals for the

Soviet society as a whole and directed social and economic creative activities of the Soviet people.<sup>63</sup>

Accordingly, the central party leadership was the ultimate collective policy-making body on every affairs for 'the general perspective of the development of society'. The responsibility for making decisions was closely associated with the accountability for securing its implementation. Hence, the result was a curious kind of duplication in which the party apparatus was in direct touch with the apparatus of the government. Each ministry, each local soviet executive committee, and each department of the large city and provincial administrations had its own primary party organisation. These PPOs had rights to 'exercise control over the government work of administration in fulfilling party and government directives'.<sup>64</sup> The local and primary party organisations and their secretaries in republics, cities, regions, factories, farms and other basic units were the cornerstone of the party directorship in the Soviet political economy. Each party organisations and party secretaries were judged by not only their performance in ensuring social order but also fulfilment of economic plans in their territories, hence their careers depended on detailed involvement in government administration and economic operation of economic units.

### *Democratic Centralism*

The distinctive and well-known tool of the party directorship was the *nomenklatura* system. The *nomenklatura* system ensured a stable group of political, economic, and social elite composed mostly of party members or favourable persons for the party to occupy leading positions in all formal political, economic and social institutions. Prior to a person's appointment or election to an important post in the party, government, state, or any social and economic organisation, his name had to be on a "list," namely the *nomenklatura*, of candidates for the listed posts, which was approved by a responsible party secretariat at each level. Accordingly, all important posts in the party, soviets, ministries, enterprises, farms, armed forces, and leading scientific, academic and cultural institutions were appointed by the party. The centre of the vast *nomenklatura* system was the Secretariat of the Central Committee. In this way the party controlled the appointment, promotion, and firing of officials inside as well as



outside the party and ensured the loyalty both of the people appointed and of their organisation to carry out party policy willingly.<sup>65</sup>

The nomenklatura system reinforced the extensive interlocking party-state bureaucracy between party committees and soviets, government, and social and economic organisations, which used its membership to maximise the effect through placing them in strategic positions in the state bureaucracy. Some members of the elected party bodies held leading positions of ministers, deputy ministers, chief executives of state-owned firms, ambassadors, generals, police chiefs, deputies of each soviet, and so on. For that reason, the term of bureaucracy in the Soviet system could apply to the entire party, state and government apparatuses, and social and economic organisations. The chief organising principle in the Soviet bureaucracy was the 'democratic centralism'. Not only the authority of the highest leadership in the bureaucracy but also the prestige, privileges and benefits that were granted to them served as a major monitoring and incentive mechanism by which the party directed the whole society including the economy.<sup>66</sup> Consequently, the principle of 'democratic centralism' was extended from the party to the state bureaucracy, and finally to the rest of society. Thus, the Soviet political and administrative procedures reflected unitary organisational practice.

### *Government-Directed Economic Nature*

Marx and Engels wrote little about the nature of the future socialist economy. Without any precise description, they only emphasised the principles of public ownership and central planning to overcome critical problems inherent to capitalism. According to them, the resource allocation and economic co-ordination by the market mechanism based on private ownership would create a crucial anarchy in the capitalist political economy. This anarchy might be overcome by centrally co-ordinated collective actions, that is, some form of central planning. Moreover, the Soviet socialists, including Lenin, were impressed by the 'German war economy,' where the central government directed individual economic activities with directive political control in order to pursue the war purpose.<sup>67</sup> Following the Marxist theory of 'socialism' and 'collectivism' and observing the 'German war economy, the Soviet regime adopted the principle of directive management to co-ordinate the economy. The logical economic

consequence was the government-directed nature of the Soviet politico-economic system characterised by three main features of economic institutions and mechanisms: the centralised economic hierarchy, the government planning mechanism, and the socialist motivation mechanism.

### **Centralised Economic Hierarchy**

The economic decision-making structure of the Soviet system was a highly centralised hierarchy. This hierarchy included not only administrative units in the government but also basic economic units, since almost all legal enterprises and farms were owned by the state. The principle of 'democratic centralism' was also applied for the effective function of the economic bureaucracy. All important decisions were made at the higher units of the hierarchy and only the less important, detailed decisions were delegated to lower units. Each decision received from a higher level was a *command*—plan was state law, not a recommendation, and therefore the subordinate was obliged to implement it. As a result, the Soviet economy was commonly referred to as a 'command economy'. The decision-making authorities in the hierarchy of economic bureaucracy were not based on their ownership claims for the means of production but on the delegation of authority to them, as protectors of the socially owned means of production.

### *Party-State Economic Bureaucracy*

In the Soviet hierarchy of economic bureaucracy, the leadership of the Communist Party played roles of the board of directors to direct the Soviet economy. For that reason, the central bodies of the Communist Party of the Soviet Union—the Central Committee of the CPSU, the Politburo, and the Secretariat—were considered rather more significant in the Soviet policy-making than the governmental cabinet of the USSR Council of Ministers. In principle, the Supreme Soviet of the USSR and the Party Congress had supreme powers, but these organs were too large to serve as effective policy-making bodies. In practice, they served mainly as a means of ratifying the decisions and policies decided in advance by smaller executive bodies.<sup>68</sup> Consequently, the Politburo, the Central Committee, and the Secretariat of the CPSU held the real executive power to

reach final policy decisions.<sup>69</sup> The Council of Ministers of the USSR was responsible for executing the policies determined by these party central bodies.

The *Central Committee (CC) of the CPSU* issued formal decrees, which represented party policies. The periodic meetings of the Central Committee served as sounding boards for the consideration of policy alternatives and as a body that gave authoritative endorsement to the policies agreed on *the Politburo of the CC*. In the crucially important sense of political decision-making and policy determination, the Politburo was the most important policy-setting body, where all major policies were decided. The Politburo had the authority to determine economic policies, which indicated guidelines and general priorities of government national planning. The party policies determined by the Politburo were approved and enacted by the Central Committee and by the Supreme Soviet. The Central Committee had the *Secretariat* as an agenda-setter for the Politburo meeting that played a major role in deciding which items should appear on the agenda of the Politburo. The Secretariat also headed the large number of departments of the CC, which supervised the implementation of Politburo decisions.

The *Council of Ministers (CM) of the USSR* exercised general supervision of activities for the government economic management in the Soviet system and served as the chief "executive arm" of the political masters.<sup>70</sup> It was empowered to issue government regulations in the form of decrees and resolutions so as to co-ordinate the economic activities and social construction. It, therefore, had responsibility for formulating national economic plans for economic and social development and the state budget, and supervised and monitored government planning organs and administrative units through its branch departments. However, as it was a too large body—118 members in 1984—to supervise effectively the complex affairs of government, these affairs were actually run by a smaller body, the *Presidium of the CM*. The Presidium aggregated and articulated social demands of an economic kind and then translated them into economic policies with bringing them to the attention of the Politburo.<sup>71</sup> The Presidium played the role as "Economic Bureau," which was responsible for making economic policy below the level of significance demanded for the Politburo consideration.<sup>72</sup>

The broad economic policies of the Politburo and the Presidium of the Council of

Ministers were translated into economic plans by government planning organs, reconciling the requests from the basic economic units through the administrative bureaucratic hierarchy.<sup>73</sup> The *Gosplan* (the State Planning Commission), as the most important planning organ, had responsibility for preparing the draft of annual, mid-term—typically on a five-year basis—, and long-term “perspective” plans for the economic and social development and the state budget. Gosplan had no productive economic units under its order and therefore no responsibility for under-fulfilment of their planning targets as well as bad planning except in extraordinary circumstances.<sup>74</sup> Hence, Gosplan served as a “specialist adviser” to the Council of Ministers, and in practice also to the Politburo.<sup>75</sup> Gosplan itself contained two kinds of departments: co-ordinating departments for national planning, territorial planning and location, material balance and allocation, capital investments, labour productivity, and wages and sectoral departments for planning particular branches of industry.<sup>76</sup> Gosplan was assisted by a number of functional state committees, functional ministries, and research institutions.

The *functional state committees*, specialising in engineering, technical, price, and finance matters, had responsibility for providing technical information and giving advice to Gosplan and the Council of Ministers in making decisions of national planning. They gave Gosplan independent information on which to evaluate the requests from below and set rules and norms, i.e., parametric functional regulations, for the co-ordination of nation-wide economic activities in their spheres. *Gossnab* (the State Committee for Material and Technical Supply) distributed detailed assortments of materials to ministries according to priorities set out in the plan. *Goskomtsen* (the State Committee on Prices) set prices for important goods and established rules for price setting. *Goskomtrud* (the State Committee on Labour and Wages) established staffing norms and the rules of compensation and payment. *GKNT* (the State Committee on Science and Technology) set norms for scientific work. *Gosstroï* (the State Committee on Construction) set standards for documenting construction projects and assisted Gosplan in site and project selection. *Goskomstandart* (the State Committee on Standards) established rules for judging quality standards and there were many more of them.<sup>77</sup>

The *functional ministries* also played co-ordinating and supervising role similar to that of the functional state committees. The Ministry of Finance (*Minfin*) co-ordinated the state budget and the banking system, the most important components of the latter being *Gosbank* (the State Bank), *Stroibank* (the State Construction Bank), and *Vneshtorgbank* (the Foreign Trade Bank). These banks had a monopoly on issuing credits. Gosbank was the most important of them, and worked directly with the enterprises to carry through their credit plans and monitored the supply of money.<sup>78</sup> The Ministry of Trade (*Mintorg*) was primarily engaged in managing retail trade through the state retail outlets and restaurants, canteens, and other eating establishments. It was not directly involved in setting outputs for products or deciding on their distribution, but managed the sale of the products that eventually emerged from factories operating under the planning. These functional state committees and ministries did not have subordinated productive economic units and enterprises, thus they were not held responsible for their plan fulfilment and any economic outcomes.<sup>79</sup>

For the management of economic branches, *branch ministries* maintained the operational links between central planning organs and basic economic units. Each branch ministry supervised the activities of their subordinate economic units. Their activities were monitored by a sectoral department of the Council of Ministers. They received their ministerial plan-targets from Gosplan and bore responsibility for the fulfilment of these plans. Each branch ministry, therefore, had the authority to make operational plans for subordinate economic units based on these ministerial plans. To ensure plan-fulfilment, they elaborated operational plan-targets and devised appropriate incentives for their subordinates to fulfil their plan-targets. They were also responsible for the allocation of materials and equipment to their economic units subject to the input limits set by Gosplan as an 'allocation-holder'. The branch ministry consisted of functional departments, such as a finance department, a planning department, a supply department, a cadres department, and a summary department, and a number of main administrations (*glavki*). Most of the operational work of the branch ministry was done by its glavki.<sup>80</sup>

The *individual economic units* in industry, agriculture, and other branches of the

economy, such as production enterprises, state farms and collective farms, and state shops, were the basic units of production, distribution, and exchange. Each economic unit received its individual plan disaggregated from a ministerial plan by its superior branch ministry. This plan specified in considerable detail physical and financial plan-targets in production, material inputs, technical progress, capital construction, labour and social development, and finance. The economic unit was responsible for the fulfilment of its individual plans. It was also charged with providing information about its future production possibilities with the available resources and technology and sending draft proposals for the future planning to its branch ministry and to Gosplan. The economic unit was headed by a professional manager or director, who was aided by a staff of accountants, engineers, designers, technologists, and economists. The manager was responsible for the plan-fulfilment of his economic unit. Within the constraints imposed by the plan, the manager had an authority to make operational decisions managing labour and capital resources.<sup>81</sup>

Besides the management of economic branches and by the branch ministries and the operational management of individual economic units by its managers, *local party organisations* also got involved in the management and the operational side of economy. It could be justified by the party's responsibility to supervise all aspects of Soviet social and economic life and to implement party policies.<sup>82</sup> Although the local party organisations at republican, provincial, city, and district levels had no formal authority to make operational plans for economic units in their jurisdictional territory, they were easily involved in their operational decisions, since they held responsibility for the economic performance of their territory, normally measured by the achievement of territorial plan targets and the percentage of territorial production units that met these targets.<sup>83</sup> They therefore monitored plan-fulfilment, enforcing centralised priorities, formulating regional policy, resolving conflicts, and handling appointments to key positions that were not filled by the Moscow cadres department.<sup>84</sup>

The *households* provided labour as workers and consumed produced goods and services as consumers. Their activities were controlled primarily by the quasi-market mechanism, rather than by the government planning mechanism, unlike the individual

economic activities of other participants. They had some degree of free choice in the market for consumer goods and services and for labour, but they had only very limited opportunities. Almost all consumer goods and services were produced by state enterprises and supplied by state agencies according to the government plans. Most prices and wages were also determined by central planners, rather than by the interaction between demands and supplies in markets. Furthermore, their private economic activities, such as private employment, production and trade, were restricted by Soviet law. It was illegal to employ anyone to produce a commodity for sale and to sell anything one had not oneself produced.<sup>85</sup> Consequently, in the Soviet consumer market 'planner's preferences' substituted 'consumer sovereignty' by taking individual free decision-making out of their hands and placing it under the collective political control.

### **Government Planning Mechanism**

The function of the information mechanism in the politico-economic system is to collect, absorb, and generate information on the given state of socio-economic environment, such as available resources and scarcity of these resources, available technology, production possibilities with available resources and technology, and social preferences. The information mechanism co-ordinates the decisions of each economic participant to efficiently and optimally utilise economic resources for the maximum social welfare as a whole. In the market-oriented model, most of the steps that must be taken to co-ordinate economic decisions occur autonomously and automatically under the guidance of market prices steered by the 'invisible hand'. However, in the government-directed model, such steps are politically co-ordinated by government planning, thus guided by the controlled hand of the state. In the Soviet system of the government-directed model, therefore, the economic co-ordination was guided by the government planning organs.

### *National Economic Planning*

The Soviet national economic planning process was virtually a constant 'vertical bureaucratic bargaining' procedures, which continuously occurred within the hierarchy

of the Soviet economic bureaucracy.<sup>86</sup> The bargaining was supervised, conducted and organised by Gosplan around negotiations over long-, medium-, and short-term national economic planning.<sup>87</sup> The long- or medium-term, usually five years, plan provided a general view of the desired future state of the economy. However, this five-year plan was not operational because the limited and highly aggregated data did not form the basis for specific directives to various economic units in the economy. The five-year plan had evident implications for the investment program and was used primarily as a guide to the construction of short-term plans. The short-term, usually annual, plan was the operational plan, which must give specific and directive orders regarding what to produce, how to produce, and where to get inputs and to deliver outputs to thousands of basic economic units throughout the whole economy.<sup>88</sup>

The procedure of the famous *five-year plan* began approximately three years before the plan was to take effect.<sup>89</sup> Gosplan started to gather information on the production possibilities and requested from economic units through the economic hierarchy, and was assisted in doing so by various functional state committees. With the collected information, Gosplan set specified targets, so-called '*control figures*', for the growth rates of national income, investment, defence, consumption, and foreign sector in accordance with guidelines and priorities that had been determined by their political masters in the party.<sup>90</sup> These control figures were approved by the Council of Ministers and the Politburo, and passed down to branch ministries and finally to individual economic units in more disaggregated form.<sup>91</sup> Each individual economic unit negotiated with its branch ministry over alterations of its control figures with their own counter-proposals. In turn after bargaining with the branch ministries, Gosplan prepared a draft plan in greater detail, which was later approved by the Council of Ministers and the Politburo and subsequently enacted by the Supreme Soviet as a five-year plan. The final version of the five-year plan passed down again through the bureaucratic hierarchy to individual economic units as a legal document which they were obliged to implement.

The *annual plan* was very similar to that of the five-year plan, but more compressed in time and more expanded in coverage to be operational. The annual plan was guided



by its five-year plan and technically a one-year division of five-year plan. In accordance with the guidelines and priorities of the party, the control figures for the coming year were developed during the first quarter based on information about recent economic performance and norms for improved efficiency in the use of major inputs assisted by functional state committees. These control figures were mainly concerned with growth in national income and its distribution among final uses, which in turn implied output for various branches and input requirements. These figures were transmitted to appropriate branch ministries and finally to individual economic units in more detailed form. Along the entire chain of the bureaucratic hierarchy, the comment on their figures and negotiations for the adjustment of the delivered control figures were sought during the second and third quarters. After these bargaining, individual economic units and ministries were charged with sending draft counter-proposals back to Gosplan.

Gosplan then formulated the finally internal balance between the planned supplies of each commodity and its targeted requirements of material inputs and final uses. Gosplan prepared for about 2,000 most important products and Gossnab prepared for 18,000 important products.<sup>92</sup> The key method used by Gosplan and Gossnab was the method of 'material balances'.<sup>93</sup> Once they were brought into balance, this process concluded with a draft annual plan. It was approved by the Council of Ministers and the Politburo and then passed as a law by the Supreme Soviet.<sup>94</sup> The enacted annual plan was sent down to branch ministries as an obligatory set of plan-targets. Each branch ministry in turn broke these targets into plan-targets for subordinate economic units, whose totals must add up at all times to the ministry's targets. According to the annual plan, the most important industrial raw materials and equipment, so-called "centrally planned commodities," were allocated to branch ministries by Gosplan and Gossnab in the form of allocation certificates (*nariady*). Again, each branch ministry, as "allocation-holders" (*fondoderzhateli*), reallocated these centrally planned commodities to their subordinate economic units.<sup>95</sup>

The final plan which was handed down to the individual economic units was the technical-industrial-financial plan (*techpromfinplan*), which specified both their

physical and financial targets in six categories: production, material inputs, technical progress, capital construction, labour and social development, and finance.<sup>96</sup> The most important one was the production plan, and particularly the gross-output targets which it contained, mainly because the most important economic objectives of the Soviet regime was rapid growth in production. The production plan included targets for the output of key products in physical units, targets for delivery, and targets for the share of output in a three-tier quality standards system—highest, high, and all others. The material input plan included deliveries for essential inputs and targets for reductions in the use of these inputs. The technical progress plan included targets for innovations in products and processes. The capital construction plan included targets for additions to capacity from new machinery and modernisation of existing plant. The labour and social development plan specified the size of the labour force and the wage fund. The financial plan specified major financial flows, most notably of profits, loans incurred and repaid, and reserve funds.

### *Central Planning Co-ordination*

In the Soviet politico-economic system, the government planning mechanism covered every aspect of economic activities.<sup>97</sup> In production decision, there were production targets for the most important priority products: quantities in physical units or aggregate value terms. For the allocation of semi-finished and finished producer goods and materials, quotas (upper limits) for various inputs in uses and their balances were prepared. One side of the balance consisted of the sources, such as production, imports, reduction of stocks, and other uses, like production use, exports, consumption by the population and increase of stocks. For the allocation of labour forces, manpower quotas and wage funds were distributed among the various spheres, and wages rates and differentials were set in order to manipulate labour forces. In the investment decision, aggregate investment quotas for investment projects were broken down. The separate quotas were set for the utilisation of construction capacity and for imports of capital goods. For the technical development, the new technologies for introduction, the fields in which to employ them, and the new products whose manufacture should be launched were planned. On foreign trade and international

economic relations, import quotas needed to equilibrate the balances and the export targets were set.

*Producer Goods and Materials.* The supply and demand for producer goods and materials were balanced through the material balance planning. These producer goods and materials, so called "centrally planned commodities," were allocated to each enterprises by planning agencies, such as Gosplan, Gossnab, and branch ministries as "allocation-holders." This allocation was distributed in the form of allocation certificates (*nariady*), which allowed its recipients to obtain the items needed in the quantities specified. Accordingly, unlike the market prices in the market-oriented system, the Soviet prices of producer goods and materials in their wholesale trade were primarily accounting prices, and thus played no real allocative role. The wholesale prices were set on the basis of the average cost of production in each branch plus a small profit mark-up about 5 to 10 per cent in general. Included in costs were wage payments, costs of intermediate materials, depreciation, insurance, and payments to overhead. Interest and rental charges were not normally included in costs, and the depreciation charge did not include charges for obsolescence. Using branch average costs as a standard resulted in both planned profits and losses in the operation of economic units within the same branch ministry.<sup>98</sup>

*Consumer Goods and Services.* In retail trades for consumer goods and services, the Soviet planners relied heavily on the turnover tax or subsidies in addition to government rationing or just tolerating an excess demand for specific products. The supply of consumer goods and services was planned largely by planners, but their demand was a function of relative prices, incomes, and consumer preferences which were largely out of the direct purview of planners' controls. For the balance of consumer goods and services, the government planning agencies typically set their retail prices at or near the market-clearing level simply by adding turnover taxes or subsidies—if the wholesale price was above the clearing level. The Soviet price policy always emphasised the desirability of pricing necessary goods and services relatively "low" and others luxuries relatively "high". The turnover tax—the difference between wholesale and retail prices—became an important component of the Soviet budgetary revenue.

Consequently, the Soviet equilibrium in the retail trade was determined by government-set retail prices which just reflected planners' preferences, not expressions of consumer demand.<sup>99</sup>

*Labour.* Although there was a substantial degree of market influence on the Soviet wages structure, labour forces were administratively manipulated by government plans. Once the output targets were decided, the requirements of labour to produce the given output targets were also planned on the basis of technical coefficients (norms), representing the amount of labour required per unit of output with existing technology. However, on the supply side, workers were, to a substantial degree, free to make occupational choices and to decide between labour and leisure. For that reason, wage differentials or other devices were also used to manipulate labour supply in an attempt to induce appropriate supplies to meet the planned demands for labour among its various occupations, uses, and regions. The wage rates and wage differentials were determined by wage-setting government agencies. The trade unions and individual workers played virtually no effective role in setting wages. In the 1980s, industrial workers were divided into six tariff schedules for wages rates. High average wages were set in priority sectors, in regions with harsh climates and lacking cultural amenities, and for dangerous work and work performed under arduous conditions.<sup>100</sup>

*Investment.* In the market-oriented model, the investment decisions for research and development (R&D) work are determined independently and the investment projects are selected based upon projected rates of return by enterprises themselves. In contrast, the investment decisions and projects in the Soviet system were planned administratively and largely controlled at the ministry level by project-making government organisations. With the output plan-targets, the amounts of capital investment that would be necessary to produce these output targets were planned at the same time. The investment programmes were planned for five-year periods and sometimes longer. Once the investment plan had been approved, the investment funds would be disseminated through the state banking system within the confines of availability. The Ministry of Finance provided a portion of the funds required to finance the various investment projects and the Investment Bank with *Gosbank*, was in

directly charge of disbursing such funds for investment projects and providing the funds for general repairs. High levels of investment were absolutely central to the Soviet model of economic development, based on the rapid growth of heavy industry and on the holding down of consumption levels, at least in the short run, to make room for investment.<sup>101</sup>

*Innovation.* The technological development was predicted and embodied in economic plans, too. Certainly, the basic research was still the prerogative of the Academy of Sciences, that was directly responsible to the Council of Ministers, but of course had facilities at republican level as well as at the centre. After 1961, however, a new State Committee for the Co-ordination of Scientific Research (now Science and Technology) was set up to break the stranglehold of the Academy on all R&D and co-ordinate much of the Soviet R&D effort. Besides, most of the applied R&D works were handled by external R&D organisations attached to each branch ministry, while large enterprises had their own R&D facilities. As innovations moved closer to the production stage within a ministry, they passed through an engineering-design organisation to a construction-engineering organisation that produced the blueprints for a new plant. About 45 per cent of the Soviet R&D budget were spent centrally, either by the Academy itself or through the co-operation of ministries in joint ventures. In the defence sector the R&D facilities attached to factories and pilot plants. Moreover, quality control had been carried out by military inspectors protected from the influence of factory directors.<sup>102</sup>

*Foreign Trade.* Foreign trade was monopolised by the state and the decisions about the foreign trade in terms of what would be traded, with whom, and on what terms were also administratively planned. Due to the state monopoly of foreign trade, the domestic consumers or producers to enter foreign markets were substantially isolated from them. As the individual enterprises generally did not deal with the external world, the various foreign trade organisations (FTOs) conducted foreign trade and provided necessary technical and financial services. The Ministry of Foreign Trade (MFT), like other ministries, was responsible for foreign trade planning, that is, the development of import-export plans, material and services supply plans, and the balance of payments

plans, all of which formed an integral part of the material balance planning. The financial arrangement was handled by a special bank, *Vneshtorgbank* (the Foreign Trade Bank), in close co-operation with the Ministry of Foreign Trade. For both imports and exports, the internal dealings between FTOs and enterprises were conducted at domestic rouble prices and the external trading at negotiated or world market prices. A surplus in the foreign trade was paid directly into the state budget. Most of the Soviet foreign trade, even with other socialist countries, was bilateral, that is, directly negotiated for each trade deal with each trading partner. The bilateral trade means that Soviet exports and imports were handled largely on a barter basis.<sup>103</sup>

*Finance: State Budget.* The balance between the demand and supply of credit, like most other macroeconomic balances, was co-ordinated by government without adjustments in the opportunity costs of credit. The demand for credit was determined as a by-product of physical planning. The banking system automatically supplied the credit required to implement the physical plan. The state monopoly bank, *Gosbank*, provided banking services and played three important functions: providing short-term loans for working capital; overseeing enterprise plan-fulfilment and monitoring payments to the population by acting as the centre of all accounts; and creating money. *Gosbank* was the sole legal grantor of short-term credit to finance inventories and working capital as well as the single clearing agent. *Gosbank* was, therefore, in a unique position to monitor enterprise operation. Each enterprise was required to hold an account with a local *Gosbank* branch where all transactions were recorded. *Gosbank's* audit operations served primarily to reveal deviations from the planned tasks, which were then corrected by planners. *Gosbank*, in conjunction with the Ministry of Finance, formally controlled the supply of money by authorising enterprises to pay additional wage funds and by creating new money, if government expenditures exceeded government revenues, to cover the budget deficits.<sup>104</sup>

The major financial decisions in the Soviet economy were reflected in the annual state budget, which directed available resources and finances into consumption, investment, defence, and government administration. The state collected revenues from sale taxes, so-called turnover tax, deductions from enterprise profits, direct taxes on the population,

and social insurance contributions. These revenues were then directed through the national budget, the republican budgets, and provincial and local budgets to finance investment in the form of grants; to finance communal consumption; and to finance defence and administration. Since all capital was owned by state and capital markets did not exist, the 'income' from capital would accrue directly to the state budget and from which the various investment projects were directly financed. The state budget, therefore, had a much larger portion of the Soviet GNP, about 45 per cent in the cumulative average for the post-war period than 10 to 30 per cent in USA between 1929 and the present. This ability to control savings and investments was a powerful mechanism to promote a more rapid rate of economic growth than would likely be tolerated in the market-oriented system. Though the Soviet officials claimed that the Soviet State budget had been balanced, there had been budget deficits between 2 and 8 per cent of the GNP in the 1980s.<sup>105</sup>

### **Socialist Motivation Mechanism**

In the market-oriented model, the major motivating force is the pursuit of individual self-interests or private gains. For instance, the worker's choice of the higher paying job, the businessman's acceptance of the more profitable contract, and the investor's purchase of the higher interest security, all which motivate the individual participants to work actively with creative initiative and to reach economic efficiency in their activities.<sup>106</sup> Compared with the market-oriented system, the main distinctive feature of the motivation mechanism in the Soviet system was the 'socialist motivation' under the 'socialist ownership of the means of production' in accordance with the Soviet official ideology of socialism.<sup>107</sup> The Soviet economist, Abalkin describes the socialist motivation in *The Economic System of Socialism*. "Under socialism, all the fruit of collective labour go to the working people, and solely to them. This gives rise to a new powerful impulse of working energy in the form of creative activity and socialist emulation." Consequently, under the condition of socialism, the individual self-interests and the interests of society as a whole together become united and therefore "the organic unity of personal and public interests" become the direct motive forces of all individual activities.<sup>108</sup>

### *Socialist Moral and Material Incentives*

The core of the Soviet motivation mechanism in the economy was how the party leadership and the government gave individual economic participants the sufficient incentives to apply their creative energies, abilities, and talents for their work. In other words how higher authorities activated their lower units to obey plan-directives and how higher authorities manipulated sufficient incentives to assure that their lower units would make the decisions desired for the Soviet society and conformed with the party policy. Under the directorship of the Communist Party in the Soviet politico-economic system, the local party organisations and their committees, all the way up to the Politburo, gave formidable pressures for each participants at all levels of the bureaucratic hierarchy to take the government plan seriously and to fill the plan which they had received from superior units. Historically, there were three significant groups of socialist incentives that the Soviet system director, namely the party leadership, relied on so as to create a productive work-force and to make the system operate properly: socialist obligation, moral incentive, and material incentive.

In accordance with the socialist principle of "from each according to his ability, to each according to his work," the Communist party and the Soviet government exercised control over the measures of labour and their consumption to offer individuals more and more real opportunities for applying their creative energies, abilities, and talents in their work. Consequently, everyone had the state guaranteed rights to work and to chose their profession and they were free to choose their sphere of activity and way of applying their ability, but to work was their duty. The duty to work was a major obligation of every able individual and therefore measures were taken against those who refused to take part in socially beneficial labour. Article 60 of the 1977 Soviet Constitution formulated this socialist obligation as follows:

It is the duty of, and a matter of honour for, every able-bodied citizen of the USSR to work conscientiously in his chosen, socially useful occupation, and strictly to observe labour discipline. Evasion of socially useful work is incompatible with the principles of socialist society.<sup>109</sup>



In addition, the Communist Party had long engaged in the task of socialising the Soviet people into 'Soviet men' who had 'communist morality', that is, concern about the public interest; a conscientious and creative attitude toward work; political activeness; socialist patriotism; high civic consciousness; a spirit of collectivism; readiness to offer comradely mutual assistance; impatience with relics of the past; and lofty moral qualities.<sup>110</sup> Historically, all kind of moral incentives, such as personal honour and gratification, solidarity, and patriotism or feelings of nationalism, were manipulated to induce their compliance with party policies and government plans and stimulate their motivation for the fulfilment of their plan-targets. The mass media was replete with stories praising the work of exemplary workers and criticising those who had failed to show sufficient zeal or initiative in their plan-fulfilment. Also, the regime constantly campaigned to stimulate workers' incentives for plan-fulfilment like the Stakhanovite movement of the 1930s, awarded for factories that had fulfilled or over-fulfilled the plan, or decorated honorary awards and titles to individual workers who had been exemplary in their work.

Besides the formidable efforts of the Soviet regime to emphasise the socialist obligation and to induce moral incentives, material incentives or material self-interests were also one of the keystones of the Soviet motivation mechanism.<sup>111</sup> Lenin himself used to say that communism must be built "not directly on enthusiasm but with the aid of enthusiasm born out of the great revolution; [communism must be built] on private interest, on personal incentive, on businesslike accounting."<sup>112</sup> Following Lenin's suggestion, material incentives, such as the material bonuses and penalties for plan-fulfilment, were designed to stimulate individual economic participants conducting the desired participation and efforts for the party policies and the government plans. However, the material self-interest was acceptable only if it would promote public wealth for the Soviet society. Consequently, the central government authorities strictly controlled the size of earnings retained by each economic unit and their distribution among the accounts, which were used significantly for their investments and workers' welfare and bonuses to give incentives for their plan-fulfilment.

Annual plans specified in considerable detail the flow of earnings into those economic

simulation accounts as a function of fulfilling key plan-targets. The economic stimulation accounts were the basic accounts that the enterprise management could draw on to pay bonuses, to finance other expenditures affecting worker welfare, and to undertake small capital projects in the enterprise. The important accounts for the economic stimulation fund were the Material Stimulation Account, the Social-Cultural Measures and Housing Account, and the Production Development Account. The Material Stimulation Account was the sole source for enterprise managers' bonuses as well as the very source of all bonuses to workers. These bonuses were the primary device available to the enterprise management for rewarding those workers who had contributed most to their plan-fulfilment, since their wage scales were fixed centrally by the government. The Social-Cultural Measures and Housing Account was a source used by the enterprise management to contribute to the housing and housing repair and the construction of children's institutions, clubs, or sports facilities. The Production Development Account was a source to make small investments involving, for example, technical refurbishing of a plant.<sup>113</sup>

### *Intrinsic Co-ordination Problems*

The Soviet regime's principle of directive economic management through the government planning mechanism was deeply connected with the governing principles of the ruling Communist Party, i.e., Soviet socialism, the leading role of the Communist Party, and democratic centralism. For the purpose of shortening the transition period from the socialist society to the communist society, the Communist Party organised the centralised hierarchical state bureaucracy to co-ordinate social and economic creative activities of the Soviet people and manage the whole Soviet socialist economy through the government planning mechanism. Each economic participant was placed in the centralised economic hierarchy, co-ordinated by their directive plan-targets and norms, obliged to engage in the fulfilment of their plan-targets, and expected to be motivated by the socialist moral and material incentives. Although the Soviet system was intended and designed to co-ordinate individual economic activities in detail by the government planning mechanism, there existed certain communication distance between party leadership, planners and plan-implementers. Moreover, each level in

the economic bureaucracy including the management of state enterprises felt co-responsibility for the fulfilment of plan-targets, which created incentive problems in individual economic activities.

### **Information and Incentive Problems**

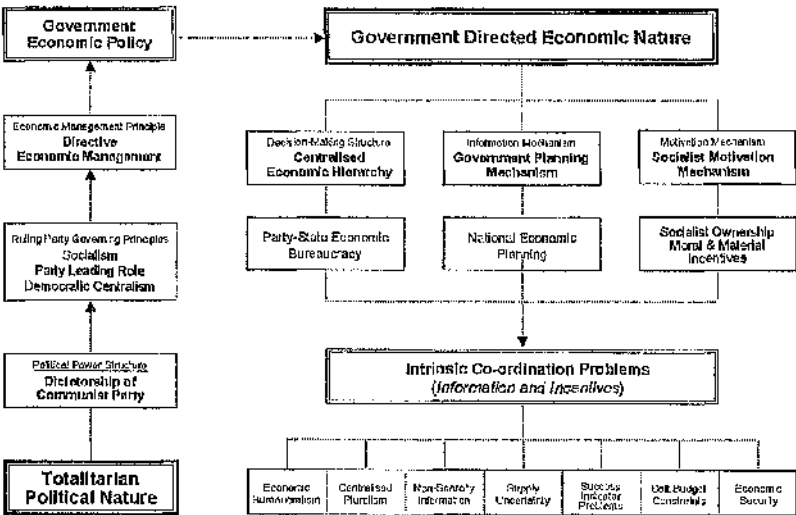
In a large industrially developed economy, a large number of microeconomic interrelationships must be considered to co-ordinate effectively all individual economic activities. An increase in the size and complexity of the economy and an increase in the rate of changes in the socio-economic environment will, therefore, result in a greater burden on the information mechanism, particularly on the government directive mechanism, in the politico-economic system. For the effective and optimal economic co-ordination of the government directive mechanism, the central government authorities should obtain detailed information for every basic economic unit in all field and should deal with interrelations among all these units and all goods and services. In consequence, it is simply unmanageable for them to deal with a large number of detailed microeconomic decisions for the co-ordination of individual economic activities. The essential weakness for optimal co-ordination in the Soviet government-directed model was caused by this information problem.<sup>114</sup> However, through directive government economic management and national planning the party leadership was able to control over resources to flow in a direction that would achieve the priorities determined by them.

Another weakness for optimal co-ordination in the Soviet system came from incentive problems. In the market-oriented model, the entrepreneurial incentives of profit and loss derived from private property and free competition reveal the previous errors with losses and motivate individuals not only to learn better ways but also to discover new ways of arranging or rearranging means to pursue their profits, through which socially desirable goals are obtained with the efficient allocation and utilisation of scarce resources. For that reason, the private property ownership and free economic competition are perhaps its most significant weapon in combating the incentive problems of economic co-ordination in the market system. However, in the Soviet government-directed model, the state property ownership produced a situation where

since everyone owned everything nobody owned anything. Consequently, the public property was not cared for and resources were wasted all the time. Furthermore, the state was the source and protector of monopolistic practices and economic safety for economic participants, which generated the lack of competition and incentives for hard and creative work in individual economic activities.

### Intrinsic Economic Phenomena

Figure 5, Nature of the Soviet-type Government-Directed Model



Throughout the history of the Soviet government-directed system, in practice, the Soviet economic participants possessed neither sufficient information nor incentives to appraise the alternative use of scarce resources in production. The Soviet government planning mechanism was unable to provide information to economic actors concerning errors and incentive weapons to eliminate these errors. Therefore, the existing social, political and economic life was one of perpetual error.<sup>115</sup> These information and incentive problems were likely to generate chronic co-ordination problems in the individual economic activities, which induced unique intrinsic economic phenomena in

the Soviet political economy. These phenomena can be characterised by 'economic bureaucracy', 'centralised pluralism', 'non-scarcity information', 'supply uncertainty', 'success indicator problems', 'soft budget constraints', and 'economic security'. These economic phenomena exerted a great influence on individual economic decision-making and their actions. Figure 5 illustrates the nature of the Soviet-type government-directed system, indicating interrelations between totalitarian political nature, politically co-ordinated economic nature, directive government economic management, and unique economic phenomena derived from intrinsic co-ordination problems.

### *Economic Bureaucratism*

The economic decision-making structure of the Soviet system was a highly centralised economic hierarchy at the economy-wide level. The hierarchy included not only administrative units in the government but also basic economic units, since almost all legal enterprises and farms were owned by the state. The principle of 'democratic centralism' was also applied for the effective function of the economic bureaucracy. All important decisions were made at the higher units of the hierarchy and only the less important, detailed decisions were delegated to lower units. The comprehensive economic and social policies were planned and carried out by a centralised government planning and administrative apparatus, which spawned a vast and powerful network of bureaucratic offices concerned with economic and social institutions. The structure of the Soviet government included the major elements of the economy and made it one of the world's largest bureaucracies. The total number of ministries and committees constituting the government of the USSR rose from 18 in 1924 to 132 in 1984. This was a gigantic bureaucratic enterprise operating at the level of the USSR (all-union ministries) and in the republics (union republican ministries).<sup>116</sup>

However, the regime's intention to control over every smaller segments of individual economic activities in the economy and the state ownership of economic units and enterprises gave rise to the 'economic bureaucracy' in their individual economic activities. The basic economic units and industrial enterprises received directive plan-targets to fulfil from their superior body, thus the ultimate goal of their management

was primarily the fulfilment of their plan-targets. Their economic bureaucratism lacked entrepreneurial drive; there was a tendency to stagnation, to reproduce the system rather than to innovate. The main objective of bureaucratic action was not to increase economic productivity *per se*, but rather to increase the rents and perquisites available from the principal organs. Bureaucratic competition substituted for economic competition, and resources were allocated according to political rationales rather than economic ones with the corresponding waste that would be expected. But waste was not penalised in the Soviet system of bureaucratic management. As long as output targets were met, and everyone in the process received the perquisites due to them, then the Soviet manager was judged a success. Certainly such considerations as consumer demand were not to enter the state enterprise manager's calculations.

### *Centralised Pluralism*

In the government planning mechanism, the central planners, particularly Gosplan and Gossnab, were in fact unable to make the bulk of detailed microeconomic decisions for production of all economic units and distribution of all commodities. In the Soviet economy, about 514,000 enterprises and about 24 million commodities existed in 1986 and a full input-output analysis involved up to 250 billion inter-sectoral flows.<sup>117</sup>

Hence, the physical impossibility of working out centrally such large number of planning figures was self-evident. Due to the information problem, the delegation or decentralisation of decision-making authorities was inescapable. Consequently, a significant number of the planning authorities, less important and detailed commodity-by-commodity plans, were delegated to lower level administrative units. Branch ministries, formally in charge of production in their branches, in fact acted as co-ordinators responsible for the distribution of operational planning tasks and the allotment of state-controlled resources to their subordinate economic units.<sup>118</sup>

Consequently, Gosplan provided the economic plans for 2,000 aggregate product groups, Gossnab divided those aggregate groups into 15,000, and ministries further divided them into 50,000 groups.<sup>119</sup> Thus, the operational economic planning was indeed a co-operative effort between Gosplan and branch ministries.<sup>120</sup>

Although the sheer volume of works and planning authorities were delegated in the

hands of branch ministries, they also faced the same information problems that the central planners had faced. They could not possibly have sufficient information to specify in detail all outputs and inputs for their share of the products, although they had certainly better information than central planners. Thus, they also had to compromise in this case giving some of their authorities to their subordinate economic units within general parameters that constrained their choices. In practice, since the basic economic units had more local information than their branch ministries and in turn branch ministries had more local information than the central planners about the existing situation and future production possibilities, the counter-proposals in the planning process made by lower units affected significantly on the elaboration of their plan targets which they finally received from the central planners. For this reason, it would be erroneous to think that the Soviet economic participants were fully regimented, mechanically followed instructions, and had little freedom of action. In fact, there was quite a bit of managerial freedom—so-called ‘centralised pluralism’, which was different from the original design and the Soviet regime’s intention.<sup>121</sup>

The techpromfinplan for a basic economic unit was a formidable document, which specified all major aspects of individual units’ activity. For a large enterprise, the number of obligatory targets could easily fall in the range of 200-300.<sup>122</sup> However, the Soviet national planning was never completed in its implication. Eugene Zaleski has concluded from his analysis of the Soviet plan-fulfilment that plan adjustments made after the plan had been finalised had a stronger significance on actual resource allocation than do the plans themselves in the Soviet economy.<sup>123</sup> Because of the complexity of the planning, disequilibria, misallocation, mismatching of production and supply, delays in communicating plans and instructions, and repeated changes during the year in these plans and instructions inevitably occurred.<sup>124</sup> In spite of the inevitable weak-point of co-ordination in the information mechanism, the basic rationale for using the deliberate government planning mechanism, without the free market price mechanism, to co-ordinate economic decisions was that it enabled the Communist Party to induce the past economic growth in the direction of the party preference with tolerating the chronic economic inefficiency and imbalance.

### *Non-Scarcity Information*

In the Soviet government planning mechanism, the national economic plan coexisted in both physical and financial terms. Since the financial plan—main entries in the state budget and main targets for the banking system—automatically corresponded to the physical plan, the financial flows were subordinated to the physical flows. The various kinds of prices were set to measure and monitor the implementation of the physical plan and to assess their fulfilment. The Soviet price, therefore, was “a servant rather than a master,” an appendage to the physical planning, that is, prices were affected by physical plans, but did little to affect them.<sup>125</sup> The price was purposely designed to facilitate planners’ efforts to collect the information on production possibilities and to control individual economic activities rather than to play the active co-ordination role. Almost all Soviet prices, except collective farm market prices, were set by central planning authorities on the basis of average cost rather than by the interaction of supply and demand in the market.<sup>126</sup> However, without any active free market price mechanism, it was difficult for planners to obtain information on the demand side.

In the Soviet economy, several price categories were existed; industrial or “wholesale” prices in transactions between producers; state retail prices; agricultural procurement prices paid to farms for products procured by state agencies; collective farm market prices charged by individuals and collective farms for produce marketed through the collective market-oriented system; foreign trade prices charged foreign customers for its product; wages and various bonus schedules; planning prices to guide internal decision-making within the system, though it did not actually apply in specific transactions.<sup>127</sup> These industrial prices were largely set to equal average cost by industrial branch, generally excluding rental and interest charges, plus a small profit mark-up. The usage of branch average cost as a standard had resulted in enterprises making both planned profits and planned losses within the same branch. Exceptionally, collective farm market prices were determined by the interaction of supply and demand in the market, although the state monitored them. These cost-based prices were useful to planners as a means of evaluation and control over enterprise performance by inducing enterprises to use their relatively small room for manoeuvre within the plan in ways that reduced



costs.

Unlike the market mechanism, the Soviet prices were not intended to play any active role of allocation, but rather passive roles of measurement and control for the physical government directive planning to measure the results of economic activity and to evaluate the economic outcomes and performance at all levels. Furthermore, prices were set for long-time periods not only to facilitate the construction of plans to cover those periods but also to avoid the daunting task of recalculating the myriad of interrelated prices in the entire national economy. The measurement and control functions of prices were more easily carried out when prices were not changed. However, if prices remained unchanged and were not flexible enough to accommodate the changes on the demand side reflecting the changes occurred in the broad socio-economic environment, they would no longer reflect current relative scarcities of resources and opportunity costs. In consequence, the Soviet prices in general provided information only on the relative costs of goods and services that served as a means of the administrative economic management. Without any method to assess the relative scarcity of resources and the opportunity cost of their use, waste and mis-allocation was inevitable results of the government-directed system.

### *Supply Uncertainty*

As far as the inter-enterprise trade was concerned, the Soviet economy was a 'documentary' economy: nothing could be done without the necessary documents. Money on its own, therefore, was not sufficient to get resources for production. In purely formal terms, the settlement of transactions between enterprises took place via bookkeeping over accounts in the unified banking system at the government set prices. The banking system played an important supervising role here. In order to make payments to others, an enterprise must prove to the bank that such a payment was authorised in the plan, by presenting an allocation certificate entitling it to the materials purchased. For the economic participants, it was far more meaningful to gain an allocation certificate for scarce materials and products than money. In addition, there was no legal opportunity for basic economic units to buy something on a free market basis from others, due to the absence of free market and horizontal linkages between

them. The general and particularly important point here is that the production enterprises lacked alternative suppliers of the necessary inputs, which resulted in the phenomena of 'supply uncertainty'.

Under the lack of alternative suppliers, individual production enterprises worked under the condition of uncertainty and information shortage: the uncertainty of whether the necessary inputs would arrive at the proper time, at the proper place, in a sufficient quantity, and with the expected quality. In the complicated Soviet national economic planning, if one change or failure in the chain of production or in the distribution link occurred, this would be transmitted throughout the whole system. The basic economic units including production enterprises further down the chain of production would not receive supplies of necessary raw materials and semi-manufactured products. For the production enterprises, their capacity to achieve their production targets would be correspondingly reduced and at the risk. Consequently, either because of a plan error, below-plan production at another enterprise, diversion of shipments to a higher priority customer or some other reason, an enterprise not infrequently found that its plan-fulfilment was threatened by a shortage of raw materials or input goods. For the individual enterprise, this "supply uncertainty" led to the adoption of various measures to secure its supply which caused more costs in production.<sup>128</sup>

### *Success Indicator Problems*

Under the condition of socialist ownership of the means of production, the Soviet official ideology suggested that each participant should work and engage in activities, entrusted to him or her "like a proprietor" in the capitalist market economy. In practice, the "proprietary" motivation cannot be developed from the ideological declaration or the moral persuasion of ownership if the actual social position and ownership rights are not proprietary in nature.<sup>129</sup> As a result, the purpose of increasing economic efficiency and productivity in state enterprises, their management was motivated by a whole series of other 'success indicators', that is, some indices of performance on which bonuses were based, instead of profits for the real proprietor in the capitalist system. Theoretically, there is no reason why the Soviet planners could not develop an incentive mechanism consisting of a set of indicators that reflect every aspect of the desired plan-

targets and ensure the fulfilment of these indicators by large positive and negative incentives. However, the impossibility of the government planning mechanism to provide such detailed information to central planners caused the difficulty of giving a synthetic success indicator like profits in the market mechanism.

For that reason, the Soviet central planners concentrated on a few indicators, such as quantity of total output, reduction in overall production costs, and increases in labour productivity, with limits imposed on the lowest permissible quality and deviations from the desired product mix. The most fundamental and significant indicator was the quantity produced, that is, a target figure for physical production. Such indicators were inevitably biased towards what was easily identifiable and measurable. It was easier to measure the total output of an enterprise than to estimate the quality of the product, or whether the assortment of goods met the needs of customers, that is, non-measurable indicators. Historically, the gross value of output had been the most important 'success indicators' from the manager's viewpoint. However, as the prices of inputs or outputs did not reflect the relative scarcities, although prices did, it would be difficult for planners to specify output targets in unequivocally clear terms. The choice of measurement unit for output, therefore, resulted in all types of deviations in the implementation of individual enterprises' plans—the so-called "managerial success indicator problem."<sup>130</sup>

### *Soft Budget Constraints*

The Soviet economic bureaucracy, including state enterprises, faced the same incentive problems as non-profit government bureaucracies have been faced with in Western countries.<sup>131</sup> Government bureaucracies exist in order to supply goods and services to the public, but they do not report to elected political officials, who in a frictionless political environment would represent the true preferences of the citizens. But, because of the existence of political 'failures,' such as rational abstention and rational ignorance, voter preferences are not conveyed in an unambiguous manner. The distortion allows bureaucracies to escape close monitoring by the citizens. Since bureaucrats cannot usually benefit monetarily from their departments' monopoly position as the sole supplier of some public service, they tend to reap those benefits in

many other indirect ways. Perquisites at the office is one manifestation, but perhaps the main source of inefficiency is the incentive to maximise their departments' budget. In other words, the heads of the bureaucratic departments face an incentive to expand the size of their departments well beyond what would be its optimal size. Because the larger the department the more prestige, power influence, reputation and opportunity of promotion.

In the Soviet economy, almost all enterprises were owned by the state and their existence was in the hands of the central planners. They would therefore survive, no matter how well or poorly they were managed. The enterprise was not held responsible for the financial consequences of its decisions and its losses were automatically covered by the state budget. Accordingly, the Soviet economic bureaucracies as well as state enterprises worked under the condition of "soft budget constraints," a concept introduced by Kornai.<sup>132</sup> The "soft budget constraint" affected enterprise decisions in at least three ways. Firstly, all measures of financial performance were plan-related, so unnecessary claims on resources which were ratified by the plan never incurred any financial penalty. Secondly, since profitability was only one of a number of plan indicators, the incentive system did not necessarily penalise management greatly for below-plan profit performance, if the plan was fulfilled in other respects. Finally, unprofitable investments were not penalised, because profits plans were adjusted accordingly.<sup>133</sup> This condition of soft budget constraints created some incentive problems to increase efficiency and productivity in the enterprises' economic performance and in turn for the Soviet workers.

### *Economic Security*

The Soviet regime had issued to workers what Hewett has called "an insurance policy against personal economic risk."<sup>134</sup> The regime promised the right to work to everyone who was of age and able and who had pursued policies for full employment. Thus, the workers always enjoyed job and income security, and were protected from the economic uncertainties that have persisted in many of the Western capitalist democracies. Economic egalitarianism was also an objective of the Soviet regime; it was a bias that had come to be taken for granted among workers and managers of enterprises. Wages

for those employed in the same type of job tended to be equal, regardless of the individual worker's performance and the profitability of the enterprise. Losses incurred by individual enterprises were often covered by the profits of other enterprises, and were thus socialised. On a larger scale, when one sector did not perform well, the entire society paid for its. For instance, the hard currency earnings from the export of energy were spent abroad for the purchase of grain because domestic agriculture did not produce enough to feed both the population and its livestock. Because there was no distinction in pay between a "good" participant and a "bad" participant, the long-term effect had been to destroy the incentive to work.

Within the enterprise structure, the key incentives for getting workers and enterprises to produce efficiently and to innovate were stifled by the concept of "ceilings" and "floors," on which economic security rests. Enterprises knew that they would not be allowed to fail or go bankrupt; so, there was a permanent safety net or floor, beneath them. Because profits resulting from efficiency or innovation were cross-subsidised to support poorly performing enterprises, a ceiling existed that automatically discouraged enterprises from trying harder.<sup>135</sup> Aslund confirms that in this system of socialisation of losses and profits, the "beneficial treatment of inefficient loss-making enterprises and the stifling severity towards the most profitable" effectively discouraged any economic initiative.<sup>136</sup> There had been little room for ambition and risk taking in the Soviet enterprises' activities. As with the enterprises, so with the workers. While workers could be fairly confident that they would not be laid off, they also knew that hard work was rarely rewarded and that shoddy work was rarely penalised. The incentive problem had bred a difficult cycle within itself. The general shortage of consumer goods gave the workers even less incentive to work hard, yet they must work harder to help alleviate the deficit in consumer goods. Consequently, the 'economic security' for enterprises and workers generated 'economic safety net' for them, which created some incentive problems.<sup>137</sup>

## OPERATION

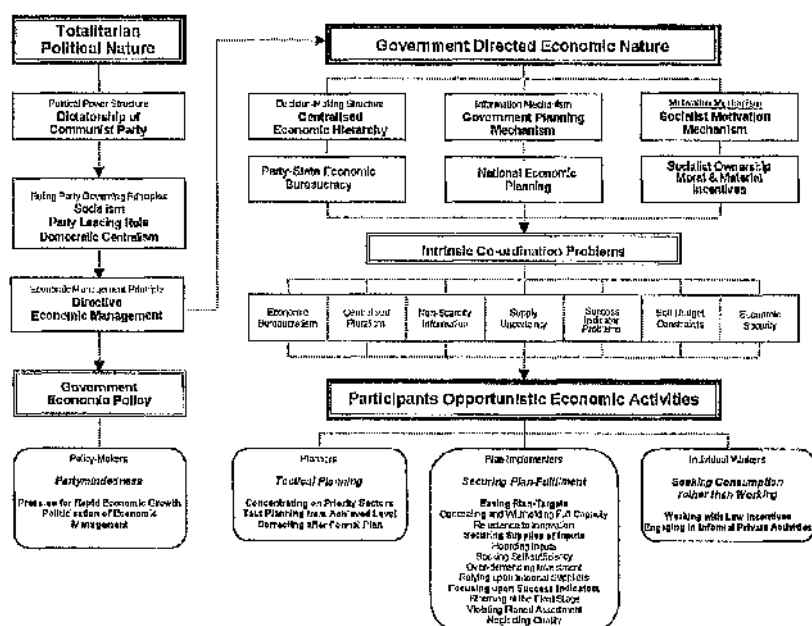
### *Opportunistic Economic Activities*

In order to understand the individual economic activities of the Soviet political economy, one must understand how each individual economic participant responded to information and incentive problems derived from the nature of the government-directed system and what impact these had on the decisions of policy-making, planning and plan-implementation. In the Soviet system, each economic participant was placed in the centralised economic hierarchy and engaged in the activities of plan-elaboration and plan-implementation. At the highest level, the party leadership determined broad social goals and policies for guiding the government economic plan. The central planners translated these broad goals and policy into specific and measurable tasks, and then they issued specific orders in the form of plan-targets. At the low-level, the basic economic units, mainly industrial enterprises, implemented their specified plan-targets issued by superior planning bodies. The Soviet planning mechanism operated through the "vertical bargaining" along the centralised economic hierarchy.<sup>138</sup> However, due to the information and incentive problems in the politically directed socialist system, individual participants had quite a bit of managerial freedom in fulfilling their tasks and the principal-agent problems occurred. Accordingly, the principal-agent model can be applied in analysing the Soviet economic activities.

At each level of the Soviet economic hierarchy, there existed principal-agent relations. In the principal-agent relations, if the principal possessed perfect information and incentive mechanisms, it could issue detailed and mutually consistent instructions to its agents and could monitor all of the agents' decisions and actions from the standpoint of the principal's interests. However, the principal's information is not perfect in reality and therefore it is unable to monitor the activities of its agents perfectly. The more complex an economy and its bureaucratic hierarchy is, the less perfect its information and monitoring mechanism. For that reason, the principal has to rely on the information from its agents, who have more knowledge of local circumstances, and devise some incentives that would motivate the agents voluntarily to act in accordance with the interests of the principal. Since the principal can only reward or penalise

selected and measurable tasks, the agents are free to engage in opportunistic behaviour in areas not subject to such rewards or sanctions, which is often inconsistent with the principal's intended goals. Such opportunistic behaviour is entirely rational as long as the chances of meeting the principal's specific reward targets are improved. The principal-agent problem, therefore, exists whenever a principal relies on agents to carry out its goals.<sup>139</sup> Figure 6 will summarise activities of major individual participants in the Soviet government-directed socialist politico-economic system.

**Figure 6, Activities in the Soviet Government-Directed Socialist System**



## Partymindedness

In the Soviet system, people had limited opportunities to signal their preferences in collective political activities as well as individual economic activities mainly because of the fundamental restrictions caused by the preclusion of liberal democratic pluralist political activity and individual free market activity. In a pluralist democratic society, the process of collective political decision-making or government policy-making is essentially 'political bargaining' between the various interests of chief political

participants, such as voters, politicians, professional advisers, and public sector bureaucrats, for the purpose of achieving their own interests and goals. However, the collective political activities and the government policy-making processes in the Soviet politico-economic system were different from one in the pluralist democratic society. In the Soviet process of government policy-making, the ways, in which non party individuals and interest groups could articulate problems, raise issues, argue for policy changes, and challenge the status quo, were strictly restricted by the totalitarian political nature of the Soviet system and the dictatorship of the Communist Party.

In the Soviet collective political activities, the Communist Party imposed party interests on society as the only 'leading and guiding force' and responded to any opposition to party interests by ruthless repression. In government policy-making, the General Secretary and the Secretariats of the Central Committee played a major role in setting agenda, filtering and repressing various articulated interests and preferences, and the Politburo of the Central Committee determined the final policy-decisions and guidelines for government planning.<sup>140</sup> Consequently, the party leadership, as the "system director," guided the Soviet society and economy to desirable direction from party points of view.<sup>141</sup> The party directorship, even dictatorship, was reflected in the important principle of "partymindedness" in government policy-making and government management of the economy.<sup>142</sup> The principle of partymindedness implied that the government policy and national economic plan were concrete expressions of party goals and all problems must be seen from the sovereign party preference point of view. The consequence of partymindedness in government policy-making and government economic planning were constant political pressures for the rapid growth of priority sectors determined by the party leadership and the persistent "politicisation" of economic management.<sup>143</sup>

### *Pressures for Rapid Economic Growth*

The Soviet model of political economy offered political and economic stability to promote long-term aims of the Soviet regime. Under the established stability, the preference for rapid economic growth was consistently induced by the Communist Party. In the Soviet government planning mechanism, the decisions of central planners were



subordinated to the decisions of the party leadership. The national economic plan was prepared by the central planners, but in accordance with the guidelines and priorities of party policy determined by the Politburo. For that reason, central government planners had no choice but to accept the sectoral and economy-wide growth targets handed down by their political masters. For that reason, it was impossible to construct a plan without growth and avoid the pressures for rapid growth in priority sectors determined and constantly pushed forward by the party leadership.<sup>144</sup> Although the workload of central planners was heavy at times, they were rarely judged on the quality of their work. The central planners had no direct accountability for the outcome of their planning, thus they were not punished for the formulation of realistic and optimal plans. Consequently, the Soviet government planning was far from being harmonious, balanced, and optimally co-ordinated.<sup>145</sup>

### *Politicisation of Economic Management*

Economic tasks formed only one factor in the policy of the Communist Party and the Soviet government. Thus, economic considerations were often subordinated to other political objectives of domestic or foreign policy. Accordingly, the planned economic targets had to be amended during the planned year, when important political changes occurred and the leadership's order of preferences for domestic and foreign policies changed. These political changes occurred from time to time and sometimes very abrupt. This 'politicisation' of economic management produced a contradictory effect on the consistency, realism, and rationality of the Soviet economic planning. However, in some ways, the politicised government economic management through national economic planning had an inner logic and offered the party leadership a more promising means of effectuating its control over the direction of social and economic development. It was not only a means of directing economic efforts on high priority sectors and diverting the impact of mistakes onto low priority sectors, but also a means of transmitting political urgency to economic activity.<sup>146</sup>

### **Tactical Planning**

As already examined at the last chapter, the Soviet government-directed system

generated the intrinsic information problems in nature. The Soviet central planners had, therefore, to face quantitative as well as qualitative problems caused by the requirement for vast quantities of information and the distortion of the upward flow of information in the planning process of 'vertical bargaining'. In addition, they had to deal with external information and political pressures. Confronted with the intrinsic quantitative and qualitative information problems and the extrinsic politicised pressures from their political masters, the central government planners compromised on national economic planning. Their compromise demonstrated some opportunistic behaviour of 'tactical planning,' which engendered important planning principles in the Soviet planning: concentrating on the priority sectors, taut planning from the achieved level, and corrections to the formal plan. After all, the Soviet principle of rational, optimal and prior central planning was simply an ideological illusion in reality, and served the more practical purpose of mobilising resources to secure rapid growth in priority sectors.<sup>147</sup>

### *Concentrating on Priority Sectors*

The Soviet government planning was focusing on output targets and investment projects in key priority sectors, such as capital goods and products in the heavy industry, which was selected and approved by the party leadership and repeatedly enjoyed a high priority. The traditional top priority of the Soviet planning was investment in heavy industry not only as the key to rapid economic growth but also as the basis for large scale weapons production, which was seen both as an essential guarantee of national security and as a means of projecting Soviet influence abroad. The Soviet leadership in the Communist Party used various strategies to impose their preference of priorities to investment over consumption and heavy-industrial sector over light-consumer sector. Thus, the distribution of investment favoured the heavy industry over the light consumer industry. The high rate of capital formation and rapid expansion of heavy industry were accompanied by relatively slow growth of consumer goods production, services, and agriculture, which became the neglected sectors of the economy. These sectors were developed only to the extent that was required in order to achieve the main priority goals.<sup>148</sup>

### *Taut Planning from Achieved Level*

The Soviet planners quite naturally fell into the practice of "planning from the achieved level"<sup>149</sup> and "taut planning."<sup>150</sup> The provision of new economic plans was calculated on the basis of a mark-up on the achieved level of the previous plan period, responding to clear signs of surplus or shortage and clear indications of changed relative priorities in the growth rates for particular sectors. Moreover, the Soviet planners also prescribed a plan 10 or 20 per cent tighter than they themselves considered realistic for the purpose of forcing industrial enterprises and other productive economic units to reveal their concealed production possibilities and to mobilise all possible resources for the rapid rate of growth. The taut planning was clearly a basic aspect of the growth maximisation approach of the Soviet regime and a means of applying pressures for maximising output in the short term. Consequently, the gross-output targets in the Soviet plan were more significantly emphasised and the most important success indicators. Western literature described the practice of taut planning from the achieved level as the "ratchet effect" or the "ratchet principle" in Soviet planning, comparing the constant raising of output targets to a cogwheel that moves only forwards, not backwards.<sup>151</sup>

### *Correction to the Formal Plan*

Due to the inability to obtain sufficient information to make the 'perfectly co-ordinated' plan, and constant politicised pressures from the political masters, the formal national economic plan sent down from the government planners was at first "preliminary," then, at the very end of the planning period, "initial," and finally, during the implementation of the plan, "corrected."<sup>152</sup> The plan correction was the last resort for planners faced with the initial plans that obviously were not going to be fulfilled or changes in the priorities of the government and party. The correction took two basic forms: a reduction or augmentation in the planned growth rates in order to match the plan, ex post, to the actual situation; or a change in the plan within a year in an effort to balance the supply or demand for the product in which imbalances or bottlenecks were emerging. John Wilhelm argued that the original plan, in the Soviet economy, was typically not workable and therefore continuously changed in the course of its implementation, and in

the end revised to correspond to expected fulfilment. Given these circumstances, he argued, it would be inappropriate to refer to the Soviet economy as a 'planned economy'.<sup>153</sup>

### **Securing Plan-Fulfilment**

In the Soviet government-directed model, the branch ministries and their subordinate economic units received directive plan-targets, including the gross-output targets which they were expected to produce over a certain period, the input targets which they were allowed to use, and a large number of other targets. Their freedom to make decisions regarding the running of their branches and enterprises was, therefore, severely restricted by the government plan. However, due to the inability of central planners to specify and co-ordinate all details of enterprises' operation, there existed a significant area of managerial flexibility described by the 'centralised pluralism' inherent in Soviet system. The managerial and operational behaviour patterns of branch ministries and their enterprises were the managerial response to the tactical 'rule of thumb' planning of Soviet central government planners and the operational environment of enterprises subjected to the influence of the government-directed nature of the Soviet politico-economic system.

The branch ministries had two faces not only as planners for their subordinate economic units on the one hand but also as implementers of their ministerial plan-targets on the other hand. Accordingly, they engaged in both patterns of opportunistic behaviour as planners and as plan-implementers to minimise the risks of failing to fulfil their ministerial plan-targets. In the "downward" direction, they forced economic units to fulfil their plan-targets by tactical planning—concentrating on the priority sectors, taut planning from the achieved level, and correcting after the formal planning—as a planner. In the other "upward" direction, for the purpose of securing fulfilment of their ministerial plan-targets, branch ministries engaged in dysfunctional opportunistic behaviour, so called 'departmentalism' (*vedomstvennost'*). During the bargaining process with Gosplan, they tended to ease their plan-targets by concealing the aggregated full capacities of their enterprises and to secure the supplies of inputs for their enterprises by obtaining materials and labour in excess of real needs and by

avoiding specialisation between ministries and 'self-supply'.<sup>154</sup>

The basic economic units and industrial enterprises received directive plan-targets from their superior body, thus the ultimate goal of their management was primarily the fulfilment of plan-targets. Specifically, they concentrated the fulfilment of the most important plan-targets, upon which their bonuses were based. Their management was offered substantial bonuses for the achievement of these success indicators, but these success indicators were fuzzy and often ill defined, unlike the profits in the market-oriented system. Moreover, since the Soviet enterprises had no direct contact with consumers, the consumers' preferences were deliberately neglected. Under these circumstances, in order to secure the fulfilment of bonus-forming targets, the industrial enterprises engaged in peculiar and dysfunctional behaviour patterns in their operational activities: easing plan-targets by concealing their full capacity, withholding over-fulfilment, and reluctance to innovation; securing supplies of inputs by hoarding inputs, seeking self-sufficiency, over-demanding investment, and relying upon informal suppliers; focusing upon only key success indicators by storming at the final stage, violating planned assortment, and neglecting quality.

### *Easing Plan-Targets*

*Concealing and Withholding Full Capacity.* During the planning process, the enterprise management bargained with its superior branch ministry to get the lowest possible targets by concealing its full production capacity, simply because the possibility of plan-fulfilment would be greater. The greater the possibility of plan-fulfilment was, the more easily the managers and workers would gain bonuses. After the plan targets were set, the enterprise tempered the rate of over-fulfilment of their plan-targets by withholding its over-fulfilling performance. If the enterprise over-fulfilled its targets by too wide a margin, the plan-targets for the next period would be set much higher because the achieved production would be the point of departure for the plan for the next period. They knew the planners' tactic of "taut planning from the achieved level." Thus, the management of Soviet enterprises developed a sixth sense for optimal degrees of over-fulfilment, usually about 101 or 102 per cent of their production targets.<sup>155</sup> This is very similar to the behaviour of workers on a piece-rate

system of payment in the market economy, who also learn how much they can produce before the rates paid for each piece are reduced.

*Reluctance to Innovation.* In the same context, the enterprise management was reluctant to make any technological or operational innovation. The introduction of new technology involved certain risks and required a considerable expenditure of resources and time. For the Soviet enterprise, as almost any innovation entailed some temporary disruption of productive processes, it was a certain risk to fulfil the current production targets. Even a successful innovation would be a welcome one-time bonus, but this would be followed by correspondingly higher and more difficult production targets for the future period. In some innovations, for instance, improvements in productivity, quality, and durability were seldom rewarded owing to the importance of 'short-term quantitative plan-objectives' in bonus-forming success indicators. The system director's obsession to the rapid growth in priority sectors encouraged the Soviet enterprise to increase their output by using more inputs and expanding their productive capacity with more investment, rather than improving their productive efficiency by some kind of technological and operational innovation. Consequently, the management of Soviet enterprises was discouraged to take risks and reluctant to introduce new technological and operational innovation in their activities.<sup>156</sup>

### *Securing Supplies of Inputs*

*Hoarding Inputs.* Confronted with the 'supply uncertainty' in the Soviet economy, the enterprise management should secure the flow of input supplies to fulfil the production plan-targets in any way. Thus, the enterprise was induced to accept all the inputs it could lay its hands on. Each enterprise wished to have an extra store of inputs to meet its outputs-targets with, in case supplies of inputs should fail to arrive. The Soviet enterprise situations of 'economic safety net' and 'soft budget constraints' provoked them to over-demand any kinds of human and material inputs. During the vertical bargaining in the planning process, with the management of enterprise over-ordered the requirement of inputs for production to its branch ministry, in the hope that if it did not get all it ordered, it might at least obtain as much as it needed to fulfil the output targets. The result was that all kinds of inputs were hoarded. As for labour supply, the fact that

the planned wage fund for a given year tended to be based on the actual wage expenditure of the previous year made it easy to recruit and hold on to labour 'just in case'.<sup>157</sup>

*Seeking Self-sufficiency.* The enterprise management, looking for ways of safeguarding themselves against the effects of 'supply uncertainty', sought to divert investment resources towards 'do-it-oneself' operations. The enterprise produced most of the inputs and services that were required to produce planned outputs. The result was a high degree of 'self-sufficiency' in the Soviet economy. A survey by Goskomstat in 1987 reported that out of every 100 machine-building enterprises, 71 produced their own iron castings, 27 produced their own steel castings, 84 their own forging, 76 their own stamping and 65 their own hardware. There was virtually no specialised production in the entire Soviet industrial structure.<sup>158</sup> Regarding the machine-building enterprises, Shmelev and Popov argued that the tendency towards self-sufficiency in individual enterprises would undermine the division of labour and specialisation, which the central planning aimed at promoting:

Machine-building enterprises are overgrown with subdivisions that are not part of their main product. They are usually poorly mechanised subdivisions that produce, often by hand labour, instruments, fittings, castings, forgings, containers, and so forth. They are inefficient but they can produce almost anything, so there is no need to turn to trading partners. For example, in Moscow Province, half of all the machine-building enterprises produce their own instruments, forgings, and castings at a prime cost that is 1.5-2.5 times higher than in specialised enterprises.<sup>159</sup>

*Over-demanding Investment.* As with other inputs, an emphasis on gross output targets encouraged enterprises to over-demand investment, which would increase their productive capacity and their self-sufficiency and therefore steadily increase their possibility to fulfil production targets. An insatiable 'hunger' for investment was caused the relative soft budget constraints in the Soviet economy.<sup>160</sup> In the case of capital goods, soft credit created an investment 'hunger' in all Soviet enterprises. Since fixed capital was provided to the enterprise as a free grant by the state, with no

interest charge, it was in any case in the interests of enterprises to "overbid" in order to secure as many investment resources as possible and to have as many projects as possible on-going. The supply uncertainties that enterprises experienced spilled over into the demand for investment as enterprises sought spare capacity in the form of machines and buildings to 'storm' towards the end of a planning period when inputs became available. This over-demand for investment fed off itself in the sense that enterprises could not be sure that they would obtain the capital inputs that had been authorised since other enterprises also demanded them. Rational enterprises therefore over-demanded and tried to hoard capital goods even more to allow for supply uncertainties, which in turn became greater.<sup>161</sup>

*Relying upon Informal Suppliers.* In order to secure their supplies, the enterprise management employed special supply expeditors called *tolkachi*, or 'pushers'. The major job of the *tolkachi* was to make sure that their enterprises were able to gain inputs whenever needed. They worked on behalf of enterprises selling surplus commodities on the one hand and purchasing needed products on the other hand. An entire secondary supply system emerged around the *tolkachi*. Many of their activities were associated with the shadow informal market, that is, obtaining materials for which no allocation order had been issued and carrying out barter deals between enterprises through the use of shadow market transactions and bribes. Nevertheless, since the Soviet government planning mechanism could only operate effectively with the help of such unofficial expeditors and informal shadow markets, the party leadership and central planners often turned a blind eye to them. Local party cadres would also get involved in this kind of matter when priorities were threatened in their 'parish'. These semi-legal supply agents filled in the gaps created by the flawed official supply system and the *tolkachi* were, therefore, an important part of the Soviet supply system.<sup>162</sup>

### *Focusing upon Success Indicators*

*Storming at the Final Stage.* In the course of fulfilling production targets passed down to enterprise, the tendency to sharply uneven tempos of production, that is, 'storming' or exerting great effort toward the end of each plan period, was common in the Soviet enterprises' activities. During the one-month operational plan period, the typical



production cycle started off with a quiet ten days, as everyone recovered from the previous cycle, ten days of 'getting into it', and a final ten days of 'storming' when the deadline approached. During the 'storming' period, all reserve capacities were mobilised to fulfil the important bonus-forming plan-targets. From October 1965 to March 1966, 21-29 per cent of TV sets was produced in the first ten days of the month, 30-33 per cent in the second ten days and 39-48 per cent in the last ten days. In residential construction over the period 1953-73, 8-11 per cent of completion came in the first quarter, 19-21 per cent in the second quarter, 20-22 per cent in the third quarter, and 46-49 per cent in the fourth.<sup>163</sup> The 'storming' practice was a response to plan delays and supply uncertainty, and to sharply dichotomous material incentives, namely bonuses, in which there was a very great discontinuity between 99.9 percent and 100 percent of plan fulfilment.<sup>164</sup>

*Violating Planned Assortment.* Although production was supposed to be for use, not for exchange in the market, the production in the Soviet economy could, in practice, be described as "production for plan rather than use."<sup>165</sup> There was often a substantial gulf between outputs and their usefulness. During the 'storming' period, the enterprise management violated the planned assortment of production within the limits of corresponding to the most important success indicators which formed its bonuses. In almost every case, distortions and illogicalities resulted in the course of plan-fulfilment at the level of the enterprise. Commonly, the production targets, to be rewarded, required a definition for target figures of some kind, such as weight, length, numbers, money or some other suitable unit. When the production targets were measured in tons, the enterprise reached its production targets by increasing the economically and technically unnecessary heavier products. When the production targets were expressed in measures of length, without regard to width, the enterprise over-produced narrow-width outputs and under-produced broad width. When the production targets were estimated in value units, the enterprise tended to overproduce those products that had high fixed costs, and so high prices.<sup>166</sup> Accordingly, the success indicator problems generated the violation of planned assortment in enterprise activities.

*Neglecting Quality.* Since the Soviet enterprise had no direct contact with consumers,

the consumers' preferences were deliberately neglected. The enterprise also tended to reduce the quality of its production during the 'storming' period. Much of the quality shaving was of a kind that would not easily be detected, thus not obstructing the fulfilment of major production targets and the receiving of bonuses. Fewer stitches in the garment, fewer screws in the piece, greener lumber in the building, and more impurities in the metal are examples of how an enterprise could shave the quality of its products. The enterprise had little incentive to be concerned about the quality of its products or the needs of the consumers. The Soviet planning mechanism was biased toward the supply-sided information. There was no obvious mechanism through which consumers could register their preferences and no alternatives available. In most case, the producers' interests and preferences prevailed over the consumers' need, which illustrated the condition of the 'seller's market'. Therefore, even if an enterprise produced goods that precisely met quality targets set administratively, these goods might fall short of the needs of their users. Consequently, Soviet goods were of notoriously poor quality and low reliability.<sup>167</sup>

### **Seeking Consumption rather than Working**

In the Soviet government-directed system, the households had very limited opportunity to signal their preferences in allocation, production, and distribution processes, due to the absence of an active market mechanism. The government planning mechanism was biased to the supply-sided information and created the condition of the 'seller's market', where producers' interests prevailed over consumers' need. The Soviet economy was designed to induce workers to produce what the government wanted, not what they themselves wanted as consumers. Consequently, the high rate of capital formation and rapid expansion of 'priority sectors' favoured by the government was accompanied by relatively slow growth in 'residual sectors'. These were mainly consumer sectors and agriculture, and they became rather neglected. The result was consistent "personal consumption problems" of consumer durables, services, and food: widespread shortage and queues; very limited assortment and poor quality; slow introduction of improvement; and unavailability in the legal economy.<sup>168</sup>

### *Working with Low Incentives*

The motivation to work hard and gain a bonus was dampened by the knowledge that these extra roubles could not easily be traded for desired consumer demands. The contours of a vicious circle emerged; virtually empty shelves in the shops reduced motivation at the workplace, which again ensured that there would be spaces vacant on shelves.<sup>169</sup> This was reflected, for instance, in the jocular remark, 'We pretend to be working, and they pretend to be paying us'. Alcoholism became a severe problem, and lying and cheating seemed to become pandemic in Soviet society.<sup>170</sup> Millar and Clayton's survey about how the Soviet people felt about their lives indicated that the great majority (75.6 per cent) of respondents were dissatisfied with Soviet consumer goods in quantity as well as in quality. The potential adverse effect upon work motivation was clear—supported by the frequency of unauthorised use of working time for personal shopping.<sup>171</sup> However, Soviet workers enjoyed a higher degree of 'economic safety', for instance, guaranteed jobs and income security, than Western workers, which caused a lack of competition among them and therefore generated some incentive problems in their work. A very low degree of work discipline in the Soviet work place was widespread and caused serious problems to the Soviet economy.<sup>172</sup>

### *Engaging in Informal Activity*

Throughout the Soviet period, the informal shadow economy formed a significant part in the everyday life of the Soviet people. The relative shortage of consumer goods and services and relative abundance of forced savings together caused the households to rely upon the informal economy.<sup>173</sup> Consumers were willing to spend money on goods and services in short supply, and there were consequently substantial profits to be made for any individual or enterprise willing to engage in informal private activities, sometimes violating the laws.<sup>174</sup> Informal private activities could be legal, simply tolerated by the state, or illegal, depending on whether they supported or competed with the formal state sector's activities. Several types of informal private activities were involved: work by single artisans operating without the legally required license; use of the "putting-out" system to produce illegal products; private production while at the work; parallel production in a plant, using extra materials to produce unreported output distributed through the system and using bribes; private, organised production in a state enterprise

or collective farm; private underground manufacturing; construction by private teams; and brokering and information selling.<sup>175</sup> In the late 1970s, Grossman estimated that, in its legal forms alone, it was responsible for a little less than 10 per cent of the Soviet GNP, but some western economists thought the real figure might be up to three times as large.<sup>176</sup>

### *Extensive Economic Outcomes*

The Soviet regime presented the countries of the capitalist West with a profound challenge. The challenge was made explicit by repeated assertion by the Soviet leaders that their brand of socialism and central government economic planning would bring faster rates of economic growth and thus rapidly catch-up with advanced Western capitalist countries in terms of output and living standards. The Soviet regime claimed that its government-directed model based on socialist ownership was capable of faster, more efficient, more stable, more balanced, more egalitarian economic growth than the alternative market-oriented capitalist model. The official Soviet view emphasised the advantage of directive government economic planning and management in both 'extensive' and 'intensive' aspects: better mobilisation of human and material resources; higher level of static and dynamic efficiency; full-unemployment; absence of inflation; and more equitable income distribution. All these factors could have been expected to raise rapid economic growth and improve material living standards.<sup>177</sup>

The outcomes of such opportunistic individual activities in the government-directed politico-economic system was different from the Soviet challenge in both 'extensive' and 'intensive' aspects. In practice, the constant politicised pressures for rapid economic growth and the directive government economic planning was able to mobilise human and material resources effectively, but the outcomes were just 'extensive', and 'intensive' aspects were neglected. The Soviet regime managed to secure relatively rapid economic growth, but only by expanding investment and using more human and material resources rather than by increasing productivity and efficiency. The consequence of this extensive economic growth was a decline in the rates of economic growth; chronic economic inefficiency; persistent economic imbalance; repressed economic stability; disguised economic equity; and underachieved material living

standards. The causal factors underlying these extensive economic outcomes were primarily a direct result of such opportunistic individual activities in response to the economic conditions generated from the nature of the government-directed socialist system.

### Declining Economic Growth

From the point of availability, quality, usability, and reliability, the Soviet official statistics had a number of problems.<sup>178</sup> Notwithstanding, according to Soviet official data, the Soviet economic growth was simply unbelievable, about 9 percent on average annually. Western estimates of Soviet economic growth rates were much lower than the Soviet ones. Since the Soviet socialist system was firmly established in 1928, the annual growth rate of GNP was 4.2 per cent on average and the annual growth rate of GNP per capita was 3.0 per cent on average.<sup>179</sup> As shown in Table 1, in comparison with the growth record from 1950 to 1980 in Western industrialised countries, the annual growth rates of GNP in USSR were higher than in the USA and slightly higher than those of European OECD group. Annual growth rates of Soviet GNP per capita were also higher than in the USA and similar to those of European OECD group. The high level of investment was central to the Soviet model of economic growth, restricting consumption levels, at least in the short run, to make room for investment. Compared with the gross investment's shares of about 16 per cent in USA, the Soviet Union had consistently invested one-third of its GNP and most of that went toward expanding productive capacity of heavy industry.<sup>180</sup>

**Table 1, Soviet Economic Growth Performance Compared, 1928-1985**

		Average Annual Rate of Growth						
Countries Compared		Soviet Union			USA		E-OECD	
Period		1928-85	1950-80	1970-80	1950-80	1970-80	1950-80	1970-80
GNP		4.2	4.7	3.1	3.3	3.0	4.2	3.0
GNP per capita		3.0	3.3	2.1	1.9	2.0	3.3	2.3

Source: Gur Ofer, "Soviet Economic Growth: 1928-1985," *Journal of Economic Literature*, vol. 25 (December 1987), p. 1780.

Overall Soviet macroeconomic growth was quite satisfactory for the Soviets, but the critical issue was how to sustain such growth rates. From the early 1980s, the Soviet leaders publicly expressed increasing dissatisfaction with their country's economic performance, in particular the steady deterioration of economic growth. As indicated in Table 2, whichever measures of macro activities one uses and whoever uses these measures, the downward trend in the macroeconomic growth rates from their peak in 1966-70 is unmistakable. Soviet estimates of economic growth rates during the late decades are higher than Western estimates, but the downward trend is virtually identical. Moreover, real growth since the 1970s was lower than planned, therefore the decline was to some extent involuntary from the viewpoint of the Soviet regime and central planners. This decline in growth rates and the late very low growth itself became a special cause for concern among the party leadership. Different from the Soviet economic challenge for rapid economic growth in both 'extensive' and 'intensive' aspects, in practice, Soviet macroeconomic growth relied heavily upon extensive sources. There were, therefore, physical limits to the Soviet ability of sustaining high growth rates by persistently increasing labour and capital inputs.

**Table 2, Declining of Soviet Economic Growth Rate, 1961-85**

Years	Average Annual Rate of Growth				
	1961-65	1966-70	1971-75	1976-80	1981-85
<b>Narkhoz (Planned NI)</b>	7.3	6.9	6.7	4.7	3.4
<b>Narkhoz (Actual NI)</b>	6.0	7.1	5.1	3.9	2.7
<b>Selyunin &amp; Khanin (NI)</b>	4.4	4.1	3.2	1.0	0.6
<b>CIA (GNP)</b>	4.8	5.0	3.0	2.3	2.0
<b>Ofer (GNP)</b>	5.2	5.2	3.7	2.6	2.0
<b>Ofer (GNP per capita)</b>	3.9	3.9	2.7	1.8	1.1

Sources: *Revisiting Soviet Economic Performance Under Glasnost: Implications for CIA Estimates* (Washington, D.C.: CIA, 1988), table 5 and Gur Ofer, "Soviet Economic Growth: 1928-1985," *Journal of Economic Literature*, vol. 25 (December 1987), table 1.

### **Chronic Economic Inefficiency**

Although the Soviet government-directed model was capable of generating high rates of economic growth, the Soviet economic growth was generated usually by high rises in

inputs and slow rises in productivity. As shown in Table 3, for the post-war period, the growth in inputs declined, but the growth of output decreased more than the growth of inputs. The capital productivity and total factor productivity had been massively negative for each period, which implied that intensive growth had been usually negative.<sup>181</sup> In the Soviet economy, economic participants always had a hunger for all kinds of human and material inputs, which had been used at far higher rates than elsewhere in the world.<sup>182</sup> The number of employed and hours worked grew by 1.9 and 1.8 per cent annually, which was faster than the population growth rate of 1.3 percent.<sup>183</sup> Hence, the high rate of participation in the labour force was much higher than in any other country.<sup>184</sup> The most outstanding characteristic of the Soviet growth strategy was its consistent policy of very high rates of investment that led to rapid growth rates of capital stock. The Soviet capital stock had been growing since 1928 at an annual rate of 6.9 percent.<sup>185</sup>

**Table 3, Annual Growth of Combined Inputs and Factor Productivity**

<i>Period</i>	<i>Average Annual Rate of Growth</i>				
	1961-65	1966-70	1971-75	1976-80	1981-85
<b>Gross national product</b>	<b>4.7</b>	<b>5.0</b>	<b>3.0</b>	<b>2.3</b>	<b>2.0</b>
<b>Combined inputs</b>	<b>4.8</b>	<b>4.4</b>	<b>4.5</b>	<b>3.7</b>	<b>3.3</b>
Man-hours	1.6	2.0	1.7	1.2	0.7
Capital	8.8	7.4	8.0	6.9	6.3
Land	0.2	NEGL	0.1	-0.1	-0.1
<b>Factor productivity</b>	<b>-0.1</b>	<b>0.6</b>	<b>-1.4</b>	<b>-1.4</b>	<b>-1.2</b>
Man-hours	3.1	2.9	1.3	1.1	1.3
Capital	-3.8	-2.3	-4.7	-4.4	-4.0
Land	4.5	5.0	2.9	2.4	2.1

\* Inputs of man-hours, capital, and land are combined using weight of 51.2 percent, 45.8 percent, 3.0 percent, respectively, in a Cobb-Douglas production function.

Source: CIA, *Handbook of Economic Statistics, 1986* (Directorate of Intelligence, September 1986), p. 70.

The constant pressures for rapid economic growth from the party leadership also resulted in a serious ignorance about economic efficiency in operational economic activities. In the face with intrinsic information and incentive problems, and extrinsic politicised pressures from the party, the Soviet planners issued taut plans from the

previously achieved level concentrating on planning priority sectors. The ratchet effects in the Soviet planning made state enterprises inflate their demands for any kinds of inputs beyond their profitable levels during the plan bargaining with their superior planning bodies. Furthermore, under the condition of 'soft budget constraints' Soviet enterprises kept over-ordered material and labour inputs in stock for the peak 'storming' production keeping the 'supply uncertainty' in mind. In consequence, supplied resources were easily wasted and also considerably over-used and no resources could be calculated in some objective way owing to the 'non-scarcity information'. Two long-time analysts of the Soviet economic experience, Peter Wiles and Alec Nove, argued that the Soviet regime might have deliberately sacrificed economic efficiency to achieve long-run political objectives of rapid economic growth.<sup>186</sup>

Although the Soviet politico-economic model was intended and designed to co-ordinate individual economic activities in great detail by the directive government economic planning, there existed a certain communication distance between planners and plan-implementers due to the problems of 'success indicators' and therefore a significant area of managerial flexibility in plan-implementation. Since the Soviet incentive mechanism did penalise plan under-fulfilment more than it rewarded over-fulfilment and could not penalise under-fulfilment, the asymmetry of rewards and penalties caused enterprises to avert any kind of risks and be reluctant to make any technological and operational innovations. The Soviet efforts to improve success indicators could not prevent excess demand and use of resources, the violation of the planned assortment, and the shaving of the quality in enterprises' operational activities for their plan-implementation under the sellers' market condition. In this context, static and dynamic economic efficiency was constantly neglected. There were no incentives for any plan-implementers to economise on inputs by paying more attention to costs and by introducing innovations for raising productivity.<sup>187</sup>

### **Persistent Economic Imbalance**

The Soviet economy tolerated some supply-demand imbalances occurred in a wide range of inputs, products and even sectors for decades. Any economy at all times experiences imbalances in the supply of and demand for some products, but in the



Soviet system, either there were no feedback mechanisms to inform the system of the need to respond to an existing supply-demand imbalance, or the feed back was ignored. Together with the condition of soft budget constraints, the ratchet effects in the tactical planning caused Soviet enterprises to over-demand inputs and investments, since the Soviet motivation mechanism did penalise plan under-fulfilment more than it rewarded over-fulfilment. This excess demand in all kinds of inputs indicated an important aspect of imbalance in the Soviet economy. In addition, the Soviet strategy to develop rapidly priority sectors was accompanied by relatively slow development of neglected sectors. Hence, the shortage of consumer goods and services and agricultural products had been a persistent phenomenon in the Soviet economy and, if available, had very limited assortment and poor quality.

**Table 4, Consumption, USSR and Selected OECD Countries, 1985**

(USA=100)

Country	GDP per worker	Consumption per worker	Consumption per capita
USSR	36.7	25.0	28.6
USA	100.0	100.0	100.0
Germany	80.6	75.7	69.3
France	81.4	80.0	68.1
Japan	67.9	62.4	65.7
UK	69.8	69.3	65.6
Italy	81.0	79.8	64.6
Finland	63.5	56.4	61.7
Austria	70.5	63.0	59.0
Spain	73.7	73.9	46.1
Ireland	61.5	55.9	37.2
Greece	44.9	46.8	37.0
Portugal	37.9	36.3	32.3
Turkey	31.8	29.0	20.0

Source: Abram Bergson, "The USSR Before the Fall: How Poor and Why?" *Journal of Economic Perspectives*, vol. 5, no. 4 (Fall 1991), p. 39.

There is no direct way to test the proposition that consumer goods and services as a whole were in excess demand in the Soviet Union. Nevertheless, Soviet leaders and economists took this for granted. Thus, in general disposable income exceeded the supply of goods available for purchase. Saving deposits grew at an average rate of 9.3

per cent during 1975-85, whereas consumption over the same period grew by only 4.6 per cent. As wages paid in industry were not connected to productivity, the wage growth exceeded the growth in retail sales. During 1970-83 retail sales grew by 81 per cent while wages grew by 90 per cent.<sup>188</sup> In Bergson's recent study about comparative consumption levels in the Soviet Union, the Soviet per capita consumption in 1985 was just 28.6 per cent of US levels and well below other countries. Consumption per worker was 25 per cent of the level in the US, which is indicated in Table 4.<sup>189</sup>

### **Repressed Economic Stability**

Economic stability means the absence of significant fluctuations in economic growth rates, that is, the maintenance of acceptable rates of unemployment and the avoidance of excessive inflation whether or not the inflation and unemployment are cyclical. The economic stability provided by the Soviet model was possibly impressive and satisfactory to the Soviet regime. Nevertheless, it is difficult to judge to which extent this economic stability was real. In the market-oriented model, the degree of economic instability is immediately apparent when macroeconomic imbalances occur in markets. Excess demand accelerates inflation rates and downturns in the business cycle are reflected through upsurges in unemployment rates. Even though, as discussed above, there had been persistent chronic excess demand and shortages of supply in any kind of input resources, investment, and consumer commodities, things were different in the Soviet government-directed model. Since the government planning mechanism could not reflect flexibly enough the changes in socio-economic environments, in particular on demand side, there had been a 'repressed' economic stability, such as over-employment (internal unemployment) and 'hidden' and 'repressed' inflation.

#### *Over-employment (Internal Unemployment)*

The Soviet regime deliberately pursued a planning policy of full-employment to liquidate unemployment. The unemployment statistics had not been published officially, simply because the Soviet government claimed unemployment had been 'liquidated' in the early 1930s. According to the Soviet anti-parasitism laws, every Soviet citizens of labour-force age were generally obliged to work full-time in the

socialist sector and had "job rights."<sup>190</sup> In spite of full employment policy, the surveys about the Soviet labour market, in any case, clearly indicate the existence of unemployment, but its level appeared to be low, and a high proportion of it was voluntary and not the result of a lack of job.<sup>191</sup> Compared to about 3-4 per cent in the West, the estimates of fractional unemployment in USSR were somewhat lower, varying between 2-3 per cent reported by Ellman and 1.3 per cent by Wiles.<sup>192</sup> Although the unemployment was eliminated in the labour market, this did not guarantee full-employment inside factories. On the contrary, the 'internal' unemployment, or unemployment in the job, was inevitable on account of the practice of over-demanding employees.<sup>193</sup>

In the Soviet practice, the enterprise managers would be unwilling to dismiss low productivity workers and rather demand more reserved labours to secure fulfilment of their plan-targets. Under these circumstances, there had been over-employment, which could not be tolerated in the market-oriented system. There are three main implications of external labour shortage and internal unemployment. Firstly, the hoarding labour implied 'feather bedding' and low labour productivity. Given the capacity of human beings to keep themselves busy, this slack might not be easy to eliminate when circumstances changed. Secondly, surplus reserved labours inside enterprises might have indirect effects. The low level of work morale and discipline might further inhibit productivity gains where there was no effective threat of dismissal for poor performance and where alternative employment could in any case soon be found. At the same time, industrial accidents and labour turnover might be high for enterprises where morale was low. Finally, the external excess demand and the internal excess supply of labour produced inevitable pressure for unofficial transactions in products and labour services. Private work might be performed on the enterprise's premises, or workers might absent themselves to go shopping or in pursuit of some other leisure activity, for example a visit to the steam-baths.<sup>194</sup>

### *Hidden and Repressed Inflation*

Most prices in the Soviet economy were fixed by central planning authorities for long periods and driven primarily by supply-side consideration. Under the condition of

passive price system, prices could not be used to signal emerging disequilibrium in the market. Until the late 1980s, there was little indication of significant price or wage inflation. The Soviet regime had been anxious to eliminate inflation and proud of their achievement of official zero inflation, because inflation was seen as a symbol of the anarchy of capitalist markets. However, the official Soviet price indexes were so few and so flawed that there was no official information on inflation rates. The Soviet official estimates about the rate of retail price inflation did not take into account, higher prices with unofficial premia paid on authorised transactions, implicit price increases hidden by quality variations, inflation in informal markets, or forced savings. Central price-fixing might prevent over inflation, but excess demand could lead to rationing devices of various kinds, price increases for 'new' goods that are unwarranted in terms of their quality, and other forms of what might be considered tantamount to inflation. All these practices implied persistent pressure for inflation and 'hidden' or 'repressed' inflation under the conditions of excess demand and shortages of supply.<sup>195</sup>

### **Disguised Economic Equity**

The two mutually contradictory tendencies of 'differentiation' and 'equalisation' existed in the Soviet socialist system, but if one considered all dimensions of material welfare in the Soviet system, the economic inequality was less than in the market-oriented capitalist system. Some attempts to generate socialist competition contributed to the tendency toward differentiation, but an inclination toward levelling out incomes could still be discerned. The almost complete liquidation of private property and the almost complete elimination of market exchange allowed the egalitarian tendency to preponderate. In the market-oriented capitalist system, the range of incomes is expanded by large incomes associated with property ownership and market success. In the Soviet socialist system, the successful earnings from work might seem large compared with the earnings of average citizens, but they were nothing compared with the vast earnings from the market success. Although savings deposits, bonds, consumer durables and half the housing stock were privately owned and could be inherited, wages from work were the main source of individual earned income.<sup>196</sup>

The official ideology, i.e., the socialist principle of 'distribution according to work',

applied at least in the case of earned income. In addition, influenced by the Soviet ideological doctrine of egalitarianism and condemnation for the gains through 'unearned income', 'speculation', or 'trafficking', suspicion and envy of higher earners, those at the upper end of the distribution scale, became deeply embedded in people's consciousness and emotional realm.<sup>197</sup> There is overall evidence of a substantial narrowing of the earnings distribution since 1956, reflecting the reform of the wage structure and increasing minimum wages. A full reorganisation of wage tariffs by occupation, industry and skill level was achieved in 1957-61, and a minimum wage of between 27 and 35 roubles per month (depending on industry) was introduced in 1956, and subsequently raised to 40-45 roubles in 1959, 60 roubles in 1968, 70 roubles in 1974/5 and 80 roubles in 1985. In 1967, a five-day week and 12-15 days of holiday pay per year were also introduced.<sup>198</sup> McAuley catalogues the efforts of the State Committee on Labour and Wages (Labour and Social Questions since 1976) to convert Stalin's wide earnings differentials into a more egalitarian system since 1955.<sup>199</sup>

However, in reality there existed substantial perquisites and fringe benefits in state employment, although it is very difficult to value in the Soviet system.<sup>200</sup> These covered the whole spectrum of Soviet individual economic activities in agriculture, industry, services and government administration. From the bottom end, illegal bribes might be paid to police officers, shop assistants, and housing officials, for preferential treatment. Through the middle of the spectrum, the improved health, housing, recreation and holiday facilities were fairly provided by state enterprises and institutions, and farm workers received income-in-kind. At the top end of the spectrum, members of elite groups had access to special shops, special dining facilities within government departments and travel to the West. Even the special 'fifth lanes' on Moscow boulevards were kept clear for senior members of elite groups. These elite groups have received much attention in the literature on the Soviet economy and income distribution.<sup>201</sup> Matthews identified the elite as all recipients in 1971-3 of at least 400-500 roubles per month of official earnings, which was between 3.1 and 3.8 times the average 1972 pay.<sup>202</sup> In this context, it does not seem unreasonable to accept Morrison's judgement, based on the Soviet and Polish experience, of an elite comprising 1.5 per cent of the population enjoying fringe benefits and additional

incomes worth up to 100 per cent on top of official incomes.<sup>203</sup>

There also existed informal incomes from legal or illegal private activities in response to the seller's market condition in the state sector. Since the state enterprise had relatively soft budgets constraints and their existence did not depend upon their ability to match the quantity or quality of consumers' demands, shortages of consumer goods and services occurred, which encouraged informal private activities. Several types of informal private activities thus emerged: work by single artisans operating without the legally required license; use of the "putting-out" system to produce illegal products; private production in the job; parallel production in a plant, using extra materials to produce unreported output distributed through the system and using bribes; private, organised production in a state enterprise or collective farm; private underground manufacturing; construction by private teams; and brokering and sale of information.<sup>204</sup>

Throughout the Soviet period informal private activities constituted a significant part of Soviet people's everyday life. Ofer and Vinokur have estimated—based on their survey of Soviet émigrés—that private income from these informal private activities constituted 11-12 per cent of all household income in 1972-4, although their sample did not include elite groups.<sup>205</sup>

It was provisionally concluded that the Soviet distribution of state monetary wage and salary earnings was relatively egalitarian, but the Soviet official data based on sample surveys was clearly restricted to official earnings in non-elite groups and omitted any perquisites or private incomes, which weaken this conclusion. As already examined, the elite groups did exist in the Soviet Union and the faithful political service to the party policy with loyalty and discipline were rewarded in material welfare. Individuals did obtain incomes through property instead of work and legal or illegal activities in the private market. In many cases, the distribution of material welfare was favoured with the cities over the villages, the capital over the other regions, and industrial workers over those on the land and in the services.<sup>206</sup> However, the extent of these factors was comparatively small and on a scale insufficient to overturn our conclusions. The Soviet ratio of differentials was no greater than 5:1, whereas ratios as high as 20:1 occur in the US.<sup>207</sup> Although it was clear that elite groups were mostly left out of the surveys

and it seemed probable that Soviet sampling techniques might involve other forms of bias, the Soviet income distribution was relatively egalitarian compared with those in the West, but not dramatically so.<sup>208</sup>

### **Underachieved Material Living Standards**

Material living standards are a 'rag-bag' in economic terms, that represents a net outcome of the interplay in economic performance. In other words, the material living standards constitute not just an outcome of economic growth, but a net outcome of all the other aspects of static and dynamic economic efficiency, such as better allocation, production and innovation, constant economic balances without any shortages, persistent economic stability with low levels of inflation and unemployment, and high level of economic equity in opportunity and earnings. However, comparisons of relative incomes and living standards between countries are notoriously difficult. Every country may stand at different stages of economic development, their consumers may enjoy different 'baskets' of goods and services, hidden price inflation may understate private incomes in official statistics, or unrealistic exchange rates may obscure the outcome. The failure to adopt realistic exchange rates for the rouble against hard currencies in the West implicitly prevented Soviet citizens from comparing their material living standards with those in the West. Soviet statistical digests were full of carefully selected economic comparisons between the USSR and Western countries, but these were bound to be superficial and selective.

Certainly, the Soviet regime heavily emphasised on the ability of the Soviet socialist system to 'catch up' with the West in material terms. However, the actual performance was somewhat different from the regime's expectation in its economic outcomes. Despite its heavy commitment to heavy industries and military spending, the Soviet regime achieved substantial improvements in material living standards following the Second World War, particularly in the areas of health care, education, and public transport. Basic human needs had also been satisfied and overt poverty was rare. The Soviet regime might feel happier with their achievements in relation to rapid growth of the heavy industry and military potentials as well as the relatively slow growth of living standards. Nevertheless, generally speaking, it seems fair to conclude

that the Soviet material living standards were still fairly lower compared with other industrialised Western countries, although distributed in a relatively egalitarian way.<sup>209</sup>

Moreover, accompanying with the slowdown and deteriorating rates of extensive economic growth, there was every sign of a slowdown in the growth rate of material living standards in the 1970s and 1980s, even below the reduced rates still enjoyed in the West. The Soviet regime and the party leadership started expressing their disappointment with overall economic performance of directive economic management and government central planning, particularly with the underachievement of intensive growth and material living standards. As even the Soviet official statistics showed a slowdown in extensive economic growth and consumption after 1979, it became obvious that further growth was impossible without diverting resources from investment into consumption or without a stronger commitment to intensive growth. Continued emphasis on extensive growth would require persistent sacrifice of current consumption and living standards due to the physical constraints of investment resources

### ***Reform Policies under Soviet Regime***

#### **Further Perfection**

As economic growth rates had begun to decline in the mid-1960s, the chronic inefficiencies in Soviet production put continuous pressures for changes in the Soviet government-directed model of political economy. It became increasingly evident that the economic growth could no longer be maintained by increasing inputs. Therefore, the party leadership turned its attention towards raising efficiency through better utilisation of inputs, increasing the quality of products and opening up for technological innovation in the production units. Accordingly, the Soviet regime pursued reform policies for 'further perfection' of the economic mechanism in order to induce the intensive growth. Perennial attempts to reorganise the centralised economic hierarchy, to improve the government planning mechanism, and to develop incentive arrangements were made almost every year and became a continuous process. However, these reform policies were limited within the framework of the government-directed model, which had been formed according to the principle of directive government economic



planning and management. Berliner regarded it as “the fundamental property” of the Soviet system and Schroeder described it as a “treadmill of reform” emphasising its limitation and continuity.<sup>210</sup>

### *Territorial Decentralisation*

Khrushchev's dissatisfaction with the ministries' supervision of their enterprises—particularly in the industrial sector—paved the way for the policy of ‘territorial decentralisation’. The ‘departmentalism’ in ministerial behaviour led generally to high production costs as well as substantial inefficiencies in the operation of Soviet enterprises, which caused ‘anti-ministerialism’ in the party leadership. They attributed intensive economic activities of enterprises to their branch ministry's opportunistic behaviour and mismanagement. In order to eliminate the ministerial departmentalism, the authority of supervising enterprises devolved from all-union branch ministries to regional economic councils (*Sovety narodnogo khozyaistva*, or *sovnarkhozy*). This territorial decentralisation was intended to increase efficiency and reduce the demands on an overburdened transportation system with a rational division of labour within and between regions. In the economic aspect, its outcome was indeed predictable, as there had been an ample evidence in the past of ‘localism (*mestnichestvo*)’ in the decision-making of regional governments and regional party organisations. Accordingly, the real purpose of *sovnarkhoz* policy was in politics rather than economics. Berliner observed that it was “Khrushchev's gambit for crushing the power base of the Moscow bureaucracy by transferring their power to his supporters in the provincial centres.”<sup>211</sup> Consequently, the opportunistic activities of individual enterprises were remained.

The necessity of more synthetic success indicators and incentives to induce ‘intensive’ economic activities came to be discussed among intellectuals. This discussion was precipitated by the publication of Liberman's article, “The Plan, Profits and Bonuses” in *Pravda* on September 9, 1962.<sup>212</sup> Khrushchev was forced to allow a fairly broad debate, often referred to as the ‘Liberman debate’, on the problems of economic inefficiency and the transformation to intensive growth. The debate included a continued discussion of Liberman's proposals and furthermore expanded into new topics that reflected a broad range of views.<sup>213</sup> The Liberman debate itself yielded

some valuable insights into the economic problems that the Soviet policy-makers had to face in qualitative changes of the Soviet economy. Consequently, the Liberman debate resulted in an experimental program sanctioned by the Central Committee of the CPSU in 1964. As of May 1, 1964, two textile factories—the Bolshevichka factory in Moscow and the Mayak factory in Gorky—were singled out for a more relatively radical experiment. The Bolshevichka and Mayak experiments were extended to other factories in light industry and, furthermore, some heavy industry enterprises with some modification six months later.<sup>214</sup> These experiments continued under Kosygin after the Khrushchev's political ouster.

### *Decentralisation in Enterprise Management*

The Soviet regime under Kosygin and Brezhnev's leadership supported new measures for the improvement of the economic mechanism. On September 27, 1965, the Chairman of the Council of Ministers of the USSR, Kosygin, reported "On Improving the Management of Industry, Perfecting Planning, and Enhancing Economic Incentives in Industrial Production" to the Plenum of the Central Committee of the CPSU and launched reform policies that became known as the 'Kosygin reforms'.<sup>215</sup> With the impetus from the Bolshevichka and Mayak experiments based on Liberman proposals, this Plenum approved some guidelines and policies for the new form of government planning mechanism, into which the Soviet enterprises gradually were transferred. These guidelines and policies were inspired from the Liberman proposals and therefore formulated on the basis of the assumption: "what is best for the economy should be best for the enterprise."<sup>216</sup> Robert Campbell summarised the general goals of these policies briefly as "an attempt to give enterprise decision makers more freedom to make decisions about resource uses and to give them a reformed set of incentives and signals that would encourage them to use this new freedom in ways consistent with the general [social] welfare."<sup>217</sup>

In the Soviet economic decision-making structure, the changes involved the shifts in two directions: "administrative re-centralisation" and "economic decentralisation."<sup>218</sup> On the one hand, the planning and supervising authority over enterprise operations was re-centralised from the regional back to national level and the nation-wide economic co-

ordination was emphasised.<sup>219</sup> On the other hand, the operational decision-making authority of enterprise management was, somewhat contradictorily, decentralised to lower level economic units to overcome the information and incentive problems. The total number of directive compulsory plan-targets to an individual enterprise from its branch ministry and central planners was reduced to eight major targets.<sup>220</sup> All other operational decisions were supposed to be decided by the management of each enterprise itself independently in the light of actual production conditions, without any formal endorsement by its higher planning or administrative bodies. The enterprises were encouraged to propose 'counter-plans' in the planning process which were more difficult than those obligated by their branch ministries. Besides, the newly formed Gossnab was to apply itself to the creation of a wholesale trade system based upon direct contracting arrangements between suppliers and users.<sup>221</sup> It was aimed at raising the quality of goods and the responsiveness to customers with establishing a closer link between supplier and customer enterprises.<sup>222</sup>

In order to enforce a more uniform approach to setting prices, the price-setting authority was centralised to *Goskomtsen* from many bodies throughout the system. Goskomtsen revised industrial prices in 1966-67, usually referred to simply as "the industrial price reform."<sup>223</sup> The objective of the price revisions was to support the profitability of an enterprise to serve as an important success indicator, even though it was not intended at the same time to serve as an allocative device by influencing production choices. In addition, a special price system was introduced for new products that would allow temporarily high profits to cover the costs of introduction, which was supposed to encourage productive and operational process innovation.<sup>224</sup> A new bonus system was introduced linking the enterprise performance in most important plan-targets to bonus payments from their profits in order to make them concerned with efficiency, cost and quality in their operational activities.<sup>225</sup> In an attempt to harden the enterprises' budget constraints, the principles of full profit-and-loss accounting (*khozraschet*) and self-financing were more emphasised. Thus, the retained profits and bank credits were programmed to develop as a major alternative forms of financing fixed capital investment.<sup>226</sup>

However, the reform was a somewhat contradictory in its design. Though enterprises were permitted to make a wide range of decisions, their branch ministry was also directly responsible for their plan-fulfilment. As long as branch ministries held direct responsibility for the fulfilment of plan-targets issued to their subordinate enterprises, they still intervened their enterprises' operational activities by using directives in specified physical quantities or gross values. Their enterprises, therefore, dealt with only secondary choices for which their ministry itself was not directly accountable. Consequently, the range of such decentralised decision making authority to enterprises was likely to be very limited. The genuine idea of "economic decentralisation" in enterprise management was, therefore, easily hampered by the branch ministries' reluctance, even resistance, to their loss of control. Moreover, there were increasing concerns over the large share of bonuses received by managerial personnel, the unwillingness of enterprise managers to propose higher difficult counter-plans, and the lack of attention to conduct labour productivity increase, quality improvement, and technological innovation. In practice, the branch ministries began to press for amendments to the original program with reacting against "undesirable" enterprise response and gradually increased the number of enterprises' directives.<sup>227</sup>

### *Improvement of Planning Mechanism*

The Kosygin's reform programme, the improvement of economic management mechanism with 'economic decentralisation', failed to produce the intended results to transform from the extensive growth performance to the intensive where state enterprises were conducting labour productivity increase, efficient use of material resources, quality improvement, and productive and technological innovation. From the beginning of 1971, several features of the original 1965 policies were modified continuously during the Brezhnev's leadership. The Brezhnev's policy was the continuation or extension of a series of changes rather than as a break with the past or as an introduction of new economic management methods to the intensive growth area.<sup>228</sup> For that reason, Gertrude Schroeder described his policies as "reformations of the reforms."<sup>229</sup> In general, its direction was towards the more centralised enterprise management, more rigid and detailed directive plan-targets and more diverse and

intricate success indicators.

For the attempt to manage the economy in greater detail from the centre, the central planners—Gosplan, other state committees and functional ministries—were given substantially increased authorities to co-ordinate economic decisions on the national scale. Furthermore, several special inter-departmental commissions in the Council of Ministers and Gosplan, a new State Committee for the Supply of Petroleum Products, and two new all-union ministries were established for better co-ordination of inter-sectoral programs.<sup>230</sup> Three basic types of inter-sectoral programs were projected: scientific-technical programs intended primarily to guide scientific research and development; targeted economic programs aimed at coping with an economy-wide problem; and comprehensive programs for developing a particular region.<sup>231</sup> The internal structure of Gosplan was reorganised to establish a number of comprehensive departments that would deal with the major targeted economic programs. In accordance, the size of the economic bureaucracy was considerably proliferated, which increased by a 57 percent during 1966-77 compared with 38 percent for state employment as a whole. In addition, according to the new Law on the USSR Council of Ministers adopted in July 1978, the ministerial structure was reorganised to 32 all-union ministries, all but one of them economic, and 30 union-republic ministries 23 of them economic.<sup>232</sup>

In July 1979, the CPSU and the Council of Ministers adopted an omnibus decree, entitled "On Improving Planning and Strengthening the Economic Mechanism's Influence on Raising the Effectiveness of Production and the Quality of Work."<sup>233</sup> The goal of the decree was a familiar one: inducing industrial enterprises "to increase output; to reduce cost, and particularly the use of materials and fuels; to improve quality through the introduction of new products; to secure the timely delivery of output according to the contracted product mix; and to cut production time and costs."<sup>234</sup> The major section of the decree was devoted to the improvement of the planning mechanism. The ten-year plan was suppose to set out the main directions of economic and social development. Further, the twenty-year plan was to outline the main directions of technological progress. The five-year plan linked to a wider ten-year plan was

officially designated as the basic plan and remained stable throughout the plan period. The computers, mathematical optimising models and input-output techniques were extensively used in making more balanced—in terms of input-output relationships—and optimal plans. The integrated planning was employed in the ten-year and five-year plans to accomplish comprehensive programs for some major inter-sectoral or inter-regional development objectives.<sup>235</sup>

These objectives were to be pursued mainly by setting tight plan-targets. The list of plan-targets and norms was longer than before and covered every operational matter. The management of the enterprises would be rewarded by voluntarily adopting a counter-plan with higher targets than those in the original plan.<sup>236</sup> In addition, to increase economic efficiency and reduce costs, a program for gradual transformation of all economic entities to a system of fixed profit sharing with the state budget and to self-financing, starting with industrial ministries, was outlined.<sup>237</sup> Accordingly, branch ministries and enterprises were required to finance their operations from internal funds or bank credits, rather than by grants from state budget. The centralised ministerial funds for research and development formed by a levy on enterprise profits were established to finance the planned R&D program and to compensate enterprises for experimental production and start-up costs. The bonuses were paid from own profits with respect to mainly the fulfilment of the three plan-targets: labour productivity, quality mix (share of products in the highest quality category), and product deliveries under contracts, which focused on raising efficiency and product quality.<sup>238</sup> These targets were measured on the basis of net output rather than gross output, the so-called 'normative net output' (*normativnaya chistaya produktsiya*, NNO).<sup>239</sup>

The obvious objective of the Brezhnev's policies was to enable the government to manage the economy better and plan better by the intensification of government planning practice. In general, the policy direction was towards more centralisation, more rigid and detailed directive plan-targets in the government planning mechanism, and more diverse and intricate success indicators. However, the information and incentive problems stemmed from the government-directed economic nature of the Soviet system were still unsolved and remained. The solution for the intensive growth

by further centralising the government planning by the more rigid and detailed directive physical planning and the more tightly rationed supply system of producer goods multiplied the administrative burden on higher central bodies. The still fragmentary success indicators, unlike the profits in the market system, were potentially conflicting variables, with the priority given to production plans expressed in physical units. In consequence, without resolving intrinsic information and incentive problems by introducing more market-oriented policies, Brezhnev's policies could not substantially change the opportunistic enterprises' activities to raise efficient utilisation of inputs, product quality, and technological innovation.

### **Perestroika**

Following the death of Brezhnev, the Soviet leaders had referred guardedly to the economic 'difficulties' of the late 1970s and early 1980s. Their overwhelming concern was with the decline in economic growth rates and the difficulty in transforming the economy from being extensive to being intensive within the framework of the government-directed system. This economic reform debate on the ways of improving the Soviet economic performance was initiated by Y. Andropov and continued under K. Chernenko. The actual task of economic revitalisation and transformation to achieve an efficient and intensive economy was taken on by M. Gorbachev in the second half of the 1980s. Gorbachev and the party leadership initiated the reform policy of "*perestroika*", which translates as 'restructuring' or 'radical reform'. He explained that it was not just accelerating the rate of economic growth that was needed but also the shift towards a new quality of growth based upon intensive development, scientific and technological progress, structural changes, and new forms of management and labour incentives.<sup>240</sup>

The principal distinctive features of perestroika was the supplementation of the technocratic approach by the socio-economic, that is, the activation of 'the human factor' as a condition of transforming the whole system of production relations.<sup>241</sup> In general, the strategy of perestroika was an effort to institutionalise the pressure for greater economic discipline and incentives for active and creative work. The diverse measures of the human factor socio-economic approach were bound together by an

underlying hypothesis that the economic performance could be improved by forcing individual participants to live up to their responsibilities.<sup>242</sup> At the beginning of perestroika, the pressure for increased discipline and incentives for creative works in individual economic activities was intended to come from early disciplinary measures to intensify individual economic activities, later from restructuring of the economic management mechanism to introduce clear rules for winners and losers, and further from democratisation of collective political activities.

### *Intensification of Individual Economic Activity*

Gorbachev's first efforts were to eliminate ineptitude in economic activities and to correct the undisciplined behaviour of workers. Disciplinary campaigns were launched, which combined with an enhanced emphasis on the need for every economic participant in the centralised economic hierarchy to take responsibility for his/her decisions and actions. The campaigns included measures to inspire workers and enterprise managers by giving them more initiative and allowing for more entrepreneurship; to purge the economic sphere of so-called negative phenomena, as corruption, drunkenness and illegal economic activity. Beside, there would be greater enforcement of discipline in the work force. In this context, the rapid personnel changes in the party and the government hierarchies took place—approximately one-third of the men heading the fifty or so branch ministries were replaced and new appointments continued throughout 1986.<sup>243</sup> Besides, an anti-alcohol campaign was initiated a decree by the Council of Ministers 'On measures for overcoming drunkenness and alcoholism, eliminating illegal distillation of alcohol' to raise labour productivity in the work-place and to improve the quality of life.<sup>244</sup> The basic idea was that it would be difficult to buy alcohol to prevent drunkenness in the work-place.

To overcome quality problems, a new stricter state system of quality control was enforced. On 12 May 1986, a special organ of extra-departmental quality control, called 'a state acceptance (*gospriemka*)', was created by the decree 'On measures to fundamentally raise the quality of production'.<sup>245</sup> The new quality inspectors were directly subordinated to the State Committee for Standards (*Gosstandart*), so that they would not be influenced by enterprises, ministries or local authorities including the



Party. In the first inspection, only 82-85 per cent of the output passed, but the rest was returned for more improvements in quality. The impact on output was so dramatic that output targets were not reached and therefore workers and enterprise managers were deprived of their bonuses. Moreover, the improvements in quality of the returned products turned out to be very costly. Due to the absence of the objective checks in the market, some external quality control appeared necessary instead, but it could not be a firm solution.

The effort to accelerate efficiency, productivity, and scientific-technical progress turned to industrial modernisation. The modernisation policy was admitted with some measures in investment decisions and wages settings to improve the technological base. In investment decisions, the emphasis was on renovating and re-equipping already existing factories, rather than building new ones, which was more efficient than new investment in construction because of its higher output-to-capital ratio.<sup>246</sup> Besides, the first priority in investment was given to the machine-building and metalworking industries, in particular to energy-saving technologies and improved methods of construction. The higher priority for these sectors was clearly indicated in the 12<sup>th</sup> FYP: the 43 per cent increase in production and no less than 80 per cent increase of investment during 1985 to 1990 in these sector.<sup>247</sup> In the wage settings, new wage tariffs were revised to stimulate people more effectively promoting efficiency and quality, raising their qualifications, and providing more incentives to research and development.<sup>248</sup>

### *Restructuring of Economic Management Mechanism*

At the Plenum of the Central Committee on economic reform in June 1987, Gorbachev concluded that the Soviet economy in the 1980s was not only in a difficult but also in a 'pre-crisis situation' and called for a 'radical restructuring of economic management'. The Plenum adopted a resolution entitled 'Basic Provisions for the Radical Restructuring of Economic Management'.<sup>249</sup> Later, these principles were embodied in the Law on the State Enterprise (Association) on 30 June 1987 that came into effect in January 1988.<sup>250</sup> In July 1987, it was supplemented by ten decrees issued by the Central Committee and the Council of Ministers and concerning the major functions of

the economy and their executive government organs.<sup>251</sup> The objective of the new economic management mechanism was to establish an 'integrated, efficient and flexible system of economic management', allowing greater independence for individual co-operatives and state enterprises.

### *Decentralisation of Economic Management Authority*

In order to overcome 'ministerial departmentalism' and 'economic bureaucratism', the government administrative units were reorganised and their staffs were streamlined. The central planning organs were reorganised and encouraged to concentrate on long-range strategic planning using indicative 'economic levers', such as prices, financial norms and credit, to focus on scientific and technological progress. Gosplan was in charge of the development of methods for the long-term plans.<sup>252</sup> In order to accelerate the scientific and technical progress, the State Committee for Science and Technology (GKNT) was strengthened.<sup>253</sup> The decree on the activity of ministries and departments passed in July 1987 recommended gradual mergers of related ministries and cutting the staff of the ministries considerably without specifying numbers. Although the nature of the Soviet ministerial structure did not change, branch ministries were supposed to concentrate on long-term planning and technical development while the operative economic work was to be transferred to the enterprises.<sup>254</sup> Accordingly, the establishment of super-ministerial bodies was reinforced to strengthen inter-sectoral co-ordination within some traditionally-defined 'complexes' or groups of branches at the highest level.<sup>255</sup>

Another new scheme of reorganisation was induced for the aim of linking large production associations and enterprises directly to the ministries. The meaningless bureaucratic intermediaries, namely all-union industrial associations (VPOs) that had replaced the *glavki* by the reorganisation of 1973, were immediately abolished. The abolition of the VPOs was to be accomplished by continuing the ongoing process of amalgamating enterprises into production and science-production associations. Furthermore, the decree on the branch ministries of July 1987 set out the task to elaborate a statute on a new kind of 'state production associations' (GPO), which aimed at vertical integration like the East German *Kombinate*. GPOs were supposed to be

inter-sectoral and to integrate all phases of the research-production-marketing chain.<sup>256</sup> The purpose was to overcome autarchic tendencies, the so-called 'departmentalism', within the ministries and creating conditions for rational specialisation, co-operation, and scientific-technical progress. The concept of GPOs was pushed by ministerial representatives. However, at the 19<sup>th</sup> Party Conference in 1988, this decision was reversed because of the danger of the tendency for monopolies.<sup>257</sup>

In addition, the operational autonomy of individual enterprises and co-operatives over their own affairs was considerably extended by enacting the Law on the State Enterprises in 1987 and the Law on the Co-operatives in 1988. According to these laws, the government central planning agencies and administrative units were responsible for setting out the broad direction of socio-economic development, then the enterprises and co-operatives were given economic independence and discretion from the dictates of their branch ministries and higher-level planning organs. The enterprises were, therefore, to operate on the basis of profit-and-loss accounting (*khozraschet*) and self-financing, and under the conditions of economic competition among themselves restricting their monopoly position.<sup>258</sup> The Law on the State Enterprises enumerated in considerable detail the rights and obligations of enterprises in a number of key areas: planning; scientific and technical progress and improving quality; technical re-equipment and reconstruction; the social development of the labour collective; labour and wages; material and technical supply; the sale of output, work and services; finance and prices; credit and settlement; foreign economic activity; nature use and environmental protection; the enterprise's joint production and social activity; and record-keeping, reporting and monitoring.<sup>259</sup>

In a way, the Law of State Enterprises advocated a 'combination of centralised management and independence at the enterprise'. The enterprises were 'independently' to work out and confirm their own five-year and annual plans and conclude contracts, but guided by control figures, state orders, long-term economic norms and quotas (limits) as well as consumers' orders. They must strictly observe plan discipline and completely fulfil plans and contractual commitments, producing highest quality output with full potentials in highest efficiency. Although branch

ministries were prohibited from interfering in day-to-day operational activities of the enterprises, they were still responsible for taking measures to prevent inflation in costs and prices, stagnation in the scientific and technical progress and restriction of production of goods in demand and also for counteracting the monopoly tendencies. The fate of enterprises was still in the hands of the government bureaucracy and the Law explicitly provided for declaring bankrupt and liquidating enterprises that persistently made losses. The enterprise could be founded, reorganised, and liquidated<sup>260</sup> by the government.

### *Improvement of the Planning Mechanism*

Without any substantial commitment to the market mechanism, the economic activities were still to be continuously co-ordinated by the government planning bodies as a means of carrying out the socio-economic party policies. However, some reform policies aimed at improving planning methods was intended to alter from the directive physical mandatory planning to the long-range strategic planning with using functional indicative economic levers, such as prices, financial norms and credit, and focus on scientific and technological progress. The government planning focused on long-range strategic planning and therefore the five-year plan became the basic form of national economic planning instead of the short-term annual plan. The annual assignments allotted from the five-year plan-targets were set and disaggregated down to the enterprises through the administrative planning hierarchy. These enterprise assignments in the form of control figures, long-term economic norms, and limits, and state orders were not directives or commands that the enterprises were obliged to fulfil, but non-binding indicators, or 'initial planning data' for their individual operational plans. Gosplan review these enterprise own plans annually and if required could<sup>261</sup> revise them.

Though the authority for enterprise management was dispersed to enterprises themselves, the government was still able to determine the directions and priorities of socio-economic development by issuing control figures, state orders, economic norms and limits. The social requirements for output produced by the enterprises and the minimal levels of production efficiency were reflected in 'control figures', though they

became non-binding indicators. By giving 'state orders' to enterprises, the satisfaction of society's top-priority demands were guaranteed. The enterprise plans must include these state orders. In addition, the government was also able to control the rate and the direction of the bulk of investment by inducing long-term economic financial norms and limits. These long-term economic norms determined relations with the state budget, the formation of the wage fund, economic incentive funds and other aspects of enterprise activities. The limits were intended to establish the maximum size of centrally distributed material resources and capital investment for the development of inter-branch production facilities, new construction and the accomplishment especially important tasks.<sup>262</sup>

In company with the redefinition of government planning and the decentralisation of enterprise management, the state supply system was decentralised and the wholesale trade system was encouraged. The Law on State Enterprises approved the intention of decisive transition from the state material and technical supply system for material resources allocation to the wholesale trade system by attaching producers to consumers, which took the form of 'free' purchase and sale on the basis of direct and self-sustained commercial contracts with other enterprises, state wholesale agencies, primarily regional bodies, and manufacturers' direct outlets. Only the 'particularly scarce' resources and goods would continue to be allocated or rationed by the state agencies, while the inputs that were required to fulfil mandatory state orders were included on the list of state allocation. The transition was scheduled to start with the resources for consumer goods production, agriculture, construction, machinery production of greatest importance and the needs of co-operatives and private producers. Gossnab was in charge of this transition which would be completed in 4 to 5 years.<sup>263</sup>

For the effective function of indicative economic levers, the role of money and prices was enhanced. In order to establish the monetary balance and promote the effective role of financial norms and credit for investment, two separate decrees on the finance mechanism and on banking in July 1987 envisaged a system where bank credits and interests rates were to serve as important economic levers in promoting efficient resource utilisation in enterprise operation. To assist enterprise self-finance, bank

credits were to become a more important source of financing investment and new commercial banks were created.<sup>264</sup> According to the decree on the restructuring of the system of price formation of 1987, new revised industrial wholesale prices as well as service and transport tariffs were scheduled to be introduced in 1990 and new estimate prices in construction and agricultural purchasing prices in 1991. The enterprises were given the right to set contract prices based on arrangements with consumers along with the development of wholesale trade and commercial contract, but these prices would be monitored by the government. However, the share of administratively fixed prices was planned to be reduced, but nothing was said about retail prices in the intended price reform.<sup>265</sup>

### *Enhancement of Material Incentives and Competition*

The main question in the reform of the Soviet motivation mechanism was how to create stimuli that are even more powerful and how to achieve economic, scientific, technological and social progress by intensive activities under socialism. The essential element was how to blend the government guidance with the interests of individuals and work collectives. Perestroika called for ensuring the practical involvement of the broad masses of working people in economic management at every level from work units to the entire national economy. For the purpose of giving work collectives and individual workers opportunities to manage public property by themselves and increasing their accountability for efficient performance as a real and active 'co-proprietor', the principle of 'self-management' was emphasised within the socialist framework. They participated in the highly important operational decisions of enterprise management and monitored the implementation of these decisions. The Law of the State Enterprises stated that enterprise managers and directors would be elected by their workers, who would also elect a work council that would confirm enterprise plans.<sup>266</sup>

In order to create a 'powerful' system of motives and incentives, the more greater utilisation of material incentives, self-interests, and economic competition and the competition between various forms of co-operatives and individual private sector and state sector were emphasised as effective stimuli. Forcing economic participants to

live up to their responsibilities, the persistence of 'levelling' (*uravnilovka*) or 'egalitarianism' was prevented. The wages and bonuses of workers were to be tied much more closely to the results of works not only in its quantity but in also its quality by pushing for widespread adoption of brigade systems for compensating labour. Those systems would lead to income dispersion even within the enterprises and would further enhance workers' interest in the management of the enterprise. The reform could have immediate effect of creating labour income differentials among enterprises in the same sector, even for people with the same jobs, all related to differences in enterprise performance. These incentive earnings were not limited to a maximum amount, but the size and growth of the total wage and bonus funds were to be regulated by various indicative norms set by the ministry.<sup>267</sup>

Besides the state sector, the Law on Individual Labour Activity on 19 November 1986 and the Law on Co-operatives on 26 May 1988 allowed individual private activities that were already widely spread. According to the laws, members of the co-operative were allowed to work full-time and own its property, except land, and permitted to engage in any kind of activity that was not forbidden by law. The law contained a number of liberal stipulations, such as permission for co-operatives to sell shares or bonds, to choose banks, to set up banks, to form associations and to pursue foreign trade.<sup>268</sup>

However, these private individual activities were allowed with some restrictions. The individual labour activity could be permitted for employees in the socialist sector during their free time with the participation of cohabiting members of the family as a part-time occupation, only exceptionally as a full occupation for housewives, disabled, pensioners, students, and 'other citizens not occupied in social production'. Co-operatives could employ an unlimited number of non-members on a contract basis, but hiring of labour was not allowed. The co-operative activities were restrained by the still centralised supply and licensing and the high taxes were rendered to the private activities and the high personal income.<sup>269</sup>

### *De-monopolisation of Foreign Economic Relations*

In addition, foreign economic relations and participation in the international division of labour was enhanced, involving joint ventures and other form of co-operation with

capitalists as well as other socialist states. The basic changes were outlined in a decree on the management of foreign economic relations of August 1986. The Ministry of Foreign Trade lost its monopoly over foreign trade. Initially, twenty-one branch ministries and sixty-seven large associations (enterprises) were given foreign trade rights. The State Foreign Economic Commission was established to supervise the activities of foreign trade and foreign economic relations and, in January 1988, it was amalgamated into a new Ministry for Foreign Economic Relations. The new Complex Programme of CMEA adopted in December 1985 urged more organisational integration with 'direct links' between enterprises and joint ventures. The legislation of August 1986 envisaged joint ventures also with capitalist countries, and on 13 January 1987 two decrees were adopted on the creation of joint ventures with CMEA countries and other countries, respectively.<sup>270</sup> The USSR also changed its policy towards international economic organisations, such as UNCTAD, IMF, the World Bank, and GATT, and intended to become a full member.<sup>271</sup>

### Political Adaptation

The further activation of the human factor under perestroika was the democratisation of collective political activities. After the extended debate, the 19<sup>th</sup> Party Conference in 1988 duly adopted a series of resolutions calling for further democratisation and reform of the totalitarian political power structure. Gorbachev made clear from the outset that perestroika was conceivable only in association with a far-reaching 'democratisation' in Soviet society as a 'guarantee' that perestroika was irreversible. Gorbachev believed that it was only democracy in all spheres of Soviet life that could unleash the powerful 'human factor' from the 'straitjacket' by various governmental bureaucratic controls and prevent working people from becoming alienated from public ownership.<sup>272</sup> First of all, the policy of *glasnost* or openness was launched so as to enhance the role of the media and to encourage the diversity of public interest. *Glasnost* entailed the pluralism of points of view rather than the previously centralised and controlled party monism. *Glasnost* considerably spread over almost all fields of public and cultural life in the Soviet society. *Glasnost*, in the first place, did not and was not intended to mean an unqualified freedom of expression, but the movement towards the freedom of



expression was rapidly accelerated.<sup>273</sup>

One of the earliest political changes was the reform of the electoral system.<sup>274</sup> At the Central Committee Plenum in January 1987, Gorbachev himself suggested that the voters be allowed to choose among several candidates and the larger constituencies. A lack of choice of candidates was perhaps the most widely remarked shortcoming of the Soviet electoral system and the composition of each group of deputies was regulated much too precisely by the party. At the end of March 1987, it was announced that an 'experiment' in the elections to local soviets would take place under which a choice of candidates would be nominated in a number of enlarged constituencies.<sup>275</sup> In line with this experiment, the resolution 'On democratisation of Soviet society and reform of the political system' endorsed by the 19<sup>th</sup> Party Conference in 1988 committed the party to a 'substantive renewal of the electoral system': unrestricted nomination of candidates; broad and free discussion in election conferences for nomination; the inclusion on the ballot papers of a larger number of candidates than seats and strict observance of the democratic procedures of elections.<sup>276</sup> A Supreme Soviet by-election in January 1988 and republican by-elections in October 1988 took place on the basis of these new electoral principles. Eventually, the new electoral law adopted on 1 December 1988 made it clear that these democratic electoral principles and practices were to become universal.<sup>277</sup>

For the democratisation of the political power structure, the central objective was 'all power to the soviets', and more generally a shift of political power from the Communist Party to the state institutions as representative bodies. In this context, at the 19<sup>th</sup> Party Conference, Gorbachev proposed the resumption of full authority by the soviets and a new 'representative supreme government body', the Congress of People's Deputies of the USSR, elected by political and social organisations as well as from national and territorial constituencies. The new Congress of People's Deputies would in turn elect a bicameral Supreme Soviet, which would be the standing legislature. Finally, a number of constitutional amendments were passed by the Supreme Soviet on 1 December 1988.<sup>278</sup> The first elections of the Congress of People's Deputies of the USSR took place in March 1989 and held its first session on 25 May 1989. One of the

Congress's first acts was to set up the new-style Supreme Soviet as the standing legislature, which met for the first time on 3 June 1989. Gorbachev was elected to the newly-established post of Chairman of the Supreme Soviet by the election against two candidates.<sup>279</sup>

Finally, perestroika tried to divest the party apparatus of its administrative role in industry and in government by clear-cut separation of functions of the Party and local government bodies and by stopping the duplication of state functions by party organisations at all levels. Accordingly, perestroika considerably reduced its functions and changed the way in which the party operated. The party central organs no longer determined government policy and became less powerful than hitherto. The Politburo had been significantly downgraded and was no long a major determinant of state policy. After all, the Communist Party had lost its prime *de jure* monopoly position of political power. The supreme political power was shifted from the Communist Party to the new representative state bodies, the Congress of People's Deputies and the new Supreme Soviet of the USSR. At the Plenum in February 1990, the Central Committee abandoned its constitutionally guaranteed 'leading role' and Article 6 of the Soviet Constitution was amended. However, prior to the coup attempt of August 1991, the Communist Party, was still an important force.<sup>280</sup>

## CONCLUSION

In the years following Stalin's death, Soviet leaders aimed to get away from terror and arbitrary lawlessness and to move toward a more "contractual" political legitimacy, based primarily on economic guarantees to the population. For the legitimisation of its dictatorship and the repressed low level of the political culture within mass society, the Communist Party had a tacit social agreement with the people on the promises of surpassing the industrialised Western capitalist countries in the level of material living standards; income security by job lights; elimination of unjust and unequal distribution of wealth; social welfare by low prices for necessities and housing; and general social policy to provide free health services and education.<sup>281</sup> This rather restricted social contract fitted well into the extensive phase of industrial development. However, since the economic growth rates started declining from the mid 1960s and continued to decline during 1970s and 1980s, there was every sign of difficulties to keep these promises. Consequently, it became clear that the extensive economic growth could not be sustained much further without serious damage to the restricted social contract, thus the more radical approach to the reform policy was inevitable.<sup>282</sup>

The Soviet society of the late 1980s was significantly different from that of which the Bolsheviks had taken power. By the 1980s, the USSR was an urban industrial society comparable in many respects to advanced Western societies. There was a spectacular rise in educational standards. Because of industrialisation, the occupational structure had shifted away from jobs in the primary to those in the secondary and tertiary sectors. The large educated non-manual urban population changed the social base of politics. The maturing of the Soviet political culture led to a significant number of individuals and groups having a positive conception of their own interests. The real political ballast of the regime moved from the peasantry and working class to the intelligentsia.<sup>283</sup> The Soviet regime officially continued to dominate its citizens, but, in reality, Soviet society became individualised and socially decentralised, although not independent of its state. As a result, an unofficial "second" society developed alongside.<sup>284</sup> Blair Ruble suggested that what was taking place was a sort of "quiet revolution" with the informal emergence of a second economy, a second culture and even a second politics,

and in full recognition of the continuing limits imposed by the officials ones.<sup>285</sup>

In a modern society, the changing social structure is one of those crucial variables in the provision of support or opposition to a given political leadership and the prevailing system. The preferences and interests of a majority strata exert important influence on social norms, values, institutions and processes. The rise of a large stratum of non-manual urban people in the Soviet society had implications for the political support structure. They were capable of participating in political processes and prepared new intensive form of market activities to capitalise their marketable 'skill assets'.<sup>286</sup>

However, the Soviet system had under-utilised them and the old social contract discriminated against them and deprived them of any real participation in the political life. These changes were evidence of increasing levels of dissatisfaction, especially among the growing professional groups. They were eager to dismantle what Jerry Hough called the "two Iron Curtains"—the one that was erected to keep out Western ideas and the one that was erected against Western market forces.<sup>287</sup>

In order to accommodate these quantitative and qualitative changes in Soviet socio-economic environment, the new leadership under Gorbachev initiated the reform policy of perestroika. During the period of perestroika, in principle, Gorbachev and radical reformers turned away from the traditional ideology of Marxism-Leninism, and moved to 'market socialism' and 'social democratic vision of socialism'. In the economic sphere, their approaches were accompanied for quite a long time by attempts to create a 'special way' of socialism: a combination of private entrepreneurial incentives with preservation of the absolute dominance of state ownership. In the political sphere 'general human values' of democracy—the modern democratic system characteristic of the developed countries of the West—emerged practically straight away as the basic model. The break with Marxist-Leninist ideology was a consequence of a conscious decision to move toward a new market and democratic type society. Moreover, some members within the political leadership, initially grouped around Gorbachev himself, lost confidence in the party and communist institutions of power and they publicly discredited the legitimating ideology of Marxism-Leninism.<sup>288</sup>

However, the pace of radical reform process to the more market-oriented economy was

too slow, because the political, economic internal and external context was not favourable for market transition. The individual propensity to relinquish ideological and political impediments among the party leadership was too wide to reach a consensus for the market reform policies.<sup>289</sup> From the very beginning, the transformation of Soviet political economy were conceived as a complex, multifaceted task, but the reform policies of perestroika lacked any well formulated conception for the market transformation. Perestroika effectively destroyed the political control over economic management and system of central planning, but nothing was put in its place except uncertainty and ambiguity. Their attempt to find a 'special way' of socialism—a combination of private entrepreneurial incentives with preservation of the absolute dominance of state ownership—had failed. Its mobilising principles were rent with contradictions: between market and plan, between entrepreneurial demands for private property and state ownership, and between the forces generated by civil society and the dominant party.<sup>290</sup>

The political reform dismantled the political stability and led to a polarisation of Soviet politics, which in some ways made economic reform for the market more difficult. David Dyker expressed Gorbachev's dilemma: 'It is hard to dispute Gorbachev's conclusion that economic reform would not be possible without political reform. What is less clear is whether economic reform is possible with political reform.'<sup>291</sup> The attempted economic restructuring and political democratisation dismantled the stability of the Soviet system, but the critical problem revolved, inevitably, around the economic modernisation and the legitimisation of the communist Soviet regime. The two objectives were mutually constraining: that is, the economic reform was constrained by the regime's legitimisation strategy of economic security and equity; the legitimisation, in turn, was constrained by the long-term decline of the Soviet economic performance. The "equity-efficiency trade-off" were undeniable in the Soviet reform process.<sup>292</sup> The ideological and political impediments, therefore, constrained the alternative of radical market reform and privatisation. However, the nascent nature of the introduction of rapid marketisation and privatisation with high prices, temporary unemployment, and unequal income distribution was objectionable to a broad public, particularly manual workers, and still dominant party and union government apparatus. Hence, Gorbachev

and his advisers confronted the vacillation in economic policy and the real dilemma like "collapse without reform and revolt with reform."<sup>293</sup>

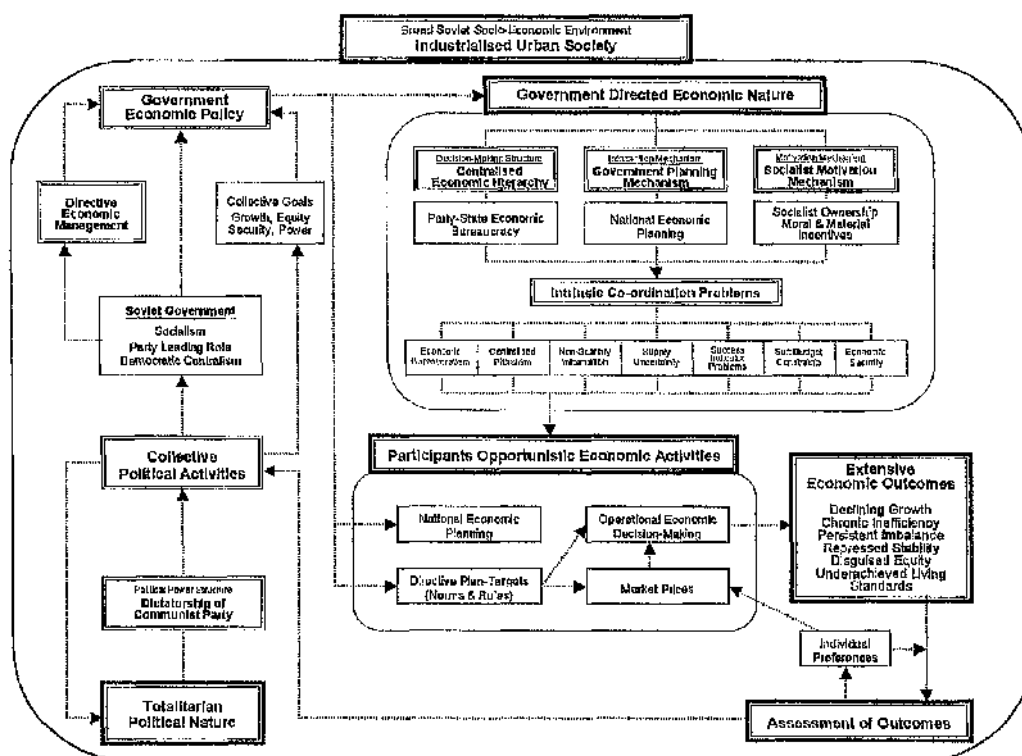
Without any social consensus for the future, the credibility of perestroika was threatened and the Soviet system was on the verge of collapse. Major destabilising elements became apparent: first, widespread dissatisfaction with economic and social conditions; second, ambiguity among the leaders and the lack of a definite plan to overcome the discontent; third, increased political activity among the masses; and fourth, independence movements in the republics and regions. Perestroika, as Schroeder concludes, brought "the macroeconomy from the comparative stability of central planning to a state of massive disequilibrium and the microeconomy from perennial but tolerable disarray to the brink of chaos."<sup>294</sup> The growth rates of industrial, and agricultural production from 1985 to 1990 were getting worse. The fiscal and monetary situation was destabilised with "truly horrifying dimensions" by sharp increase of state budget deficit and a huge monetary overhang.<sup>295</sup> The consumer markets had been already in massive disequilibrium and random shortages, but the situation deteriorated dramatically. Furthermore, the controlled hidden and repressed inflation was unchained by the relative decentralisation of state price.<sup>296</sup>

In the beginning of the 1990s, the Soviet Union was a tangled network conflicts, accompanied by a situation of rapidly aggravating economic depression and growing political uncertainty. The weakening of the party apparatus and the government executive authority naturally shifted political power from the union centre to the republics, simple because it was the party and the USSR ministries which had provided the unity in the Soviet system. The weakening of the union authority steadily reduced the union government's possibility of influencing the course of political events and further economic reform. After all, the previous confidence of the Soviet regime in omnipotence was replaced by lack of confidence, unreadiness to take responsibility for implementing unpopular measures, the necessity for which became quite obvious in crisis. Moreover, the leadership of the USSR were divided and attempted to hide its unreadiness to take such decisions by demonstrating its devotion to democratic procedures, which had severe economic consequences.

The general conclusion was that the union government was incapable of conducting an effective and consistent more radical market oriented reform policies. Once the right had been conceded for contested elections, nationalist forces gained strength and governments hostile to the Union were elected in many republics. The political leadership in the republics, now constituted largely from politicians with authority in their Supreme Soviets, sought independence and the dissolution of the USSR. By the end of 1990, all the constituent republics and many other regional areas of the USSR had declared their own sovereignty. Nationalism and the values of capitalism and liberalism gradually provided their own form of legitimisation to the local republican elite and, as ideologies, a legitimisation for opposition to Soviet regime and to communism. The weakening of ideological controls and the discrediting of Soviet institutions, as a consequence of the failed perestroika, and their legitimating ideology created conditions in which the republican political elite had potentially more to gain than to lose by advocating a move to their own sovereignty.

In consequence, on 8 December, the leaders of the three Slav republics—Russia, Ukraine and Belorussia—established a new ‘Commonwealth of Independent States’, which was later joined by almost all of the other former Soviet republics, excepting the Baltic states and Georgia, on 21 December. On 25 December 1991, Gorbachev resigned as president of the USSR, the red flag was hauled down from the Kremlin tower. On 31 December, the Union of Soviet Socialist Republics existed no more, and the Soviet regime collapsed. Russia was recognised internationally as the successor state to the USSR. The era of the Soviet-type government-directed politico-economic model in the name of socialism had ended by the demise of the Soviet regime under the political and economic directorship of the Communist Party. Figure 7 is explaining the operation of the Soviet-type government-directed socialist system of political economy. Notwithstanding the economic reform policies of ‘further perfection’ and later ‘perestroika’, the regime’s reform efforts within the framework of the government-directed political economic model failed eventually. The grand Soviet experience of the direct government involvement in the whole political economy would provide us with important general lessons for long-term stability and dynamism in a political economy.

Figure 7, Operation of Soviet Government-Directed Socialist System



<sup>1</sup> The Western literature on the Soviet economy can be characterised in several different dimensions. Beginning in the 1950s, a number of major studies of the Soviet economy addressed a variety of important issues attempting to build a basic understanding of the Soviet economic system. Thereafter, studies on the Soviet economy became more specialised. Such studies cover a variety of areas such as labour and trade unions, management, planning, economic history, agriculture, etc. With the rise of Gorbachev in 1985 and the subsequent events in Eastern Europe especially in 1990, economic reform, or the transition of socialist systems to a market emphasis through privatisation, is the topic stage in the 1990s. There are a number of works, which provide an overall examination or survey of the Soviet economic experience at various levels of difficulty. See, Roger Munting, *The Economic Development of the USSR* (London: Croom Helm, 1982); Franklin Holzman, *The Soviet Economy: Past, Present, and Future* (New York: Foreign Policy Association, 1982); David A. Dyker, *The Future of the Soviet Economic Planning System* (Armonk: M.E. Sharpe, 1985); Alec Nove, *The Soviet Economic System*, third edition (London: Unwin Hyman, 1986); Michael Ellman, *Socialist Planning* (Cambridge: Cambridge University Press, 1989); and Paul R. Gregory and Robert C. Stuart, *Soviet Economic Structure and Performance*, forth edition (New York: HarperCollins, 1990).

<sup>2</sup> See Gregory Grossman, "The Structure and Organisation of the Soviet Economy," *Slavic Review*, vol. 21, no. 2 (June 1962), pp. 203-222; Gregory Grossman, "Notes for a Theory of the Command Economy," *Soviet Studies*, vol. 15, no. 2 (April 1963), pp. 101-123; and Gregory Grossman, "The Second Economy of the USSR," *Problems of Communism*, vol. 26, no. 5 (September-October 1977), pp. 25-40.

<sup>3</sup> See, Edward Ames, *Soviet Economic Process* (Homewood: Richard D. Irwin, Inc., 1965); Alfred



Zauberman, *Aspects of Planometrics* (New Haven: Yale University Press, 1967); Michael Ellman, *Soviet Planning Today: Prospects for an Optimally Functioning Economic System* (Cambridge: Cambridge University Press, 1971); Pekka Sutela, *Economic Thought and Economic Reform in the Soviet Union* (Cambridge: Cambridge University Press, 1991), pp. 26-48; and Eugene Zaleski, *Stalinist Planning for Economic Growth, 1933-1952* (Chapel Hill: The University of North Carolina Press, 1980).

<sup>4</sup> Christopher Davis and Wojciech Charemza, *Models of Disequilibrium and Shortage in Centrally Planned Economies* (London: Chapman and Hall, 1989) and Jozef M. Van Brabant, "Socialist Economies: The Disequilibrium School and the Shortage Economy," *Journal of Economic Perspectives*, vol. 4, no. 2 (Spring 1990), pp. 157-175.

<sup>5</sup> Nove does offer a way of delimiting the two political and economic spheres - 'plainly, political choices are being made' - on the basis that political decisions have a strategic or macro character. Alec Nove, *The Soviet Economic System*, third edition (London: Unwin Hyman, 1986), pp. 8-9.

<sup>6</sup> See, Robert W. Campbell, "On the Theory of Economic Administration," in Henry Rosovsky, ed., *Industrialization in Two Systems: Essays in Honor of Alexander Gerschenkron* (New York: John Wiley & Sons, 1966).

<sup>7</sup> See, Rush V. Greenslade and Gertrude E. Schroeder, "The Bureaucratic Economy: Plus ça change, plus c'est la même chose," *Soviet Union/Union Soviétique*, vol. 4, no. 2 (1977), pp. 314-329 and Rush V. Greenslade, "The Soviet Economic System in Transition," in U.S. Congress, Joint Economic Committee, *New Directions in the Soviet Economy*, Part I (Washington: US Government Printing Office, 1966).

<sup>8</sup> See, for instance, Raymond P. Powell, "Plan Execution and the Workability of Soviet planning," *Journal of Comparative Economics*, vol. 1, no. 1 (March 1977), pp. 51-76.

<sup>9</sup> Paul R. Gregory, *Restructuring the Soviet Economic Bureaucracy* (Cambridge: Cambridge University Press, 1989), pp. 15-23.

<sup>10</sup> Gertrude E. Schroeder, "Reflections of Economic Sovietology," *Post-Soviet Affairs*, vol. 11, no. 3 (1995), pp. 198-199.

<sup>11</sup> For general accounts of the movement toward a new modern political economy since the 1970s, see Bruno S. Frey, *Modern Political Economy* (Oxford: Martin Robertson, 1978); D. A. Hibbs, Jr. and H. Fassbender, eds., *Contemporary Political Economy: Studies on the Interdependence of Politics and Economics* (Amsterdam: North-Holland, 1981); James E. Alt and K. Alec Chrystal, *Political Economics* (Sussex: Wheatsheaf Books, 1983); James E. Alt and Kenneth A. Shepsle, eds., *Perspectives on Positive Political Economy* (Cambridge: Cambridge University Press, 1990); Allan H. Meltzer, Alex Cukierman and Scott F. Richard, *Political Economy* (Oxford: Oxford University Press, 1991); and Jeffrey S. Banks and Eric A. Hanushek, eds., *Modern Political Economy: Old Topics, New Directions* (Cambridge: Cambridge University Press, 1995).

<sup>12</sup> Public choice can be defined as the economic study of non-market decision making, or simply the application of economics to political science. The subject matter of public choice is the same as that of political science: the theory of the state, voting rules, voter behaviour, party politics, the bureaucracy, and so on. The approach of the 'public choice' applies the thinking and methods of modern economics to political processes. The interaction between the economy and the polity is central. Application of the same technique of analysis to both politics and economics enables us to deal with overlapping areas that had previously been artificially carved up by the traditional boundaries of the sciences. For understanding of the approach of the Public Choice, see Anthony Downs, *Economic Analysis of Democracy* (New York: Harper Bros., 1958); James M. Buchanan and Gordon Tullock, *The Calculus of Consent* (Ann Arbor: University of Michigan Press, 1962); Gordon Tullock, *The Politics of Bureaucracy* (Lanham: University Press of America, 1987); James Gwartney and Richard Wagner, eds., *Public Choice and Constitutional Political Economy* (Greenwich: JAI Press, 1988); and Dennis C. Mueller, *Public choice II: A Revised Edition of Public Choice* (Cambridge: Cambridge University Press, 1989).

<sup>13</sup> Vaclav Holesovsky, *Economic Systems: Analysis and Comparison* (New York: McGraw-Hill Book Company, 1977), pp. 17-18.

<sup>14</sup> Władysław W. Jermakowicz and Jane Thompson Follis, *Reform Cycles in Eastern Europe, 1944-1987: A Comparative Analysis from a Sample of Czechoslovakia, Poland, and the Soviet Union* (Berlin: Duncker & Humblot, 1988), pp. 9-11.

<sup>15</sup> Carlton Clymer Rodee, Totton James Anderson, Carl Quinby Christol, and Thomas H. Greene, *Introduction to Political Science*, fourth edition (New York: McGraw-Hill, 1983), pp. 42-43.

<sup>16</sup> Carl J. Friedrich and Zbigniew K. Brezezinski, *Totalitarian Dictatorship and Autocracy* (New York: Praeger Publishers, 1962), p. 9.

<sup>17</sup> Rodee, Anderson, Christol, and Greene, *Introduction to Political Science*, pp. 274-284.

<sup>18</sup> The market mechanism and the government planning mechanism are the common co-ordination mechanisms in the political economy, but for the classification of politico-economic systems it will be useful to divide them specifically into these three mechanisms. I use the concept of information mechanism instead co-ordination mechanism as a set of element in the system. The co-ordination process is a function of the information mechanism and therefore the concept of information mechanism contains the co-ordination process here. For more complete understanding of the information mechanism, see Egon Neuberger and William J. Duffy, *Comparative Economic Systems: A Decision-Making Approach* (Boston: Allyn and Bacon, 1976), pp. 50-59.

<sup>19</sup> For more complete understanding of the decision-making structure, see *Ibid.*, pp. 30-49.

<sup>20</sup> Jermakowicz and Follis, *Reform Cycles in Eastern Europe*, pp. 10-11.

<sup>21</sup> Neuberger & Duffy, *Comparative Economic Systems*, pp. 34-36.

<sup>22</sup> For more complete understanding of the motivation mechanism, see *Ibid.*, pp. 61-72.

<sup>23</sup> For a useful survey of literature on the subject of property rights, see Eirik Furubotn and Svetozar Pejovich, "Property Rights and Economic Theory: A Survey of Recent Literature," *Journal of Economic Literature*, no. 10 (December 1972), pp. 1137-1162 and Frederic Pryor, *Property and Industrial Organization in Communist and Capitalist Nations* (Bloomington: Indiana University Press, 1973).

<sup>24</sup> John Michael Montias *The Structure of Economic Systems* (New Haven: Yale University Press, 1976), p. 116.

<sup>25</sup> This figure is reorganised on the basis of the ideas presented by Tjalling C. Koopmans and John Michael Montias in "On the Description and Comparison of Economic Systems," in Alexander Eckstein, ed., *Comparison of Economic Systems: Theoretical and Methodological Approaches* (Berkeley: University of California Press, 1971), pp. 27-78 and Neuberger and Duffy, *Comparative Economic Systems*, p. 10.

<sup>26</sup> For the social contract theory of the government, see Ernest Barker, *Social Contract: Essays by Locke, Hume, and Rousseau* (Oxford: Oxford University Press, 1962).

<sup>27</sup> On the alternative division of decision modes in the economic system, see David W. Conklin, *Comparative Economic Systems: Objectives, Decision Modes, and the Process of Choice*, (Cambridge: Cambridge University Press, 1991). Conklin considers six decision modes in the economic system: free enterprise, price controls, subsidies, taxation, non-price regulation, and public enterprises and explains the merits and shortcomings of each mode that can be categorised into three decision-making modes: individual, indirect collective, and direct collective decisions.

<sup>28</sup> Paul R. Gregory and Rober C. Stuart, *Comparative Economic Systems* (Boston: Houghton Mifflin Company, 1985), pp. 33-42.

<sup>29</sup> The argument here generally follows the conceptual perspective developed by the political scientist. See, for instance, especially Samuel P. Huntington, *Political Order in Changing Societies* (New Haven: Yale University Press, 1971).

<sup>30</sup> Policy-making is a process into which the major sets of actors feed inputs in the form of actions and decisions. They do this in the context of existing institutions, rules and procedures, which themselves

help to determine the policy outcomes that emerge from political bargaining between the various interests. Rosalind Levacic analysed policy-making by examining the roles of the chief actors—voters, politicians and public sector bureaucrats—and their impact on economic policy. See, Rosalind Levacic, *Economic Policy-Making* (Sussex: Wheatsheaf, 1987).

<sup>31</sup> The Public Choice literature presents theoretical analysis of the government policy-making processes in modern democracies. The underlying assumption is that each member of a society behaves with the same self-interested motivations in order to maximise their personal well being in respect to public policies as they do in the marketplace. The chief actors in the policy-making process—the individuals as voters, the politicians, the professional advisers, and the bureaucrats—are assumed to behave so as to maximise their own interests. See, for instance, Dennis C. Mueller, *Public choice II: A Revised Edition of Public Choice* (Cambridge: Cambridge University Press, 1989), pp. 3-4.

<sup>32</sup> The rule of factions is a logical outcome of representative democracy. Rational abstention and rational ignorance on the part of voters undermine to a considerable extent the preference revelation function of electoral campaigns. Moreover, democratically elected politicians, who by definition must rely on votes and campaign contributions to be elected, cater to those who have a selective incentive to cast informed votes. Consequently, the bias in policy-making under representative democracy is to concentrate benefits on the well-organised and well-informed and disperse costs on the ill-organised and uninformed mass of citizens. The best way to do this is to sponsor policies, which yield short-term and easily identifiable benefits at the expense of long-term and largely hidden costs. Continual deficit financing or financing government activity through the hidden tax of inflation are just two of the tools that politicians have at their disposal for pursuing such a course. Public policy in the Western democracies, therefore, contains both a concentrated benefit and a short-sightedness bias. See, the papers discussing in James Gwartney and Richard Wagner, eds., *Public Choice and Constitutional Political Economy* (Greenwich: JAI Press, 1988).

<sup>33</sup> For an account of the problems that superiors face in co-ordinating the activities of subordinates within the bureaucratic hierarchy. See, Gordon Tullock, *The Politics of Bureaucracy* (Lanham: University Press of America, 1987), pp. 120-220.

<sup>34</sup> Janos Kornai, *The Socialist System: The Political Economy of Communism* (Oxford: Clarendon Press, 1992), p. 33.

<sup>35</sup> Friedrich and Brzezinski, *Totalitarian Dictatorship and Autocracy*, p. 22.

<sup>36</sup> Article 6 of the 1977 Soviet Constitution guaranteed the role of the Communist Party. See, Boris Topornin, *The New Constitution of the USSR* (Moscow: Progress Publishers, 1980). For the Soviet Constitution from its adoption in 1977 to 1988, see Robert Sharlet, *The New Soviet Constitution of 1977* (Brunswick: King's Court, 1978).

<sup>37</sup> Kornai, *The Socialist System*, p. 48.

<sup>38</sup> For principles of operation, election, and rights of the soviets of people's deputies, see Articles from 89 to 107 of the 1977 Soviet Constitution.

<sup>39</sup> On the soviets of peoples' deputies and the Supreme Soviet, see Peter Vanneman, *The Supreme Soviet: Politics and the Legislative Process in the Soviet Political System* (Durham: Duke University Press, 1977); Daniel Nelson and Stephen White, eds., *Communist Legislatures in Comparative Perspective* (London: Macmillan, 1982); and D. Richard Little, "Legislative Authority in the Soviet Political System," *Slavic Review*, vol. 30, no. 1 (March 1971), pp. 57-73.

<sup>40</sup> Article 108 of the 1977 Soviet Constitution.

<sup>41</sup> Stephen White, "Communist Systems and the Iron Law of Political Pluralism," *British Journal of Political Science*, vol. 8 (1978), p. 111.

<sup>42</sup> Vanneman, *The Supreme Soviet*, p. 87.

<sup>43</sup> Article 123 of the 1977 Soviet Constitution gave this authority and Article 122 indicated the matters for ratification of the Supreme Soviet; amending existing legislative acts, approving changes in the

boundaries between Union Republics, forming and abolishing ministries and state committees, and appointing and firing ministers of state.

<sup>44</sup> Standing commissions of the Supreme Soviet in 1985 were of three types—general subject commissions, economic sector commissions, and public welfare commissions. General subject commissions included Credentials, Legislative Proposals, Foreign Affairs, Science and Technology, and Conservation and the Use of Natural Resources. Economic sector commissions included Planning and Budget, Industry, Energy, Transport and Communication, Contraction and Construction Materials, and Agro-industrial Complexes. Public welfare commissions included Consumer Goods and Public Services, Health and Social Security, Public Education and Culture, Women's Labour and Living Conditions, Protection of Motherhood and Children, Youth Affairs, and Communal Living and the Urban Economy. See D. Richard Little, *Governing the Soviet Union* (London: Longman, 1989), pp. 158-159.

<sup>45</sup> Richard Sakwa, *Soviet Politics: An Introduction* (London: Routledge, 1989), p. 152.

<sup>46</sup> *Ibid.*, pp. 153-155.

<sup>47</sup> Article 93 of the 1977 Soviet Constitution.

<sup>48</sup> On the government structure and institutions in the area of economic management, see Fyodor I. Kushnirsky, *Soviet Economic Planning, 1965-1980* (Boulder: Westview Press, 1982) and William J. Conyngham, *The Modernization of Soviet Industrial Management: Socioeconomic Development and the Search for Viability* (Cambridge: Cambridge University Press, 1982).

<sup>49</sup> Little, *Governing the Soviet Union*, p. 131.

<sup>50</sup> Sakwa, *Soviet Politics*, p. 111.

<sup>51</sup> *Ibid.*

<sup>52</sup> Ronald J. Hill and Peter Frank, *The Soviet Communist Party*, third edition (Boston: Unwin Hyman, 1986), p. 55. On the communist party structure and role in the economy, see Leonard Shapiro, *The Communist Party of the Soviet Union* (New York: Random House, 1971) and Gregory Grossman, "The Party as Manager and Entrepreneur," in Gregory Guroff and Fred V. Carstensen, *Entrepreneurship in Imperial Russia and the Soviet Union* (Princeton: Princeton University Press, 1983).

<sup>53</sup> Under Lenin's leadership, the Central Committee was small and met frequently enough to be a policy-setting body. However, since then, it has expanded and met less frequently—twice a year. The members of the Central Committee were expanded to 477, of whom 307 were full members and 170 candidates in 1986. Hill and Frank, *The Soviet Communist Party*, p. 64.

<sup>54</sup> Jerry F. Hough and Merle Fainsod, *How the Soviet Union Is Governed* (Cambridge: Harvard University Press, 1979), p. 466 and Little, *Governing the Soviet Union*, p. 103.

<sup>55</sup> Hough and Fainsod, *How the Soviet Union Is Governed*, pp. 465-467.

<sup>56</sup> Sakwa, *Soviet Politics*, pp. 137-138.

<sup>57</sup> *Ibid.*, p. 138.

<sup>58</sup> In 1986, there were 440,363 PPOs and 25.6 percent were located in industry, 17.4 percent in offices, 11.3 per cent on farms, and 16.7 percent in colleges. Party meetings were usually held once a month. *Ibid.*, p. 133.

<sup>59</sup> *Rules of the CPSU*, English edition (Moscow: Progress Publishers, 1977).

<sup>60</sup> Sakwa, *Soviet Politics*, p. 106.

<sup>61</sup> Kornai, *The Socialist System*, pp. 50-53.

<sup>62</sup> The concept of state socialism and its rise and fall in the former communist countries as a social system is thoroughly examined and discussed in Lane's book. See David Lane, *The Rise & Fall of State Socialism: Industrial Society and the Socialist State* (Cambridge: Polity Press, 1996).

<sup>63</sup> On the political legitimisation under the communist regimes, see Thomas H. Rigby and Ferenc Feher,

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eds., *Political Legitimation in Communist State* (Oxford: Macmillan, 1982).

<sup>64</sup> Rule 60 of the CPSU.

<sup>65</sup> There were always in a majority at any level of importance, rising to 71.4 percent in the case of the 1984 USSR Supreme Soviet. See Stephen White, "Non-competitive Elections and National Politics: the USSR Supreme Soviet Elections of 1984," *Electoral Studies*, vol. 4, no. 3 (1985), pp. 215-229.

<sup>66</sup> Little, *Governing the Soviet Union*, pp. 135-136.

<sup>67</sup> A sample of contributions to the discussion of the features of a socialist economy was presented by excerpts from Marx, Engels, Lenin, Bukharin, Preobrazhensky, and Staline in Alec Nove and D. M. Nuti, eds., *Socialist Economics* (Harmondsworth: Penguin Books, 1972), pp. 19-51.

<sup>68</sup> In the area of the economy, a report on the performance of the economy and on the new Five-Year-Plan was delivered by a government spokesman at the Party Congress and the Five-Year Plan was approved unanimously after a rather perfunctory debate, although individual speakers have increasingly taken this opportunity to press the interests of their own particular institution or area. See Hough and Fainsod, *How the Soviet Union Is Governed*, pp. 449-455 and Stephen White, John Gardner, George Schopfin, and Tony Saich, eds., *Communist and Postcommunist Political Systems: An Introduction*, third edition (London: Macmillan, 1990), p. 141.

<sup>69</sup> Hough and Fainsod, *How the Soviet Union Is Governed*, p. 409.

<sup>70</sup> Gregory, *Restructuring the Soviet Economic Bureaucracy*, p. 20.

<sup>71</sup> David Lane, *State and Politics in the USSR* (Oxford: Basil Blackwell, 1985), p. 192.

<sup>72</sup> Hough and Fainsod, *How the Soviet Union Is Governed*, p. 383.

<sup>73</sup> The terms of 'economic policy' and 'economic plan' are often used synonymously and it is not easy to distinguish between these concepts. However, I use the term of economic policy as a set of decisions, which are made by political leaders in the political system to guide the decisions of economic administrations in the government, that is, economic plan. Accordingly, economic plan is the outcome of a specific economic policy, which will be approved by political leaders and enacted by legislative authorities.

<sup>74</sup> Gregory, *Restructuring the Soviet Economic Bureaucracy*, p. 37.

<sup>75</sup> Nove, *The Soviet Economic System*, p. 23.

<sup>76</sup> *Ibid.*, p. 32.

<sup>77</sup> *Ibid.*, p. 43.

<sup>78</sup> Gregory, *Restructuring the Soviet Economic Bureaucracy*, pp. 39-40.

<sup>79</sup> *Ibid.*

<sup>80</sup> Nove, *The Soviet Economic System*, p. 27.

<sup>81</sup> Paul R. Gregory and Robert C. Stuart, *Soviet and Post-Soviet Economic Structure and Performance*, fifth edition (New York: HarperCollins, 1994), pp. 173-174.

<sup>82</sup> For a historical treatment of the leading role of the Party in industrial planning see William J. Conyngham, *Industrial Management in the Soviet Union: The Role of the CPSU in Industrial Decision-Making, 1917-1970* (Stanford: Hoover Institution Press, 1973).

<sup>83</sup> Gregory, *Restructuring the Soviet Economic Bureaucracy*, p. 125.

<sup>84</sup> Peter Frank, "Economic Activities and the Intermediate and Lower Levels of Party Organization," in Hans-Hermann Hohmann, Alec Nove, and Heinrich Vogel, eds., *The Economics and Politics in the USSR* (Boulder: Westview Press, 1986), pp. 79-80.

<sup>85</sup> Alec Nove, *The Soviet Economy: An Introduction*, third revised edition (London: George Allen & Unwin, 1968), pp. 27-29.

<sup>86</sup> Hewett described the Soviet planning process as "bureaucratic dialogue." See, Ed A. Hewett, *Reforming the Soviet Economy: Equality versus Efficiency* (Washington: The Brookings Institution, 1988), p. 120.

<sup>87</sup> In terms of the time-span of a plan, there were a long-term "perspective" plan (15 years or more), a medium-term plan (5 years), a short-term plan (annual, quarterly).

<sup>88</sup> For accounts of the Soviet national planning, see Herbert S. Levine, "The Centralized Planning of Supply in Soviet Industry," in Morris Bornstein, ed., *Comparative Economic Systems: Models and Cases* (Homewood: Richard D. Irwin, 1965), pp. 252-277; R. W. Davies, "Economic Planning in the USSR," in Bornstein, ed., *Comparative Economic Systems*, pp. 266-290; and Pyodor I. Kushnirsky, *Soviet Economic Planning, 1965-1980* (Boulder: Westview Press, 1982), pp. 54-86.

<sup>89</sup> Hewett, *Reforming the Soviet Economy*, p. 122.

<sup>90</sup> Nove, *The Soviet Economic System*, p. 22.

<sup>91</sup> According to the decree published in July 1979, Gosplan was to submit these 'control figures' one and half years before the start of the next quinquennium. *Ibid.*, p. 25.

<sup>92</sup> Gosplan's list covered 80 per cent of the value of allocated commodities. *Ibid.*, p. 26.

<sup>93</sup> All the planned supplies and demands of each centrally allocated material are compared and balanced. On the supply side, there are three main sources of input: production, stocks on hand, and imports available during the planning period. On the demand side, there are two main elements: inter-industry demand, where the output of one industry is used as the input for another industry; and final demand, consisting of output that will be invested, consumed by households, or exported. Thus adjustment is possible on both sides and demand and supply are balanced. See John M. Montias, "Planning with Material Balances in Soviet-type Economies," *American Economic Review*, vol. 49 (December 1959), pp. 963-985.

<sup>94</sup> The draft annual plan was reviewed by the Council of Ministers in September, then considered at the December meeting of the Supreme Soviet and passed into law. However, frequently, the new annual plan was late in arriving and consequently the enterprise had to continue operating under the guidance of the old plan. Hewett, *Reforming the Soviet Economy*, p. 126.

<sup>95</sup> The Soviet planning was primarily an activity that took place in physical terms, that is, "physical planning." It was concerned with physical allocation, rather than allocating financial flows. Nove, *The Soviet Economic System*, pp. 26-27.

<sup>96</sup> For more detail discussion about the six categories of obligatory plan targets, see Hewett, *Reforming the Soviet Economy*, pp. 128 and 199-202.

<sup>97</sup> The Soviet national economic plan used to have sixty thousand separate headings. Abel G. Aganbegian, *Inside Perestroika* (New York: Harper and Row, 1989), p. 91.

<sup>98</sup> For general assessments of the Soviet price-setting mechanism, see R. F. D. Hutchings, "The Origins of the Soviet Industrial Price System," *Soviet Studies*, vol. 13, no. 3 (July 1961), pp. 1-22; Morris Bornstein, "The Soviet Price System," *American Economic Review*, vol. 52, no. 1 (March 1962), pp. 64-99; Alan Abouchar, ed., *The Socialist Price Mechanism* (Durham: Duke University Press, 1977); and Morris Bornstein, "The Administration of the Soviet Price System," *Soviet Studies*, vol. 30, no. 4 (October 1978), pp. 466-490.

<sup>99</sup> For a survey of Soviet price policy, see Morris Bornstein, "Soviet Price Policy in the 1970s," in U.S. Congress, Joint Economic Committee, *Soviet Economy in a New Perspective* (Washington: Government Printing Office, 1976), pp. 17-66; Morris Bornstein, "The Administration of the Soviet Price System," *Soviet Studies*, vol. 30, no. 4 (October 1978), pp. 466-490; and Morris Bornstein, "Soviet Price Policies," *Soviet Economy*, vol. 3, no. 2 (1987), pp. 96-134.

<sup>100</sup> For a discussion of Soviet wage-setting procedures and labour planning, see Abram Bergson, *The Economics of Soviet Planning* (New Haven: Yale University Press, 1964); Leonard J. Kirsch, *Soviet*

*Wages: Changes in Structure and Administration Since 1956* (Cambridge, Mass.: M.I.T. Press, 1972); Jan Adam, ed., *Employment Policies in the Soviet Union and Eastern Europe*, second edition (London: Macmillan, 1987); J. L. Porket, *Work, Employment and Unemployment in the Soviet Union* (London: Macmillan, 1989); and Silvana Malle, *Employment Planning in the Soviet Union* (London: Macmillan, 1990).

<sup>101</sup> For a discussion of Soviet investment planning, see Janice Giffen, "The Allocation of Investment in the Soviet Union: Criteria for the Efficiency of Investment," *Soviet Studies*, vol. 33, no. 4 (October 1981), pp. 593-609 and David A. Dyker, *The Process of Investment in The Soviet Union* (Cambridge: Cambridge University Press, 1981).

<sup>102</sup> Ronald Amann, "Industrial Innovation in the Soviet Union: Methodological Perspectives and Conclusions", in Ronald Amann and Julian Cooper, eds., *Industrial Innovation in the Soviet Union* (New Haven: Yale University Press, 1982), pp. 16-35.

<sup>103</sup> For accounts of Soviet foreign trade, see V. P. Grozinov, *The USSR's Management of Foreign Trade* (White Plains: M.E. Sharpe, 1979); H. Stephen Gardner, *Soviet Foreign Trade: The Decision Process* (Boston: Kluwer-Nijhoff, 1983); Franklyn D. Holzman, *The Economics of Soviet Bloc Trade and Finance* (Boulder: Westview Press, 1987); and Thomas A. Wolf, *Foreign Trade in the Centrally Planned Economy* (New York: Harwood Academic Publishers, 1988).

<sup>104</sup> For a survey of the Soviet banking system, see Paul Gekker, "The Banking System of the USSR," *Journal of the Institute of Bankers*, vol. 84 (June 1963), pp. 189-197; George Garvy, *Money, Financial Flows, and Credit in the Soviet Union* (Cambridge: Ballinger, 1977); and Christine Netishen Wollan, "The Financial Policy of the Soviet State Bank, 1932-1970," Ph.D. diss. (Urbana: University of Illinois, 1972).

<sup>105</sup> Gur Ofer, "Budget Deficit, Market Disequilibrium and Soviet Economic Reforms," *Soviet Economy*, vol. 5, no. 2 (1981), p. 274. See also Directorate of Intelligence, *USSR: Sharply Higher Budget Deficit Threatens Perestroika*, (Washington: SOV 88-10043U, September 1988).

<sup>106</sup> Joseph S. Berliner, "Managerial Incentives and Decisionmaking: A Comparison of the United States and the Soviet Union" in Morris Bornstein and Daniel R. Fusfeld, eds., *The Soviet Economy: A Book of Readings*, third edition (Homewood: Richard D. Irwin, Inc., 1970), p. 172.

<sup>107</sup> Articles 10 and 11 of the 1977 Soviet Constitution guaranteed the social ownership of the means of production. "The foundation of the economic system of the USSR is socialist ownership of the means of production in the form of state property (belonging to all the people) and collective farm-and-co-operative property ... State property, i.e. the common property of the Soviet people, is the principal form of socialist property..." For an account of property ownership, see Aleksander Bajt, "Property in Capital and in the Means of Production in Socialist Economies," *Journal of Law and Economics*, vol. 11 (April 1968), pp. 1-4 and see also Svetozar Pejovich, *The Economics of Property Rights* (Boston: Kluwer, 1990), pp. 97-103 and 115-120.

<sup>108</sup> L. I. Abalkin, *The Economic System of Socialism* (Moscow: Progress Publisher, 1980), p. 62.

<sup>109</sup> Article 60 of the 1977 Soviet Constitution.

<sup>110</sup> Hill and Frank, *The Soviet Communist Party*, p. 77.

<sup>111</sup> Kornai presented the seven motives of all leaders in the socialist economic bureaucracy: political and moral conviction, identification with the job, power, prestige, material benefit, a quiet life, and fear of punishment. See Kornai, *The Socialist System*, p. 119.

<sup>112</sup> Cited by Berliner, "Managerial Incentives and Decisionmaking," p. 172.

<sup>113</sup> Hewett, *Reforming the Soviet Economy*, pp. 141-142.

<sup>114</sup> The information problem was aggravated by the distortion of the upward flow of information. The central planners had less detailed knowledge of local information and therefore gained information about the full output capacity and input needs of production units mainly from ministries and enterprises. Ministries and enterprises' managers were held responsible for the economic outcome of their enterprises.

activities and were rewarded or penalised primarily for fulfilling their plan targets. For that reasons, ministries and enterprises, who had an information advantage, would be tempted to engage in opportunistic behaviour. When ministries and enterprises were reporting information, they had in practice the quite natural inclination to exploit the easiest and safest way to fulfil their plans for obtaining their own goals. This mechanism caused ultimately the methodical distortion of the upward flow of information toward concealing full output capacity and over-ordering input needs.

<sup>115</sup> Peter J. Beottke, *Why Perestroika Failed: The Politics and Economics of Socialist Transformation* (London: Routledge, 1993), p. 137.

<sup>116</sup> Lane, *The Rise & Fall of State Socialism*, p. 50.

<sup>117</sup> Nikolai Sluncelev and Vladimir Popov, *The Turning Point: Revitalizing the Soviet Economy* (London: I. B. Tauris & Co Ltd, 1990), p. 114 and Morris Bornstein, "Improving the Soviet Economic Mechanism," *Soviet Studies*, vol. 37, no. 1 (January 1985), p. 7.

<sup>118</sup> The fifty ministries, republican Gosplans, and republican ministries shared authorities among themselves for planning all remaining products of national or regional importance. Nove, *The Soviet Economic System*, p. 50.

<sup>119</sup> In 1988, Gosplan retained control over only 415 plan provisions and let Gosstab handle the rest, which would cover only 25 to 30 percent of production in the main industrial branches. An enterprise's remaining production could be planned independently by fifty ministries, republican Gosplans, and republican ministries. Sluncelev and Popov, *The Turning Point*, pp. 81-82.

<sup>120</sup> Gregory, *Restructuring the Soviet Economic Bureaucracy*, p. 44.

<sup>121</sup> For a discussion of the 'centralised pluralism', see Paul Craig Roberts, *Alienation and the Soviet Economy* (New York: Holmes and Meier, 1990), pp. 48-88.

<sup>122</sup> Kornai, *The Socialist System*, p. 126.

<sup>123</sup> Zaleski suggests that the Soviet economy could better be described as a "centrally managed economy" rather than a centrally planned economy. See, Eugene Zaleski, *Stalinist Planning for Economic Growth, 1932-1952* (Chapel Hill: University of North Carolina Press, 1980). A similar view is held by Paul Craig Roberts, "The Polycentric Soviet Economy," *Journal of Law and Economics*, vol. 12 (April 1969), pp. 163-181 and J. Wilhelm, "Does the Soviet Union Have a Planned Economy?: A Comment on 'From the Achieved Level'" *Soviet Studies*, vol. 31, no. 2 (April 1979), pp. 268-274.

<sup>124</sup> Nove, *The Soviet Economic System*, p. 29.

<sup>125</sup> For a discussion about the functions of Soviet prices, see Paul R. Gregory and Robert C. Stuart, *Soviet Economic Structure and Performance*, forth edition (New York: HarperCollins, 1990), pp. 191-194.

<sup>126</sup> Wholesale, retail, and procurement prices were set by Goskomsen. Foreign trade prices were negotiated by the Ministry of Foreign Trade under the general guidance of the Council of Ministers and the specific guidance for politically determined prices relating to important commodities traded with Eastern Europe. Goskomtrud set wage rates. The planners' prices are generally set by Gosplan and the branch ministries. For general assessments of the Soviet price mechanism, see Alan Abouchar, ed., *The Socialist Price Mechanism* (Durham: Duke University Press, 1977).

<sup>127</sup> Hewett, *Reforming the Soviet Economy*, p. 131.

<sup>128</sup> For an account of the Soviet supply system and the weakness of supply planning, see Herbert S. Levine, "The Centralised Planning of Supply in Soviet Industry," in Morris Bornstein, ed., *Comparative Economic Systems: Models and Cases* (Homewood: Richard D. Irwin, 1965), pp. 251-277.

<sup>129</sup> Kornai, *The Socialist System*, p. 120.

<sup>130</sup> For example, if a target figure of output were told in the gross value of output, it would be rational to ignore items that made a small contribution and overproduce items that made a large contribution. For an account of 'success indicators' problems, see Alec Nove, "The Problem of 'Success Indicators' in Soviet Industry," in Franklyn D. Holzman, *Readings on the Soviet Economy* (Chicago: Rand McNally &



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Company, 1962), pp. 433-446.

<sup>131</sup> For a discussion of the behaviour of bureau within a representative democracy, see William Niskanen, *Bureaucracy and Representative Government* (Chicago: Aldine, 1971).

<sup>132</sup> See Janos Kornai, *Economics of Shortage* (New York: North Holland, 1980).

<sup>133</sup> Michael Bleaney, *Do Socialist Economies Work? The Soviet and East European Experience* (Oxford: Basil Blackwell, 1988), p. 76.

<sup>134</sup> Hewett, *Reforming the Soviet Economy*, p. 39.

<sup>135</sup> *Ibid.*, pp. 207-210.

<sup>136</sup> Anders Ashund, *Gorbachev's Struggle for Economic Reform*, updated and expanded edition (London: Pinter Publisher, 1991), p. 82.

<sup>137</sup> David Granick, *Job Rights in the Soviet Union: Their Consequences* (Cambridge: Cambridge University Press, 1987), pp. 129-133.

<sup>138</sup> The "vertical bargaining" in the Soviet centralised economic hierarchy was distinguished from the "horizontal bargaining" between buyer and seller in the market mechanism. See, Kornai, *The Socialist System*, pp. 122-123.

<sup>139</sup> For a discussion of the principal-agent literature, see Roy J. Ruffin, *Modern Price Theory* (Glenview: Scott, Foresman, 1988).

<sup>140</sup> Little, *Governing the Soviet Union*, pp. 194-203. Recent studies of Soviet policy-making bear witness to the growing participation of elements outside the political leadership in policy-making. According to these studies, various sub-leadership entities—most of them bureaucratic organisations and public institutions such as the USSR Academy of Sciences—have grown and the growing advisory role of specialists has been demonstrated. See John Leowenhardt, *Decision Making in Soviet Politics* (New York: St. Martin's Press, 1981).

<sup>141</sup> Robert W. Campbell, *Soviet-Type Economies: Performance and Evolution* (London: Macmillan, 1974), p. 28.

<sup>142</sup> Michael Ellman, *Socialist Planning*, second edition (Cambridge: Cambridge University Press, 1989), p. 22.

<sup>143</sup> Herbert S. Levine, "Pressure and Planning in the Soviet Economy," in Bornstein and Fusfeld, eds., *The Soviet Economy*, pp. 66-68.

<sup>144</sup> Gregory, *Restructuring the Soviet Economic Bureaucracy*, pp. 34-36.

<sup>145</sup> Levine, "Pressure and Planning in the Soviet Economy," pp. 68-69.

<sup>146</sup> *Ibid.*, pp. 66-68.

<sup>147</sup> *Ibid.*

<sup>148</sup> Nicolas Spulber, *Soviet Strategy for Economic Growth* (Bloomington: Indiana University Press, 1964), pp. 62-64.

<sup>149</sup> Igor Birman, "From the Achieved Level," *Soviet Studies*, vol. 30, no. 2 (April 1978), pp. 153-172.

<sup>150</sup> See for instance Holland Hunter, "Optimal Tautness in Development Planning," *Economic Development and Cultural Change*, vol. 9, no. 4 (July 1961), pp. 561-572 and Michael Keren, "On the Tautness of Plan," *Review of Economic Studies*, vol. 39, no. 4 (1972), pp. 469-486.

<sup>151</sup> For discussion of the ratchet effect or principle in Soviet planning, see Joseph S. Berliner, *Factory and Manager in the USSR* (Cambridge: Harvard University Press, 1957); James R. Thornton, "The Ratchet, Price Sensitivity, and Assortment Plan," *Journal of Comparative Economics*, vol. 2, no. 1 (March 1978), pp. 57-63; Michael Keren, Jeffrey Miller, and James R. Thornton, "The Ratchet: A Dynamic Managerial Incentive Model of the Soviet Enterprise," *Journal of Comparative Economics*, vol. 7, no. 4 (December

1983), pp. 347-367; Xavier Freixas, Roger Guesnerie, and Jean Tirole, "Planning under Incomplete Information and the Ratchet Effect," *Review of Economic Studies*, vol. 52, no. 2 (April 1985), pp. 173-191; and David A. Dyker, *Restructuring the Soviet Economy* (London: Routledge, 1992).

<sup>152</sup> Shmelev and Popov, *The Turning Point*, p. 88.

<sup>153</sup> J. Wilhelm, "Does the Soviet Union Have a Planned Economy?: A Comment on 'From The Achieved Level'" *Soviet Studies*, vol. 31, no. 2 (April 1979), pp. 268-274.

<sup>154</sup> For accounts of ministerial behaviour patterns, see Alice C. Gorlin, "The Power of Soviet Industrial Ministries," *Soviet Studies*, vol. 37, no. 3 (July 1985), pp. 353-370.

<sup>155</sup> Kornai, *The Socialist System*, p. 123.

<sup>156</sup> Nove, *The Soviet Economic System*, pp. 161-162.

<sup>157</sup> David A. Dyker, *Restructuring the Soviet Economy* (London: Routledge, 1992), p. 14.

<sup>158</sup> Heidi Kroll, "Reform and Monopoly in the Soviet Economy," Briefing Paper no. 4, Centre for Foreign Policy Development, Brown University (September 1990), p. 7.

<sup>159</sup> Shmelev and Popov, *The Turning Point*, p. 118.

<sup>160</sup> Janos Kornai, "Hungary's Reform: Halfway to the Market," *Challenge* (May/June 1985), p. 29.

<sup>161</sup> Joseph S. Berliner, *Factory and Manager in the USSR* (Cambridge, Mass.: Harvard University Press, 1957), pp. 207-230.

<sup>162</sup> Hewett, *Reforming the Soviet Economy*, p. 155.

<sup>163</sup> Dyker, *Restructuring the Soviet Economy*, p. 28.

<sup>164</sup> *Ibid.*

<sup>165</sup> Ellman, *Socialist Planning*, p. 28.

<sup>166</sup> There are many examples of violating planned assortments of output targets. See, for instance, Berliner, "Managerial Incentives and Decisionmaking," p. 175.

<sup>167</sup> *Ibid.*, p. 176.

<sup>168</sup> Ellman, *Socialist Planning*, p. 28.

<sup>169</sup> Paul R. Gregory, "Productivity, Slack, and Time Theft in the Soviet Economy" in James R. Millar, ed., *Politics, Work, and Daily Life in the USSR: A Survey of Former Soviet Citizens* (Cambridge: Cambridge University Press, 1987), p. 259.

<sup>170</sup> On consumerism, see Michael Binyon, *Life in Russia* (New York: Pantheon, 1984) and Hedrick Smith, *The Russians* (New York: Quadrangle, 1976). On alcoholism, see Vladimir G. Treml, *Alcoholism in the USSR* (Durham: Duke Press, 1982); Anthony Jones, Walter D. Connor and David E. Powell, eds., *Soviet Social Problems* (Boulder: Westview Press, 1991); and Stephen White, *Russia Goes Dry: Alcohol, State and Society* (Cambridge: Cambridge University Press, 1993).

<sup>171</sup> James R. Millar and Elizabeth Clayton, "Quality of Life: Subjective Measures of Relative Satisfaction" in Millar, ed., *Politics, Work, and Daily Life in the USSR*, pp. 42-45.

<sup>172</sup> For an account of the interdependence of motivational commitments, see David Lane, *Soviet Labour and the Ethic of Communism* (Sussex: Wheatsheaf, 1987), p. 231.

<sup>173</sup> Grossman has termed the sum of production and exchange that is directly for private gain or in known contravention of existing laws the "second economy." See Gregory Grossman, "Notes on the Illegal Private Economy and Corruption," in U.S. Congress, Joint Economic Committee, *The Soviet Economy in a Time of Change*, vol. 1 (Washington: U.S. Government Printing Office, 1979), pp. 834-855.

<sup>174</sup> 17-20 million persons (not necessarily full-time and the higher figure being 15 percent of the 1984 labour force) and 5-6 billion roubles in receipts a year involve second-economy services. Urban

dweller's go to the second economy for about 45 percent (presumably in value terms) of their apartment repairs, half of clothing repairs, 30 percent of home appliance repairs, and 40 percent of auto repairs. See Hewett, *Reforming the Soviet Economy*, p.180.

<sup>175</sup> Grossman, "Notes on the Illegal Private Economy and Corruption," pp. 837-839.

<sup>176</sup> See for instance Gregory Grossman, "The 'Second Economy' of the USSR," *Problems of Communism*, vol. 26, no. 5. (September-October 1977), p. 35 and other western estimate see Anthony Jones and William Moskoff, *Ko-ops: The Rebirth of Entrepreneurship in the Soviet Union* (Bloomington: Indiana University Press 1991).

<sup>177</sup> In the third CPSU programme of 1961, the enthusiastic General Secretary, Nikita Khrushchev, claimed that in twenty years the USSR would have the highest living standard in the world and would have caught up with the West in material terms, when there would be a five-hour working day, rent-free accommodation for workers and significant progress towards Full Communism. *Pravda*, 19 October 1961.

<sup>178</sup> Concerning availability, firstly, data on the Soviet defence effort were unavailable. Secondly, "embarrassing" information was suppressed. Thirdly, micro-data on the behaviour of individual economic units, households, or enterprises were very difficult to obtain from Soviet sources. Finally, much information published was partial and presented in an obscure, cryptic, or incomplete fashion. As for quality, usability, and reliability, there were a number of problems: uncertainty, the conceptual and methodological framework and the particular sets of definitions used, and the critical question of truth in reporting. For a detailed account of the availability and reliability of Soviet statistical data, see Ed A. Hewett, "1987 Panel on Soviet Economic Outlook: Perceptions on a Confusing Set of Statistics," *Soviet Economy*, vol. 3, no. 1 (1987), pp. 3-39.

<sup>179</sup> Gur Ofer, "Soviet Economic Growth: 1928-1985," *Journal of Economic Literature*, vol. 25 (December 1987), p. 1777.

<sup>180</sup> Michael Ellman, *Collectivisation, Convergence and Capitalism* (London: Academic Press, 1984), p. 176.

<sup>181</sup> Whitesell found that in the Soviet Union the productivity gains in industries were higher in low-priority industries such as light industry and food-processing and lowest in the machine-building, metal-working and the construction industries, where the level of priority had been high and input demands relatively unconstrained by a lack of finance. See, Robert S. Whitesell, "The Influence of Central Planning on the Economic Slowdown in the Soviet Union and Eastern Europe: a Comparative Production Function Analysis," *Economica*, vol. 52, no. 206 (1985), pp. 239-241.

<sup>182</sup> Bergson's study of gross domestic product (GDP) per worker revealed that GDP per worker in the Soviet Union in 1985 was 36.7 per cent that of the United States, while in France it was 81.4 per cent, in Italy 81.0, and in Spain 73.7 per cent. See, Abram Bergson, "The USSR Before The Fall: How Poor and Why?" *Journal of Economic Perspectives*, vol. 5, no. 4 (Fall 1991), p. 39.

<sup>183</sup> Ofer, "Soviet Economic Growth: 1928-1985," p. 1782.

<sup>184</sup> In 1980 the Soviet participation rate, measured as a ratio of all those working to the population aged 15-64, was 86.6 per cent, compared with 66.5 and 70.9 per cent in European OECD countries and the U.S. respectively. See OECD, *Historical Statistics 1960-1980* (Paris: OECD Economic Outlook, 1982).

<sup>185</sup> Ofer, "Soviet Economic Growth," p. 1784 and Gertrude E. Schroeder, "Soviet Economic 'Reform' Decrees: More Steps on the Treadmill," in U.S. Congress, Joint Economic Committee, *Soviet Economy in the 1980s: Problems and Prospects*, Part I (Washington: Government Printing Office, 1982), p. 88.

<sup>186</sup> Alec Nove, "The Politics of Economic Rationality," in Alec Nove, ed., *Economic Rationality and Soviet Politics* (New York: Praeger, 1964), p. 53. For the similar argument, see P. D. J. Wiles, *The Political Economy of Communism* (London: Blackwell, 1963).

<sup>187</sup> Berliner, "Managerial Incentives and Decisionmaking," p. 176.

<sup>188</sup> Hewett, *Reforming the Soviet Economy*, p. 88.

<sup>189</sup> Bergson, "The USSR Before the Fall," p. 39.

<sup>193</sup> The 'job rights' terminology is developed in David Granick, *Job Rights in the Soviet Union: Their Consequences* (Cambridge: Cambridge University Press, 1987).

<sup>191</sup> Joseph S. Berliner, *The Innovation Decision in Soviet Industry* (London: M.I.T. Press, 1976), p. 168 and Paul R. Gregory and I. L. Collier, Jr., "Unemployment in the Soviet Union: Evidence from the Soviet Interview Project," *The American Economic Review*, vol. 78, no. 4 (September 1988), pp. 613-632.

<sup>192</sup> Morris Bornstein, "Unemployment in Capitalist Regulated Market Economies and Centrally Planned Economies," *Papers and Proceedings of the American Economics Association*, vol. 68, no. 2 (1978), p. 39; Michael Ellman, "Full Employment—Lessons from State Socialism," *De Economist*, vol. 127, no. 4 (1979), p. 494; and P. J. D. Wiles, "Soviet Unemployment on US Definitions," *Soviet Studies*, vol. 23, no. 4 (April 1972), p. 626.

<sup>193</sup> Hanson found manning levels in thirteen Soviet chemical plants to be between 1.5 and 1.7 times their equivalents in the West. Philip Hanson, *Trade and Technology in Soviet-Western Relations* (London: Macmillan, 1981), p. 193. Schroeder also found that more than 10 million people are engaged in Soviet loading and unloading work and in intra-plan transport, compared with only 3 million in the USA. Gertrude E. Schroeder, "Soviet Living Standards—Performance and Prospects," in U.S. Congress, Joint Economic Committee, *Soviet Economy in the 1980s: Problems and Prospects*, pp. 377-378. Harrison reports from a survey of 800 enterprises in the Moscow area that 73 per cent took time off work to shop or for other personal business in preference to working and earning bonuses. Mark Harrison, "Lessons of Soviet Planning of Full Employment," in David Lane, ed., *Labour and Employment in the USSR* (Brighton: Harvester Press, 1986), p. 77.

<sup>194</sup> Pietsch considers that full-employment in USSR as a whole persisted until about 1970, but after this year, all external labour reserves were exhausted and over-employment had persisted ever since. See Anna-Jutta Pietsch, "Shortage of Labour and Motivation problems of Soviet Workers," in Lane, ed., *Labour and Employment in the USSR*, p. 85.

<sup>195</sup> For the discussion on the types of inflation in Soviet-type economies, see Domenico Mario Nuti, "Hidden and Repressed Inflation in Soviet-Type Economies: Definitions, Measurements and Stabilization," *Contributions to Political Economy* (March 5), pp. 37-82 and Jan Winiecki, *The Distorted World of Soviet-Type Economies* (London: Routledge, 1988).

<sup>196</sup> Kornai, *The Socialist System*, p. 332.

<sup>197</sup> *Ibid.*, pp. 323-332.

<sup>198</sup> Trevor Buck and John Cole, *Modern Soviet Economic Performance* (Oxford: Basil Blackwell, 1987), p. 40.

<sup>199</sup> Alastair McAuley, *Economic Welfare in the Soviet Union* (Madison: University of Wisconsin Press, 1979), pp. 174-213.

<sup>200</sup> Ellman, *Collectivisation, Convergence and Capitalism*, p. 115. Feldbrugge explains how many and which perks supported official state activities and were tolerated, or even encouraged. See F. J. M. Feldbrugge, "Government and Shadow Economy in the Soviet Union," *Soviet Studies*, vol. 36, no. 4 (October 1984), pp. 528-543.

<sup>201</sup> For instance, see Mervyn Matthews, *Privilege in the Soviet Union* (London: Allen and Unwin, 1978); Christian Morrison, "Income Distribution in East European and Western countries," *Journal of Comparative Economics*, vol. 8, no. 2 (June 1984), pp. 121-138; and Abram Bergson, "Income Inequality under Soviet Socialism," *Journal of Economic Literature*, vol. 22, no. 3 (September 1984), pp. 1085-1091.

<sup>202</sup> Bergson, "Income Inequality under Soviet Socialism," p. 1085.

<sup>203</sup> Morrison, "Income Distribution in East European and Western countries," p. 126.

<sup>204</sup> Grossman, "Notes on the Illegal Private Economy and Corruption," pp. 837-839.

<sup>205</sup> Bergson, "Income Inequality under Soviet Socialism," p. 1068.

<sup>206</sup> Buck and Cole, *Modern Soviet Economic Performance*, p. 50.

<sup>207</sup> The Soviet ratio was around 4:1 in the 1970s. See Bergson, "Income Inequality under Soviet Socialism," pp. 1085-1086.

<sup>208</sup> *Ibid.*, pp. 1052-1099. See also Frederic L. Pryor, *A Guidebook to the Comparative Study of Economic Systems* (Englewood Cliffs: Prentice-Hill, 1985).

<sup>209</sup> Buck and Cole, *Modern Soviet Economic Performance*, p. 167.

<sup>210</sup> Ever since Kosygin's economic reform of 1965 had been buried in the wake of the more radical political and economic reforms in Czechoslovakia in 1968, Soviet economic reformers had to use such euphemisms as 'the perfecting of the economic mechanism' if they wished to give voice to any mildly reformist thoughts. Joseph S. Berliner, *Soviet Industry from Stalin to Gorbachev: Essays on Management and Innovation* (Hants: Edward Elgar, 1988), p. 291 and Gertrude E. Schroeder, "The Soviet Economy on a Treadmill of 'Reform'," in U.S. Congress, Joint Economic committee, *Soviet Economy in a Time of Change*, p. 313.

<sup>211</sup> Joseph S. Berliner, "Planning and Management," in Abram Bergson and Herbert E. Levine, eds., *The Soviet Economy Toward the Year 2000* (London: Allen and Unwin, 1983), p. 352.

<sup>212</sup> Yevsei Liberman, "The Plan, Profits and Bonuses," in Bornstein and Fusfeld, eds., *The Soviet Economy*, pp. 360-366.

<sup>213</sup> For the summary of the Liberman debates, see Eugene Zaleski, *Planning Reforms in the Soviet Union, 1962-1966* (University of North Carolina Press, 1967). For English translations of major contributions to the Liberman debate, see M. E. Sharpe, ed., *The Liberman Discussion: A New Phase in Soviet Economic Thought* (White Plains: International Arts and Sciences Press, 1965) and M. E. Sharpe, ed., *Planning, Profit and Incentives in the USSR*, vols. 1-2 (White Plains: International Arts and Sciences Press, 1966).

<sup>214</sup> The factories were given independence from central planning. They themselves drew up their own plans for procurement, production, assortment, quality, and labour productivity. The only plan handed down to these enterprises from above was the investment plan. For a more detailed account, see Marshall I. Goldman, "Economic Growth and Institutional Change in the Soviet Union," in Bornstein and Fusfeld, eds., *The Soviet Economy*, pp. 356-357.

<sup>215</sup> See Alexei Kosygin, "On Improving Management of Industry," in Bornstein and Fusfeld, eds., *The Soviet Economy*, pp. 387-396 and *New Methods of Economic Management in the USSR* (Moscow: Novosti Press, 1965), pp. 26-49.

<sup>216</sup> Berliner, "Planning and Management," p. 353.

<sup>217</sup> Robert Campbell, "Economic Reform in the U.S.S.R.," *The American Economic Review*, vol. 58, No. 2 (May 1968), p. 547.

<sup>218</sup> Morris Bornstein draws a useful distinction between "administrative decentralisation" and "economic decentralisation." "Administrative decentralisation" occurs when regional administrative organs are given increased decision-making authority within a framework of parameters and rules set by higher central organs. "Economic decentralisation" implies that a greater degree of decision-making authority will be devolved from upper-level units to lower-level units. See Morris Bornstein, "Economic Reform in Eastern Europe," in U.S. Congress, Joint Economic Committee, *East European Economies Post-Helsinki* (Washington: U.S. Government Printing Office, 1977), pp. 102-134.

<sup>219</sup> The twenty-three newly constituted or reconstituted industrial branch ministries regained the power and authorities of planning and supervising enterprises' economic activities from the regional economic councils (*sovnarkhozy*). The existing Gosplan and three new state committees—the State Committee for Material-Technical Supply (*Gossnab*), the State Committee for Prices (*Goskomtsen*), and the State Committee for Science and Technology (*GKNT*)—obtained the authority co-ordinate nation-wide

functional activities. For a more detailed account of the organisational changes in 1965, see Fyodor I. Kushnirsky, *Soviet Economic Planning, 1965-1980* (Boulder: Westview Press, 1982).

<sup>220</sup> The eight key targets were the volume of goods to be sold, the main assortment of goods, the wage fund; the amount of profits and the level of profitability, payments into the state budget and allocations from the state budget; the volume of centralised capital investment and the exploitation of production capacities and fixed assets, main assignments for introducing new technology, and material and technical supplies. Kosygin, "On Improving Management of Industry," p. 389.

<sup>221</sup> For an account of the reform of the supply system, see Gertrude E. Schroeder, "The 'Reform' of the Supply System in Soviet Industry," *Soviet Studies*, vol. 24, no. 1 (July 1972), pp. 97-119.

<sup>222</sup> Kosygin, "On Improving Management of Industry," p. 388.

<sup>223</sup> For an account of the industrial price reform in 1965, see Gertrude E. Schroeder, "The 1966-67 Soviet Industrial Price Reform: A Study in Complications," *Soviet Studies*, vol. 20, no. 2 (April 1969), pp. 462-477.

<sup>224</sup> Berliner, "Planning and Management," p. 356.

<sup>225</sup> Three incentive funds—the Fund for Material Stimulation, the Fund for Social-Cultural Measures and Housing Construction, and the Fund for the Development of Production—depended on an increase in the volume of goods sold and on the level of profitability instead of the gross value of output targets. For a brief and clear account of this complicated incentive system, see Campbell, "Economic Reform in the U.S.S.R.," pp. 547-558.

<sup>226</sup> Instead of financing from the state budget, where necessary, bank credits were granted. Moreover, the norms of payments from profits for fixed assets and working capital, at the very low level of 6 per cent, and rents on some primary products in the extractive industries, were established for encouraging full profit-and-cost accounting. Hewett, *Reforming the Soviet Economy*, p. 297.

<sup>227</sup> Gregory and Stuart, *Soviet and Post-Soviet Economic Structure and Performance*, p. 300.

<sup>228</sup> Berliner, "Planning and Management," p. 359.

<sup>229</sup> Schroeder, "The Soviet Economy on a Treadmill of 'Reform'," p. 313.

<sup>230</sup> See, Schroeder, "Soviet Economic 'Reform' Decrees," pp. 81-82.

<sup>231</sup> *Ibid.*, pp. 79-80.

<sup>232</sup> Schroeder, "The Soviet Economy on a Treadmill of 'Reform'," p. 314.

<sup>233</sup> *Ekonomicheskaya gazeta*, no. 32 (August 1979).

<sup>234</sup> Morris Bornstein, "Improving the Soviet Economic Mechanism," *Soviet Studies*, vol. 37, no. 1 (January 1985), p. 23.

<sup>235</sup> Schroeder, "Soviet Economic 'Reform' Decrees," pp. 79-80.

<sup>236</sup> The plan-targets were to include growth in output (net or gross) in value terms; production of principal products in physical units; growth in output of products in the highest quality category; growth of labour productivity; norm wages per rouble of output; the number of employees; assignment for reduction of manual labour; norms for forming each of the three incentive funds and the fund for financing R&D; total profits; commissioning of new production capacities; rouble coiling on investment; assignments for new products and the introduction of new technologies; indicators for the technical level of production; economies to be obtained from the introduction of R&D work; allocations of principal raw materials and machinery; targets for the reduced use of principal physical resources; and (in annual plans only) all of the foregoing plus sales of products and payments to and assignments from the state budget. *Ibid.*, p. 84.

<sup>237</sup> According to the 1979 Decree and Gosplan's instruction, the system was supposed to work as follows. The affected ministry and its sub-units would be assigned a fixed amount of profit in roubles that had to be paid into the state budget in each year of the five year plan; the rest of the profits were theirs and intended to belong to them to finance operations, strictly in accord with the plan. The budget's

allocation had to be paid, even if the annual profit plan was not met. If the profit plan was over-fulfilled by 3 percent or less, half the excess profits went to the budget; as did 75 percent of the excess profits if over-fulfilment was greater. *Ibid.*, p. 78.

<sup>238</sup> In the extractive industries, output in physical terms was to remain the main indicator. Some variations were supposed to be allowed in selected branches of manufacturing. Outside the industrial sector, unspecified new indicators were to be developed. See, Philip Hanson, "Success Indicators Revisited: The July 1979 Soviet Decree on Planning and Management," *Soviet Studies*, vol. 35, no. 1, (January 1983), p. 1.

<sup>239</sup> However, gross value measures and value of sales must still have been calculated and reported. Bornstein, "Improving the Soviet Economic Mechanism," p. 23.

<sup>240</sup> Gorbachev's political report to the 27<sup>th</sup> Congress of the Communist Party of the Soviet Union, see Mikhail Gorbachev, *Selected Speeches and Articles*, second updated edition (Moscow: Progress Publishers, 1987), p. 365 and also see *Pravda*, 26 February 1986.

<sup>241</sup> For an early discussion of these 'human factor' issues, see Elizabeth Teague, "Gorbachev's Human Factor' Policies," in U.S. Congress, Joint Economic Committee, *Gorbachev's Economic Plans*, vol. 2 (Washington: U.S. Government Printing Office, 1987), pp. 224-239.

<sup>242</sup> Hewett, *Reforming the Soviet Economy*, p. 311.

<sup>243</sup> *Ibid.*, p. 312.

<sup>244</sup> *Sotsialisticheskaya Industriya*, 17 May 1985.

<sup>245</sup> *Ekonomicheskaya gazeta*, no. 28 (1986).

<sup>246</sup> The new investment would have a 50 per cent higher output-to-capital ratio. See Fyodor I. Kushnirsky, "The Role of Industrial Modernization in Soviet Economic Planning," in U.S. Congress, Joint Economic Committee, *Gorbachev's Economic Plans*, pp. 257-273.

<sup>247</sup> Nikolai Ryzhikov considered machine-building as 'the material base of the acceleration of scientific-technical progress and the technical reconstruction of the national economy' in his report at the Supreme Soviet on 18 June 1986. On the Twelfth Five-Year Plan, 'On the state plan of economic and social development of the USSR for 1986-2000', see *Pravda*, 19 June 1986.

<sup>248</sup> For an account of the wage reform under Prestroika, see Aslund, *Gorbachev's Struggle for Economic Reform*, pp. 84-88.

<sup>249</sup> 'On the Tasks of the Party in the Radical Restructuring of Economic Management' in J. L. Black, ed., *USSR Documents Annual 1987: Gorbachev Reforms* (Gulf Breeze: Academic International Press, 1988), pp. 36-68 and *Pravda*, 27 June 1987.

<sup>250</sup> For the English text of the Law on the State Enterprises (Association), see Black, ed., *USSR Documents Annual 1987*, pp. 162-187. For a Western scholars' discussion, see Walter Joyce, "The Law of the State Enterprise," in Joyce et al., eds., *Gorbachev and Gorbachevism* (London: Cass, 1989), pp. 71-82 and Richard E. Ericson, "The New Enterprises Law," *Harriman Institute Forum*, vol. 1, no. 2 (February 1988).

<sup>251</sup> The 10 decrees dealt with the following: planning, scientific and technical progress, material supplies, the financial mechanism, banking, price formation, statistics, branch ministries, regional bodies, and social policy. See *O korennoi perestroike upravleniya ekonomikoi* (Moscow: Politizdat, 1988). The best western discussion of this reform can be found in Hewett, *Reforming the Soviet Economy*, pp. 322-360 and Gertrude E. Schroeder, "Anatomy of Gorbachev's Economic Reform," *Soviet Economy*, vol. 3, no. 3 (1987), pp. 219-241.

<sup>252</sup> According to the decree on planning of July 1987, Gosplan, more specifically, was responsible for elaborating five-year and fifteen-year plans and transmitting these long-term plans to the executive economic units; co-ordinating the work of all central administrative bodies dealing with the economy; determining the composition of state orders; and compiling material balances and plans of distribution for

the most important types of output. See *Ibid.*, pp. 55-90.

<sup>253</sup> According to the decree on the management of the scientific and technical progress of July 1987, GKNT was responsible for working out state scientific and technical programs; for the formation, distribution, and monitoring of the bill of state orders for the development of such programs; and for guiding the work of inter-sectoral scientific and technical complexes. See *Ibid.*, pp. 91-105.

<sup>254</sup> Nevertheless, branch ministries still had enormous responsibility and power: financing centralised reserve funds through deductions from enterprise profits; monitoring and conducting annual audits of enterprise activities; aiding enterprises in trouble if appropriate and desirable with various way; defining control figures, state orders, limits, and economic norms for each enterprise; establishing and liquidating enterprises; ratifying the appointment and dismissal of elected firm directors and administering bonuses to them; and interacting with central and local bodies in carrying out a variety of activities for which all are held mutually responsible. See *Ibid.*, pp. 191-207.

<sup>255</sup> Accordingly, super-ministerial bodies, directly subordinated to the Council of Ministers of the USSR and led by a deputy prime minister, were founded for the supervision of inter-sectoral economic activities and the management of large national economic complexes and groups of interrelated branches. Seven such bodies were established during 1985-1987: the Bureau for Machine-building in October 1985; the State Agro-Industrial Committee (*Gosagroprom*) in November 1985; the Bureau for the Fuel-Energy Complex in March 1986; the State Committee for Construction (*Gosstroi*) in August 1986; the State Foreign Economic Commission in September 1986; the Bureau for the Chemical and Timber Complex; and the Bureau for Social Development in the autumn of 1986. Hewett, *Reforming the Soviet Economy*, p. 336.

<sup>256</sup> *O korennoi perestroike upravleniya ekonomikoi*, p. 206.

<sup>257</sup> Ashund claimed that this was one of Gorbachev's compromised decisions in the leadership, judging by his warning against monopolies in June 1987. Ashund, *Gorbachev's Struggle for Economic Reform*, p. 122.

<sup>258</sup> 'Socialist self-management is realised in conditions of broad openness through the participation of the entire collective and its public organisations in working out highly important decisions and monitoring their fulfilment, the election of executives, and the one-man management in the administration of the enterprise'. Article 6 and 7 of the Law on the State Enterprise (Association) of 1987 provide the principles and processes in the management of the enterprise.

<sup>259</sup> See Articles from 10 to 22 of the Law on the State Enterprise (Association) of 1987.

<sup>260</sup> Article 2 of the Law on the State Enterprise (Association) of 1987 made it clear that the state plan was a highly important instrument of implementing the economic policy of Communist Party and the Soviet state and guided the enterprise's activity. The government planning mechanism, therefore, was still the dominant co-ordination mechanism in the Soviet economic system.

<sup>261</sup> *O korennoi perestroike upravleniya ekonomikoi*, pp. 55-90.

<sup>262</sup> See Article 10 of the State Enterprise (Association).

<sup>263</sup> *O korennoi perestroike upravleniya ekonomikoi*, pp. 109-131.

<sup>264</sup> There were six major banks in the Soviet banking system: the USSR State Bank (*Gosbank*); the Industrial Investment Bank; the Bank for the Agro-Industrial complex; the Bank for Housing; the Municipal Services and Social Development Savings Bank; and the Bank for Foreign Trade of the USSR. Gertrude E. Schroeder, "Anatomy of Gorbachev's Economic Reform," in Ed A. Hewett and Victor H. Winston, eds., *Milestones in Glasnost and Perestroika: The Economy* (Washington: The Brookings Institution, 1991), p. 213.

<sup>265</sup> *O korennoi perestroike upravleniya ekonomikoi*, pp. 150-164.

<sup>266</sup> This election principle of self-management, as a rule on a competitive basis, applied to the heads of enterprises, divisions of associations, production units, shops, departments, sections, livestock units and links, as well as to top foremen and brigade leaders and the selections had to be ratified by the appropriate



superior organ. The procedure for each election was described in Article 6 of the Law on State Enterprise (Association).

<sup>267</sup> Schroeder, "Anatomy of Gorbachev's Economic Reform," p. 212.

<sup>268</sup> For the English text of the Law on Cooperatives, see J. L. Black, ed., *USSR Documents Annual 1988: Perestroika—the Second Stage* (Gulf Breeze: Academic International Press, 1989), pp. 122-150.

<sup>269</sup> For an overview of the development of private co-operatives in the Soviet Union, see Misha Belkindas, "Privatisation of the Soviet Economy under Gorbachev II," *Berkeley-Duke Occasional Papers on the Second Economy of the USSR*, no. 14 (April 1989), pp. 37-97; Anthony Jones and William Moskoﬀ, "New cooperatives in the USSR," *Problems of Communism*, vol. 38, no. 5 (1989), pp. 27-39; and Anthony Jones and William Moskoﬀ, *Ko-ops: The Rebirth of Entrepreneurship in the Soviet Union* (Bloomington: Indiana University Press, 1991).

<sup>270</sup> Leonard Getton, *Soviet Foreign Economic Policy under Perestroika* (London: Pinter Publishers, 1990), pp. 20-27. There are four basic decrees on foreign trade reform. Two were adopted on 19 August 1986 (one on foreign trade in general and one on co-operation with socialist countries). Two decrees on joint ventures (one for CMEA members, and one for others) were adopted on 13 January 1987. All four were published in full in English in the monthly journal *Foreign Trade*, no. 5 (1987).

<sup>271</sup> Anders Aslund, "The New Soviet Policy towards International Economic Organisations," *The World Today*, vol. 44, no. 2 (February 1988), pp. 27-30.

<sup>272</sup> Gorbachev's speech—"Democratization is the Essence of Perestroika and Socialism"—at the meeting of the Central Committee on 8 January 1988 in Black, ed., *USSR Documents Annual 1988*, pp. 6-7.

<sup>273</sup> For an account of *Glasnost*' policy under Gorbachev, see Alec Nove, *Glasnost' In Action: Cultural Renaissance In Russia* (London: Unwin Hyman, 1989).

<sup>274</sup> For a full account, see Stephen White, "Reforming the Electoral System," in Walter Joyce, Hillel Ticktin and Stephen White, eds., *Gorbachev and Gorbachevism* (London: Cass, 1989), pp. 1-17 and Jeffrey Hahn, "An Experiment in Competition: the 1987 Elections to the Local Soviets," *Slavic Review*, vol. 47, no. 2 (Fall 1988), pp. 434-447. For a fuller discussion of electoral reform and of political change more generally, see Stephen White, Graeme Gill and Darrel Slider, *The Politics of Transition: Shaping a Post-Soviet Future* (Cambridge: Cambridge University Press, 1993).

<sup>275</sup> In the end, just over 1 per cent of the constituencies were formed on this new multi-candidate basis and they returned no more than 4 per cent of all the deputies elected on 21 June 1987. Stephen White, *After Gorbachev* (Cambridge: Cambridge University Press, 1993), p. 32.

<sup>276</sup> For an analysis of the 19<sup>th</sup> Party Conference in 1988, see Michel Tatu, "19<sup>th</sup> CPSU Congress," *Problems of Communism*, vol. 37, no. 3 (1988), pp. 1-15 and Seweryn Bialer, "The Changing Political System: The Nineteenth Party Conference," in Seweryn Bialer, ed., *Politics, Society, and Nationality: Inside Gorbachev's Russia* (Boulder: Westview Press, 1988).

<sup>277</sup> The right to nominate was extended to voters' meetings of 500 or more (Art. 37), and an unlimited number of candidates could be put forward (Art. 38). Deputies were not allowed to hold governmental posts at the same time as they exercised their representative duties, and they were normally required to live or work in the area for which they had been nominated (Arts. 11 and 37). Candidates, moreover, were required to present 'programmes' to the electorate (Art. 45) and had the right to appoint up to ten campaign staff to assist them (Art. 46). Electors, for their part, were required to pass through a booth or room before casting their vote and to make a positive indication of their preference unless (exceptionally) only a single candidate was standing (Art. 53). For the Law on the Election of People's Deputies of the USSR, see Black, ed., *USSR Documents Annual 1988*, pp. 163-176.

<sup>278</sup> White, *After Gorbachev*, pp. 37-38.

<sup>279</sup> *Ibid.*, pp. 52-56.

<sup>280</sup> The CPSU CC Draft Platform for 28<sup>th</sup> Party Congress, 'Towards Humane, Democratic Socialism', approved by the Plenum of the Central Committee in February in J. L. Black, ed., *USSR Documents*

*Annual 1990: Restructuring Perestroika*, vol. 1 (Gulf Breeze: Academic International Press, 1991), p. 128.

<sup>281</sup> The application of social contract theory to the Soviet case had become popular in the 1970s, as a way of explaining the stability of a Soviet system that no longer relied on terror and a charismatic absolute leader for its survival and even legitimacy. The social contract theory, though not universally accepted, can produce insights into the relationship between state and society in the Soviet system. For the concept of 'social contract' in the Soviet Union, see Janine Ludlam, "Reform and the Redefinition of the Social Contract under Gorbachev," *World Politics*, vol. 43, no. 2 (January 1991), pp. 284-312; Peter Houslohner, "Gorbachev's Social Contract," *Soviet Economy*, vol. 3, no. 1 (1987), pp. 54-89; Ferenc Fehér and Andrew Arato, eds., *Gorbachev: The Debate* (Oxford: Polity Press, 1989), pp. 84-123; and Stephen White, "Economic Performance and Communist Legitimacy," *World Politics*, vol. 38, no. 3 (1986), pp. 462-482.

<sup>282</sup> Seweryn Bialer, *Stalin's Successions: Leadership, Stability, and Change in the Soviet Union* (Cambridge: Cambridge University Press, 1980), pp. 148-158.

<sup>283</sup> Lane, *The Rise and Fall of State Socialism*, pp. 157-160.

<sup>284</sup> S. Frederick Starr, "The Soviet Union: A Civil Society," *Foreign Policy*, no. 70 (Spring 1988), p. 27.

<sup>285</sup> See Blair Ruble, "The Soviet Union's Quiet Revolution," in George Breslauer, ed., *Can Gorbachev's Reforms Succeed?* (Berkeley: University of California, Centre for Slavic and East European Studies, 1990); Peter Hauslohner, "Politics Before Gorbachev," in Bialer, ed., *Politics, Society, and Nationality Inside Gorbachev's Russia*; and Gregory Grossman, "The 'Second Economy' of the USSR," *Problems of Communism*, vol. 26, no. 5 (1977), pp. 25-40.

<sup>286</sup> Lane, *The Rise and Fall of State Socialism*, pp. 157-160.

<sup>287</sup> Jerry Hough, *Russian and the West: Gorbachev and the Politics of Reform* (New York: Simon and Schuster, 1988), p. 7.

<sup>288</sup> Archie Brown, *The Gorbachev Factor* (Oxford: Oxford University Press, 1996), p. 124.

<sup>289</sup> For an account of the economic reform views of the party leadership under Gorbachev, see Aslund, *Gorbachev's Struggle for Economic Reform*, pp. 25-69.

<sup>290</sup> David Lane stated that perestroika was a policy of self-destruction: when the old system of central planning was destroyed, nothing was put in its place except uncertainty and ambiguity. Lane, *The Rise and Fall of State Socialism*, p. 126.

<sup>291</sup> Brown, *The Gorbachev Factor*, p. 137 and Dyker, *Restructuring the Soviet Economy*, p. 185.

<sup>292</sup> Gorbachev's ideas on economic reform were blocked by the social contract. Instead of total job and income security and general equality of wages, there must be faster national economic growth by increasing economic efficiency, and more and better consumer goods on the store shelves. Hewett aptly calls this the "equity-efficiency trade-off." Hewett, *Reforming the Soviet Economy*, p. 3.

<sup>293</sup> James Noren, "The Soviet Economic Crisis: Another Perspective," *Soviet Economy*, vol. 6, no. 1 (1990), p. 361.

<sup>294</sup> Gertrude E. Schroeder, "The Soviet Economy on a Treadmill of Perestroika: Gorbachev's First Five Years," in Alexander Dallin and Gail W. Lapidus, *The Soviet System in Crisis: A Reader of Western and Soviet Views* (Oxford: Westview Press, 1991), p. 376.

<sup>295</sup> *Ibid.*, p. 380.

<sup>296</sup> See, Gur Ofer, "Budget Deficit, Market Disequilibrium and Soviet Economic Reforms," *Soviet Economy*, vol. 5, no. 2 (1989), pp. 107-161; James H. Noren, "The Soviet Economic Crisis: Another Perspective," *Soviet Economy*, vol. 6, no. 1 (1990), pp. 3-55; and Gertrude E. Schroeder, "'Crisis' in the Consumer Sector: A Comment," *Soviet Economy*, vol. 6, no. 1 (1990), pp. 56-64.

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