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Author(s)	EVENKO, Leonid I
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## New Stage of Economic Reform in the USSR

### Leonid. I. Evenko

“Perestroika” — the restructuring of economic, political, social and cultural life in the USSR, the leading socialist society in the world — is one of the major events of global development at the turn of the 1990s. A process initiated in April 1985 by the political leadership of the country headed by Mikhail Gorbachev has already triggered extremely profound, revolutionary changes in many facets of Soviet society. This process is developing to a point of irreversibility.

#### I Real achievement of restructuring

It seems reasonable to believe that the major achievements of restructuring are *openness* and *democratization* of social and political life of the nation. Despite the resistance of some interested groups they have increasingly become an inseparable part of Soviet reality. Pluralism of opinions, including those on the fundamental issues of socialism, internal and external policy of the USSR exist and are encouraged by the Communist Party and the state. Ideological censorship has been rescinded. The ideological-political dictate of the party organs has given to dissent and a desire for conflicting views. The progressive forces have successfully averted a recent attempt to enact decree restricting criticism of the existing system. The rethinking of many pages in the history of the country is under way. The attitude toward many aspects of life in prerevolutionary Russia and to the emigres is changing. The public has come to know truth about the crimes of the Stalin period, and the great majority of the people now denounces Stalinism. While maintaining socialist values as fundamental for the Soviet society, the attitude toward capitalism and to everything “bourgeois” is becoming more tolerable. Universal humanistic values increasingly prevail over the class approach. Drastic changes are taking place in the attitude of the state and public toward religion.

The functions and character of the mass media have changed radically from being a dutiful instrument of the state into a true social and political powerful organ embodying the essence of different trends and approaches to the problems of restructuring. There was hardly anybody a few years ago who could have anticipated such radical changes. Today, Soviet citizens live in a quite new ideological and cultural environment. True, the innovations have some inconsistencies and pitfalls due to the “euphoria” of ideological all-permissiveness. However, attempts by conservative circles to halt this process have failed and openness has developed widely.

Another obvious achievement of restructuring is a *new political thinking* — the new foreign policy of the USSR. Few question today a consistent and sincere desire of the Soviet state to solve complex foreign policy problems in a new way. The Soviet Union has considerably altered its official stance and practical policy with respect to a variety of crucial issues concerning global development, such as disarmament, relations between nations with differing political systems, ideological opposition of capitalism and socialism, and a search for ways of settling regional conflicts, and the like. In their search for optimal paths of further development, socialist countries are increasingly guided by their specific approaches with regard to concrete national and historical settings. The “enemy image” goes into pieces in the West’s eyes. The world sees the Soviet Union, socialism, and the countries of the socialist

community in a different light.

*The political reform* proclaimed at the 19th Party Conference is taking shape. The first Congress of People's Deputies of the USSR and the first session of the Supreme Soviet of the USSR showed, for all the imperfection of Soviet parliamentarism, that a real powerful force has evolved in the political system of Soviet society, notably, the top legislative body of the sovereignty of the people which assumed, under democracy and openness, many important functions previously considered an inseparable prerogative of the party and state machinery. Democratic elections, full openness in the workings of the Congress and the Supreme Soviet constitute a school of political education for the people. The nation is persistently moving toward a civil society.

Of course, the value of perestroika achievements vary for different social groups, institutions, and individuals from the standpoint of direct impact on their life. The greatest satisfaction is experienced by the politically, economically, and intellectually active portion of the population whose share is not yet large. The people at large feel both negative and positive effects of the processes going on in this country.

## II Aggravation of problems

The revolutionary transformations are taking place against a background of serious social tension in this country. Behind it are ethnic conflicts, contradictions between the center and the regions, the increasing struggle of individual social groups, especially workers, growing crime rates. Despite a rather high authority of the political leadership of the country headed by M. Gorbachev, the Communist party as a whole at regional and local levels face serious problems in raising their prestige in the public eye, and in adaptation to new realities.

However, the major cause of the social tension which is having an adverse effect on the life of Soviet people and breeding the deepest concern, is the state of economy and the progress of economic reform. Although more than two years elapsed since the actual beginning of the reform in 1987, the economic situation in this country rather than improving has in fact deteriorated by many parameters. Whereas the speeches of the leaders of the Soviet state several years ago pointed out a "pre-crisis" state of economy, recently they openly talk about "its slow break out of the crisis".

Though the statistical growth of public production is positive, the crisis phenomena are visible in the everyday life. Every citizen is personally aware of the imbalance of the commodity market with respect to the majority of goods, including essentials. The deficits are increasing and the growth rate of money income is twice that of the mass of consumer commodities in the consumer sector. Financial disarray has led to depreciation of money: the national debt reached 317 billion roubles, budget deficit grew by one-fifth hitting the 120 billion mark and the external debt is continuing for rise over the 34 billion rouble level. There is no indexing of earned incomes, however. The credit and financial system fail to stimulate economic development. Food shortages are an acute problem. Much more pressing is the housing problem, and the material base of the cultural sphere is lagging behind. Though the entire growth of GNP social production has been gained through higher labor productivity, for the first time ever in the history of Soviet economy, there has been an essential change in the product quality, rates of technological change, production efficiency.

A rather optimistic assessment of the economic reform in 1988 at the 19th Party Conference stating that "if the economic mechanism has begun to function and secures more tangible results, that is exactly what we need" [M. S. Gorbachev, 2, p. 18] falls short of expectations

in 1989.

As far as the objective and subjective causes of the continuing difficulties are concerned, the principal *objective cause* is a currently irrational structure of the national economy of the USSR inherited by the present leadership. The structural problems (orientation at production for the sake of production ; high energy-and material intensity of the national income ; backwardness in agriculture, infrastructure, services ; irrational management, etc.) are rather serious. They are of a long-range character and cannot be quickly alleviated. The domestic causes of the Soviet economy's backwardness are unfortunately rather deep-rooted and it will take decades to alleviate them.

In the short-term perspective, the economic problems were further aggravated by the unexpected developments such as a decline in the oil prices (annual losses of 30 billion roubles). The Chernobyl disaster (8 billion roubles altogether), the Afghan war (annual losses of 5 billion roubles), and the Armenian earthquake (over 11 billion roubles will be needed for reconstruction).

However, overcoming the objective causes will provide the long-term solution to the crisis in the Soviet Union and so, the aggravation of the current economic situation is not so important. It is the *subjective causes* that are of decisive significance here.

It is quite clear now that the rapid renovation and reequipment of plants in 1986, failed to produce results. Despite the fact that the budget for the 12th five-year plan was of over 200 billion rouble — more than for the preceding 10 years — as well as large convertible currency injections, the plan targets have not been accomplished. This turned to be yet another “technocratic illusion”. The system per se — R & D sophistication, purchase of technology and equipment abroad, time and quality of construction, and of course bureaucratic control, the lack of incentive for innovations introduction of and new technology advances — was an obstacle to a rapid solution of this problem on the scale of the entire economy. Just like the other “great leaps”, this one was doomed to fail. Nikolay I. Ryzhkov stated that, “being aware of the considerable significance of fixed capital renovation, we are unable to exercise a large-scale solution of this problem at present ; there are no objective premises for that in this country” [4]. Thus, one of the principal characteristics of the new stage in the development in the Soviet economy is a turnaround of priorities, from technocratic to socio-oriented investment policy.

The Soviet economy has commenced “turning to man” which is one of the most significant facets of structural policy. Most of the socio-oriented industries developed at much higher rates during 1986–1989. However, the 1990 plan targets are unprecedented. They envisage an increase of 11 times in the growth rates in group B industry (means of consumption) over those in group A, (means of production) boosting production of various types of home appliances 1.5–3.7 times per year, etc. The share of state investment in the nonproductive sphere will rise to 28 per cent in 1990 as against 23.5 per cent in 1988 [5]. Behind the far-reaching commitments of the state are the *conversion of military-oriented industries* releasing huge capacities in to machine-building and high-technology sectors. Hence, the production growth rates of some consumer goods (TV sets and other home appliances) seem quite real. In a short-term perspective, this may considerably contribute to improvement of the commodity market balance.

There are major differences in the business operations between civil and military sectors. Business production strategies for defence production and for civil production differ : technically sophisticated and costly versus simple and cheap. With the military it is a government contract, while with the civil sector it is market competition and trade contract. High pre-

stige in activities for the sake of national security (with, awards, state prizes, etc.) in the defence sector contrasts with and a commonplace strive for market success (award — high profits) in the manufacture of consumer goods. The designer and engineer are the key figures in the first case, and entrepreneur sales agent and financial expert in the second. If no consideration is given to such differences or to the need for changes in business strategies, management organization, and culture, then the attempts at conversion may turn into yet another “great leap”.

So far all attempts to solve *food problem problems* have been ineffective. In 1986, while the policy of huge investments in agro-industrial complex continued, consideration was given to a “radical step” of “establishment, in the center and in the localities, of unified management bodies of an agro-industrial complex” [4, p. 38]. This bureaucratic measure was not, however, accompanied by adequate structural changes in industries supporting agricultural production (agricultural machinery, mineral fertilizers, amelioration, processing of agricultural products, etc.) and, what is more, was inconsistent with the need for radical changes in the ownership production system in the country. 1988 witnessed no growth in food products, and the pent-up demand reached 20 billion roubles a year giving annual losses in agricultural products estimated at 77 billion roubles, irrational structure, and low quality of foodstuffs. Thus, the state policy for agro-industrial complex development is also at a turning point now.

The *antialcoholic campaign*, exercised in the worst “voluntarist” traditions of the past, turned out to be absolutely ineffective a year. Rather than solving the problem it actually drove it still deeper. However, the return to the sales of cheap alcohol (as, for example, suggested by Nikolay P. Shmelyov and Vladimir V. Popov [10, p. 383]) would have been another extreme solution of the problem. To surrender to this evil today means to demoralize society in return for questionable economic gains (“home” distilling of alcohol has become cheap and competitive). The experience gained in restructuring reveals that the alcoholism problem can only be solved by improvements in the labor morale.

The *bureaucratic apparatus* also played an adverse role in the economic reform, though, this should not be viewed as the major cause of the existing problems. A desire to “live beyond one’s means” with the connivance of the Ministry of Finance and the State Planning Committee, and the “authoritarian ways” of ministries and agencies which, as M. S. Gorbachev repeatedly said, are still there, cannot be explained only by conservative thinking of many administrators and apparatchiks. This is not only a cause but also an effect of half-way restructuring. Until ministries and agencies are held directly responsible for the problem performance of industries and sectors in the national economy with no market controls, they will have to resort to traditional pressures on enterprises. The balance of authorities and responsibilities is an axiom of management. The amendments to the Law on the State Enterprise of 1989 and other Acts deprive ministries of their major levers of administrative dictatorship — to place government contracts (this is now the sole authority of Gosplan) and assign standards of the wages and incentives fund (they are replaced with a progressive wage tax). This may lead to new problems and dysfunctions in the economic system in the short term period.

The last few years also revealed that the overwhelming majority of primary economic units *labor collectivities* were unprepared for rational actions under democratic ways of management. The relaxation of wages and salary control under the more flexible profit-and-loss cost-accounting models on which great hopes were placed (model 1 and especially model 2) led largely to an unfounded rise in wages and other monetary incomes unaccompanied by an adequate growth in labor productivity. There are a number of reasons behind this phenomenon: first, the considerably scaled down wages in the Soviet economy as a whole (36.6

per cent of the national income in contrast to 60–80 per cent in industrially developed countries [13, p. 13]) — a pressure that will act in future too ; second, the desire to prevent the increasing outflow of skilled manpower to cooperative and leased sectors of the economy ; third, scepticism of enterprises concerning the stability of the assigned standards and the new economic mechanism in general. What is more important, however, the very nature of worker's self-government came to manifest itself ; they focus primarily on the problems of wages, working conditions, and social development while being somewhat indifferent to the longer-range technological and economic goals. It is necessary to relinquish the illusion that self-government is a panacea. The independence of labor collectives will naturally increase but not infinitely. It must be balanced by administration and technocrats and especially external market pressure including that of labor market.

The societal image of the newly evolved *cooperative movement* is rather contradictory. The state, and public too, while supporting it in principle secretly dream of having it “sterile” and developing not by the laws of free enterprise but rather as a humble adjunct to the state sector. This is impossible, however. The cooperative movement triggered serious social concern not because cooperators turning out about one per cent of the gross national product really affect resource allocation and state of finances but because they touch the very foundations of income distribution and social structure of society. This is an ideological rather than an economic problem ; the attitude toward cooperatives is today a “litmus test” of the advocates and opponents of the Soviet economy's transition to a new model, and of society — to a new social structure.

The cooperative movement has aroused entrepreneurial forces sometimes generating results. Multimillion profits have been made easily. Enterprising cooperators have showed that there are huge reserves for economic improvement which have hitherto been untapped by the state-run enterprises and organizations because of no incentives due to a lack of industriousness, or permission from the authorities. On the other hand, a number of facets in the cooperative activities are also negative. These are related to excessively high prices and monopolist superprofits, penetration by shadow economy businessmen in the cooperative sector, and trade profiteers who strive toward a short-term commercial profit irrespective of product quality. For all the essentially progressive Law on Cooperation of the USSR passed in 1988, virtually no adequate tax or an administrative, legal, and particularly ideological and psychological environment for its implementation was developed.

All of these subjective difficulties are explainable, to some extent, by the absolute novelty of the problems solved. Certain difficulties and problems are quite natural here, and the errors are inevitable. Nevertheless, many problems could have been anticipated two years ago when the major decisions, laying a foundation for the economic reform were made.

### III Initial concept

A concept of radical economic management reform developed in 1987 constituted a huge step forward as compared with the previous policy of managerial “improvements” without restructuring the foundations of command-and-administrative system. The new concept viewed management of the system as the crux of the entire reform [2]. However, even the most progressive document entitled “Guidelines for Radical Restructuring of Economic Management” [6] approved by the July (1987) Plenum of the CPSU Central Committee left some major postulates of the administrative economic system intact. In particular, the socialist national economy was treated, just as it had been in the past, as a “unified economic complex” in

which the state, sectoral, regional levels and the primary unit, the enterprise, were considered links of an integral and inseparable hierarchy, or a pyramid, to be managed by new methods rather than dismantled. It was proclaimed that “the gist of radical changes in the national economic management is transition from primarily administrative to economic methods of administration *at all levels* (italics-L. E.), control of interests and via interests, and to wide-ranging democratization of management, and all-out activization of the human factor” [3, p. 87].

The Law on the State Enterprise (Association) of the USSR read also that “it deepens the centralism principles in solving the major problems of development of the national economy as a unitary whole”, that “the state enterprise (association), along with cooperative one, is the primary unit of an integral national economic complex” [8, p. 3]. This postulate of the command-and-administrative socialist system is fixed in Article 15 of the USSR Constitution and is closely connected with the idea of supremacy of public, i.e., state ownership in the socialist economy. It was argued that the national economic complex of the USSR has reached a technoeconomic integrity combining all phases of social reproduction exercised on a nationwide scale — production, distribution, exchange, consumption; all branches of the national economy, both productive and nonproductive spheres; all regional parts of the nation’s economy — territorial — production complexes, economic regions and economic complexes of union republics; and interindustry and sectoral economic complexes. This monolith naturally required state planning as a key regulator of socialist reproduction or, to put it in more general terms, “scientific government of society” [V. G. Afanasiev, 1]. The state herewith was assigned a role of both the mouthpiece of social needs and the major commodity producer. It substituted for real consumers and producers usurping their interests. The economic function of the state has inevitably moved into the foreground. An analogy between the national economy of the USSR and a huge enterprise suggests itself where each minister actually acted as an “industry senior executive officer”, the Chairman of the Council of Ministers of the USSR exercised functions of the “national economy CEO”, and heads of agencies played the role of “functional vice-presidents” deputy directors on individual functions”.

Monopoly rather than competition that has been considered an inseparable attribute of the socialist economy (since V. I. Lenin wrote: “socialism is none other than a state-capitalist monopoly put to the benefit of the people at large” (Collected works, v. 34, p. 192). As for the necessity of eliminating negative monopolistic tendencies, the 1987 documents mentioned in passing, somewhat naively though, that the superior authorities may, on their good will, arrange “competitive” functioning of the reporting economic units.

All documents since the 27th Party Congress have raised the issue of the necessity to reform the socialist production and property system, develop a “sense of master” among workers. However, the raising of such issues did not always lead to their implementation.

Even the very idea of a “total profit-and-loss system” — of course, progressive at the start of restructuring, — suggests that while paying taxes the enterprise settle accounts not with an impersonal state budget, and not with its suppliers and other agents in the regulated market but with the superior public bodies — sectoral ministries, ministry of finance, etc. The transition to “primarily economic management methods” from administrative one and the hope for “stable economic normatives” has led to greater dependence of the enterprises on the ministries. Each one of them manipulated normatives, standards, government contracts, and material resource quotas using their own discretion which did not change the enterprise dependence on ministries. Naturally, under such circumstances many managers and workers preferred the old system rather than the indefinite new one and have lost faith in restruc-

turing.

The 1988 and 1989 State Plan did not become a "general guidance for action" but remained a directive plan. Instead of wholesale trade in the means of production, the plan was, as earlier, oriented towards their physical distribution by quotas. Financial and other controls via a host of instructions and stipulations were as rigid as ever.

It all resulted from a failure to realize that it was impossible to create a new business system without destroying the earlier hierarchy pyramid. The enterprise should not be placed in the "pyramid" of a "single national economic system". Instead it should be part of a "network" of legal, market, administrative and other factors, i.e. in a new "business environment". The State's major objective is to create such an environment in which it can control the above network, rather than direct the enterprise and exert pressure on it down the vertical lines of the pyramid. On the other hand, the major objective of the enterprise or association (i.e., the basic unit producing material wealth) is to assume total business authority. The Soviet leaders, as well as scientists are just beginning to understand that.

There are three powerful managerial instruments: "Hierarchy", "Market" and "Culture", and the socialist economic management system must find the right balance of these three. Hierarchy is an instrument for ensuring stability through the establishment of organizations; Market is intended to make the system more dynamic through the buy / sell relationship; Culture is meant to make a positive influence on people's and groups' behavior in work conditions by producing and reproducing the proper values and social norms.

Until recently the Soviet leaders (possibly, without fully realizing it) gave priority to the hierarchy factor. The market factor occupied an auxiliary, secondary place in the single multi-level management structure. The culture factor, which suffered from the bureaucratic system was not taken seriously.

Hierarchical, "mechanistic" management systems are ideals of bureaucrats, orthodox political economists and cyberneticians, and each of them have their own arguments for hierarchy. However, they forget that there do not exist "ideal bureaucracies" (according to Max Weber), and that bureaucratic systems inevitably give birth to a social stratum possessing power. In order to keep the power, this stratum implants "bureaucratic pathologies" into the system. It must be borne in mind that "administrative man" always turns out to possess "bounded rationality" (according to Herbert Simon). If a purely political economic or cybernetic approach to management is employed, it does not take into consideration the sophisticated social and psychological work motivations of modern man. (It places the human "specific job" function on the same footing as the function of the machine, or, by introducing the "information" as a category, equates man with computer). Of no less importance is the fact that in the world community of the late 20th century, in human culture at large, democracy and freedom (including business independence, i.e. entrepreneurship) grow into independent values that any society's business system should be consistent with.

Naturally, organizations, formalized systems and qualified managerial staff are needed at various business levels. It is a utopian and dangerous illusion to seek total elimination of bureaucracy. However, the essential thing is to limit the use of hierarchical regulated systems to certain areas. Economy and society at large should be guided by other, more democratic principles: market orientation, self-management of working people and a new business culture. The central question to be answered with respect to the economic reform in the USSR is whether the hierarchy and the entire vertical chain of command over economy as a whole or its individual units will be broken or not.

The failures of the initial stage of perestroika showed that restructuring the above-

mentioned pattern is mandatory without much reform can never gain momentum. There are powerful forces operating in this country running counter to radical change. However, analysis of the recent policy statements of Government and Party leaders shows that the above-mentioned problem can be solved. There are numerous indications that a totally new model of economic management is going to be adopted. We are facing the beginning of a new stage in the economic reform. What are the grounds for such a conclusion?

#### IV Innovative concepts and new approaches

The Soviet leaders do not simply proclaim the utility of new economic methods but directly assert that "the reform should lead us to a new economic model" [M. Gorbachev, 6]. Increasingly employing economic methods of management, "we shall come closer to forming a new model of the socialist business system" [N. Ryzhkov, 12]. As is pointed out by the Head of the Government, this new economic model is based on recognition of the role of the socialist market and competition in the Soviet economy; on the necessity of creating an effective economic mechanism that can regulate the market and ensure social protection of the population's interests from the influence of the market forces; and on overcoming, with the help of antimonopoly legislation and other instruments, the dictate of monopoly of not only ministries and agencies but also of 1000 large and superlarge enterprises. In contrast to the streamlined formulations of the recent past: "enhance centralism" and simultaneously, "extend the sphere of the enterprise's independence"; "combined sectoral and regional management", economic and administrative methods, etc., the words used currently are quite different words used now are to the effect that a new business model should totally replace the existing one.

It is significant that the focal points in these transformations are:

*First.* Cardinal revision of the view on socialist property. Until recently the concept of socialism was centered around a dogmatic doctrine that was interpreted by one of orthodox political economists as follows: "Socialization of production under socialism implies total removal from economy of private business forms — not only capitalist, feudal, etc., but also those based on the producer's own (individual owner's) labor. This is the cornerstone tenet of scientific socialism dealing with objective regularity of society's socio-economic development. It cannot be evaded in any country-specific environment of the nation engaged in socialist construction" [11]. It was not a mere declaration. Until recently such views underlay the governing policy. Today, however, quite a different approach is dominant. This new approach admits pluralistic views on not only profit-and-loss models but also on business formats based on differing property relations — leasing, cooperative activity, shareholding, etc. Just two years ago neither leasing nor shareholding were seriously contemplated.

One of the major modes of enhancing the reform is to create conditions, so that "each form of property should prove its viability and a right to existence in a fair competition" [M. Gorbachev, 5]. The only stipulation is not to allow any exploitation and alienation of the worker from the means of production. Socialism is no longer identified with state ownership; and state management — with the business function of ministries and agencies. State enterprises, leasers, coops, individuals should be given equal status. This extremely important thesis should underlie the Law on Ownership that is being currently elaborated, which will, in fact, bring about a mixed economy in the USSR.

*Second.* The most important change that has occurred in the new strategy and practice of the economic reform is a change in the attitude to economic regulation. Up until very re-

cently, the main hopes for balanced, stable economic development were laid on improved centralized planning, as well as on improvement of the "economic mechanism" (in other words, a system of targets and normatives for regulating the activity of each enterprise). The remaining problem was how to fit the State Plan into the new market economy, varied in property forms and democratically controlled.

However, the focus of the problem is different now. There has come an understanding that it is the enterprise's business environment that should be regulated, rather than its activity. Perestroika is in real danger now owing to the poor condition of the financial and market / consumer environment. It affects the stimulus to earn money honestly and no complete cost accounting principle can work in such a setting. That is why the problems of the financial rehabilitation of the economy and development of the consumption sector have top priority in the current economic policy. It is also understood that in the context of increasing business independence, the importance of social regulation to protect the working people's interests and of fundamental principles of socialism is growing.

Another new development is an understanding by the political leaders of the significance of the cultural environment. Many statements have expounded the necessity to further strengthen the discipline and responsibility in organizations. However, N. I. Ryzhkov, Prime Minister of the USSR made an accent on morality that requires improvement of the people's cultural level, which is an essential condition for any radical change [6].

*Third.* Another notable new development is a different view on the enterprise's independence. Until recently only cooperations have enjoyed real independence. However, with the 1989 amendments to the Law on the State Enterprise, the latter is granted the right to withdraw from the associations, whereas associations and other independent business entities may withdraw from subordination to ministries and regional bodies if they enter into the leasing and contractual relationships with the State. It allows any enterprise, association or organization, irrespective of their departmental affiliation, to form an entity of higher order of magnitude (concerns, intersectoral state associations, state production enterprises, consortiums, various associations and other large-scale production formations). Their partners may be coops, or joint ventures involving foreign participants, etc. There are several similar organizations already established on a regional principle. The national economic structure is expected to become more flexible and self-organizing.

True, this new order cannot yet boast of consistency. One can observe an attempt to transform the operating ministries into associations created by enterprises, allegedly by their own will. This may lead again to confusing the functions of state consumers and state producers of goods. Still, there is progress in the right direction which is extremely important.

*Fourth.* The fourth main point in the transformation is the long-awaited change-over to a single system of taxing the enterprises and population, with due consideration to tax privileges. Thus, taxes are regarded as not just a fiscal tool or active instrument of economic regulation. The system of normatives differentiated by sectors and enterprises begins to disintegrate. A couple of years ago so much hope was laid on those normatives (subject to their being scientifically valid, stable and long-term in character). Of great importance is the lifting of the restrictions on the use by enterprises of various forms of profit-and-loss principle and on the intra-enterprise distribution of the earnings. And to think that it was an effective instrument of State control over producers of goods. Now the enterprise is entitled to independently determine what share of the profit will go into savings R & D or the wages fund. However, it will have to pay a progressive — in fact, restrictive — tax for the increment of the wages and salaries fund : 0% — for an increment under 3% ; 100% — for a 3% to 5% in-

crement ; 200% — for a 5% to 7% increment, and 300% for an increment over 7%. At the same time, growth of wages in production of consumer goods (in any scale) is not taxed. One should take into account that the abovesaid measures are quite extratraditional, it should not be resorted to in a normal balanced economy in a state of equilibrium. In addition to that, with the total wages fund remaining the same, average money payments per worker may grow, if the number of employees decrease. The danger of unemployment will increase. However, there is a very important basic principle here — the long-awaited transition from differentiated and, in the final count, voluntarist normative in the distribution of the earnings, to a single taxing system. The latter is expected to place all producers of goods in equal conditions, in consistence with the principles of a civil society. This approach should be also formalized in the Law on Taxing.

*Fifth.* There is another important thesis in the new strategy of management reform : setting a practical objective of overcoming monopoly tendencies in economy. In the USSR antimonopoly legislation and proposals for establishing bodies of control over its application are currently be drawn up. At the same time, a closer acquaintance with this issue gives ground to believe that with adoption of similar legislation, no matter how perfect it might be, the problem of overcoming the monopoly effects cannot be solved under present conditions. In order to give an impetus to competition, a legal basis, along with a number of other conditions should be created. In particular, the pattern of the national economy should be restructured. Each brannch of industry should have more than one monopoly producer of goods (like today's ministry or a large association) for each group of products. There should also be medium — and small-size firms that will compete with one another. This process of dividing the markets for similar goods should be apparently stimulated first from the top, and later should occur spontaneously via self-organization of Soviet industry and other sectors of the national economy. Natural monopoly should be preserved only in the infrastructure and some other branches.

It should be remembered that the monopoly effects can be overcome only if there exists a mature socialist market, as well as a high culture of entrepreneurship. It also requires a change in society's view on fair competition, economic confrontation and income differentiation as a reward for victory in competition. Up till now, neither the economy, nor most of the leaders of the state have been ready for that. While restructuring the national economic pattern, they have refused to give up the idea of preserving centralized control over branches of industry and enterprises.

*Sixth.* The policy documents and the leaders' speeches have recognized the compatibility of the socialism and market concepts. It also signifies elimination of one of the conservative thinking dogmas. It seems, though, that this problem is treated somewhat simplistically and put on the same footing as the necessity of extending commodity / money relations and forming "a complete system" of economic methods of management. They do not fully realize that creation of a socialist market requires radical reorganization and huge investments. This, in turn, requires a corresponding material basis : opening stock and commodity exchanges, fairs, expositions ; creating information networks on supply and demand of goods (publications, computerized data branks, etc.) ; reorganizing totally the entire system of distribution of goods, trade and advertisement ; introducing marketing ; establishing intermediate trade firms, and many other elements of the infrastructure to service the market. Effort has been made to solve this problem within the framework of the exiting system of material and technical supply via slack employment of wholesale trade. This has led to a sceptical attitude towards the prospect of a quick development of the market. The words "trader", "mediator"

are still used by Soviet business practitioners and many people in the street as the words of abuse. Many people regard their function as “non-productive”, and the profit received as a result of their work as “dishonest” (especially by cooperatives). However, in a market economy marketing and distribution of products is no less important than production. On the way to practical development of an appropriate market, the Soviet economy is in for hard times.

Finally, the *seventh* main point concerns the development of concepts and a practical changeover to regional cost-and-profit and self-financing system. After January 1, 1990 the Baltic republics and Byelorussia will be operating on this basis. The basic principles of this changeover formulated in the CPSU Platform on the subject [9] provide for granting to these republics the right to possess the land and natural resources of their territory, redistribute part of the enterprises making them public property of the given republic, granting independence in selection of economic methods and formats of business, and using contractual relations as a foundation with economic exchange on the national market, etc. The republics put forward alternative, more radical proposals that the objects located in their territory should be turned over to the republics and become their property, as well as proposals for issuing their own currency, etc.

The “new federalism” in the Soviet economy seems one of the most important features (after forms of socialist ownership) of the new stage in the management reform. This problem incorporates many political and social aspects. It is extremely difficult to solve as it lies at the bottom of the entire concept of perestroika. However, a most important principle of the new economic order is beginning to take root here too: productive labor and thrifty business on one’s own land should be rewarded in a fair and honest way.

#### *The 1990s are a turning point for Soviet perestroika*

It is only now that the underlying idea — creation of a new model of socialism — is gradually beginning to take shape in the economy. The Supreme Soviet of the USSR, the newly appointed government has demonstrated readiness to take the risk of employing the business formats unprecedented in socialism. The supporters of radical changes seem to adherents of a moderate course.

Does this process not mean the convergence of capitalist and socialist ways of production? The basic features of the new economic order’s mechanism seem to indicate this. That is why, despite the originality of a creative search for paths of economic reform in the USSR, there is a greater interest in the experience of Western and Japanese management.

At the same time, adherence to the fundamental principles of socialism on the part of the leaders of the economic reform and the Soviet community at large remains inviolable. In other words, one can feel intention to use the principles of market economy as a foundation for a model of “capitalism without capitalists”, combining dynamism, high economic efficiency, democracy and social justice but barring exploitation of man by man. In the course of perestroika it will become clear whether this idea is feasible or not. However, at least for now one can confidently claim that radical economic reform in the USSR has entered a new stage.

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