

Inside Perestroika

The Future
of the
Soviet Economy



Abel Aganbegyan

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the Soviet Economy*

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Translated from the Russian by
~~Michael S. Bessie~~

A Cornelia & Michael Bessie Book

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1

A New Stage in Perestroika – The Restructuring of Management in the USSR

A critical period: this is sink or swim

We have reached a crucial, some might say critical, stage in perestroika, the restructuring of management in our country. The years 1985 – 7 were spent wholly in formulating a complete new system of administration, together with a programme of radical economic reforms. What we did was to study carefully our own past and that of other countries and conduct a series of economic experiments which helped us to define certain aspects of the new economic and administrative system.

The main aim is to change the economic management of our country from the administrative (“diktat” or command) system developed over the last fifty years to a radically new one, based on economic levers such as market forces, financial credits, and other stronger economic stimuli. The whole process must be carried out alongside a general democratization of our society and a transition to self-administration in our enterprises.

What lies at the root of the new system of administration is the offer of economic independence to the various enterprises and conglomerates which make up our national economy. The state

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will no longer be responsible for their financial affairs, and they for their part will not be responsible for the state. Another new idea we have incorporated is that of pluralism in property. A large co-operative sector is to exist alongside the state enterprises. We have already seen a leap in personal productivity which in due course will spread to every aspect of the economy. The new economic mechanism is based on three laws enacted for the whole Union of Socialist Republics: the Law on State Enterprises and Conglomerates (in force since 1 January 1988); the Law on Co-operatives (in force since 1 July 1988); and the Law on Individual Labour Activity (in force since 1 May 1987).

On the basis of these laws the Central Committee of the CPSU¹ and the USSR Council of Ministers have made a number of decisions that will radically transform the administration of the socialist economy and all facets of the economic mechanism. In July 1987 a series of decisions was taken that profoundly affected planning, finance, banking and price formation. The system of material and technical supplies and the practices of the various agencies dealing with labour and social problems, as well as those that deal with science and technology, are being transformed. As a result of these decisions there will be changes in the administration of industry and of the various regions, in the generation of state statistics, and so on. Earlier still, decisions were made about foreign economic affairs.

Together these form the basis for the radical reforms of our administration. This basis is not static; it is evolving, gradually affecting the whole of the economic and administrative system. This development is the result of a single new concept adopted at the June 1987 Plenum of the CPSU Central Committee, formulated in a document entitled *Basic Tenets for the Radical Restructuring of the Administration of the Economy*.

If required, one short phrase can express exactly the nature of this crucial stage in our work: from words to deeds. Since early 1989 all enterprises in the production sphere have been working on the basis of complete cost accounting, self-financing and self-administration. Around 75,000 new co-operatives have been formed. In 1988 they turned over more than 4 billion roubles in production and services. Approximately 2 million people work in the new co-operatives or are self-employed.

¹Communist Party of the Soviet Union.

Furthermore, we constantly review the new economic conditions and change our planning ideas as a result. The number of centrally planned tasks has decreased sharply as the new economic rules for enterprises have gained importance. The whole system of financing is being regularized. We have established new specialized banks whose purpose it is to gauge the needs of enterprises and organizations and to serve those needs. We have begun a reorganization of the administration in order to simplify the administrative structure, abolish unnecessary branches, and reduce the central and republican apparatus by 30 – 50 per cent.

In other words we are in transition between the old and the new systems of administration, a period in which the two methods co-exist. The old pricing structure has for the time being been retained, but a total reform of prices and price formation is scheduled for 1990. Once our financial and credit relations have been reformed and the new price structure is in place, we shall be able to move away from the present system of centralized distribution of the means of production² by direct funding. In the future we aim to work through a mutually profitable multi-channelled wholesale trade system with direct commercial links between producer and consumer, or indirect links through middlemen or intermediary bodies. Next year will see the reform of the banking system. Specialized banks will increase their commercial activity, and at the same time they too will become completely self-financing. As resolved by the 19th Party Conference, the economic mechanisms of the republics and regions, and, consequently, the economy of the country as a whole, will be radically transformed. The republics and regions will be offered economic independence and the opportunity to change to a system of self-administration, self-financing and self-provision.

As can be seen from all this, the year 1989 – 90 will be crucial in the transition from the old to the new economic mechanism. The resolutions of the 19th Party Conference make this clear: we intend to enter the nineties with a new economic and administrative system.

However, we must now look at the realities of moving to new economic conditions. It has to be said that the process has turned out to be slower, more difficult and more painful than anticipated. There are certain objective difficulties connected with the condi-

²The capital equipment which is used to produce goods.

tions of a transitional stage. Until we actually have new prices and a wholesale trade in the means of production, each enterprise's economic possibilities will necessarily be restricted. Further problems derive from the fact that this transitional period lies in the middle of the 12th Five-year Plan, whose tasks, not yet completed, were adopted while the old conditions were still in force. But these objective difficulties are not the real problem. The real problem lies in the fact that the central economic planners made serious mistakes right at the start of their attempts to implement the economic reforms.

Mistake number one was made when the concept of state purchase orders on enterprises and concerns was incorrectly developed in the plan for 1988. Under the guise of a new economic method, *goszakaz* (state purchase), created as part of the transition to economic methods of administration, was really a retention of the old idea of a directive plan from above. The central offices delegated decisions about state purchase orders to the various ministries, while the latter included in the *goszakaz* virtually the whole of their "shopping list", leaving no room for independent economic activity.

Mistake number two was that the whole process of establishing economic regulations was farmed out to the ministries. These rules and regulations were to govern the charges on each enterprise's profits and how much was to be budgeted to them or to the various ministries' centralized funds. Further, rules were to be established for the use of amortized deductions and for the allocation of any remaining profit to various incentive funds within the enterprises and concerns. Many of the ministries approached this task without due care and consideration and simply reallocated the old five-year plan figures proportionately to each enterprise. As a result the economic rules and regulations generally turned out to be ad-hoc solutions involving the removal of means from efficient enterprises to subsidize inefficient ones.

Mistake number three, in my opinion, was the retention of the formulation of the wage fund in relation to the dynamics of production. This method was adopted in 1984-6, a period of large-scale experimentation. As a result, the ideas and conditions of the new economics did not affect the lower echelons, the working masses.

Worst of all, I think, is that in three years now of perestroika we have not managed to advance the process of financial renewal

within the economy. Income in the country is still well ahead of the provision of goods and services, and the gap between paying ability and the ability to satisfy demand is not diminishing but increasing.

We must follow the spirit of the 19th Party Conference, which analysed critically the long and basically productive path of perestroika in the preceding three years, and understand the reasons for our mistakes and inadequacies. On the one hand we quite clearly underestimated the forces of inertia and of resistance to perestroika in sections of the administration, in the central economic offices, in the various ministries and among a large number of managers. We misjudged matters and compromised in the formulation of the state purchase orders regulations in the Law on Enterprises and other related laws. When we formulated the plan for 1988 we did not suggest reforms that were radical enough to create an economic system of management. Our measures were half-measures which made it possible for administrative "diktat" to overrule the decisions of enterprises and concerns. Secondly we did not completely democratize the discussion and decision-making processes. These processes did not touch the large masses of working people. So the size of the state purchase orders and the establishment of economic rules and regulations were decided by committees. Representatives of working collectives were not invited to join the decision-making process. Such important problems as the price of spirits, the use of hard currency cheques and the amount of consumer goods to be imported were resolved by even smaller groups. During the countrywide discussion of the forthcoming Law on Co-operatives, the Ministry of Finance and higher bodies prepared, in secret, a statute for taxing the co-operatives. This statute virtually destroyed the new law. Only the open discussion of these problems by the Supreme Soviet in May 1988 enabled us to reject the statute as unsatisfactory. Now a new statute on the tax system is being discussed, this time with greater popular involvement. Undoubtedly the result will be much better.

These examples very clearly illustrate the importance of the various measures adopted by the 19th Party Conference to develop more realistically our first democratic ideas, to maintain glasnost and to intensify the fight against bureaucratism in all spheres, particularly in the administration.

Paradoxically, however, I think it was perhaps actually a good thing that our first efforts at establishing new economic conditions

were quite clumsy. Our lack of success has given us a chance to understand how resilient those administrative methods are and that there really is no turning back. Most importantly, it has allowed us to take certain decisions for the future that will prevent backsliding of this kind in the administration. Let me draw a parallel with the notorious article by Nina Andreyeva in the newspaper *Sovietskaya Rossiya*. This proposed an anti-perestroika political platform and as a result was, I think, very beneficial for our further advance. The article sharpened our wits and allowed us to pinpoint the conservative ideas that would drag us back, lurking behind the demagogic phrases about high socialist principles. The loud rejection of the article made us see more clearly that we must move ahead faster. Similarly, we are now rejecting all attempts to conserve the old administrative methods and to allow old thinking to enter new economic forms such as state purchase orders and economic regulations.

So what have we done in concrete terms? There was a rapidly prepared temporary directive about state orders, limiting these severely for the next two years. According to my calculations, if this directive is followed through, then state purchases will take up only 60 per cent of the volume of production in 1989 and less than 50 per cent in 1990. In 1988 they had taken up 90 – 100 per cent of production. Moreover, we have ensured that state purchases come under government authority, through Gosplan (the State Planning Agency) or Gossnab (the State Supply Agency), not under that of individual ministries or departments. Certain additional steps have been taken to encourage efficient enterprises even further by allowing them more of their profits than was left to them by the ministries when the economic rules and regulations were first established. It was decided that for the 13th Five-year Plan, unified rules would be established and developed. This would put efficient enterprises into a better position than inefficient ones and create strong incentives for the increase of efficiency and profitability.

We intend to change the principle upon which the wage fund is formed to one that is based on production. More enterprises will use a second model of cost accounting which goes even further. Here the wage fund will not be decided on by a formula but will be the residual fund after the enterprise has paid off its other expenses. Experience has shown that this second model provides extremely strong incentives for increased efficiency and acceler-

ated production. For example, in those concerns of the Ministry of Geology where model two has been applied, labour productivity has risen by 25 per cent in a year. This growth was twice as rapid as that of average income in the rest of the country. Other qualitative work indices in geological organizations also leapt ahead. In the relevant concerns under the Ministry of Electrical Technology and Industry the rate of increase in production doubled in the first half of the year.

In order to make sure that the restructuring of the economic mechanism should stretch further than just the administration of enterprises and their R & D sections, and should affect the entire work force, we have decided to widen the scope of every possible collective contract that is based on cost accounting. In particular we want to widen the scope of the highest form of this contract, the lease contract, which is connected with a complicated system of incentives for increased efficiency in the use of every kind of resource and in the betterment of the quality of production. At the 19th Party Conference it was decided to speed up measures that would facilitate wholesale trade and would remove as fast as possible the limitations that are still being imposed on the control exercised by enterprises over their own income. Once again it was pointed out that we can no longer put off the development and accomplishment of a special programme aimed at the renovation of our country's economy.

All these measures will without doubt alter the time span needed for the transition to a complete new system of administration based on economic realities.

Our success in this respect will depend greatly on our ability to utilize the socialist market. Along with the consumer market, we aim to create in our country in the near future a market for capital goods. As the price reform progresses, the specific gravity of centrally established prices will be greatly reduced and will be retained only for the most important goods, including those that actually define the working people's standard of living, while the number of free and contract prices will increase. It is important at times like these to prevent inflationary tendencies, and for that purpose we must create market conditions under which competition can flourish, abolish monopolization, and create a financial credit mechanism that will work against inflation and ensure a proper correlation between the flow of money and the real flow of material goods. We shall have to ensure that the state's economic depart-

ments are flexible and dynamic. They will have to use their state budget allocations to balance supply and demand and to maintain stability in the market. In other words, we must learn to work in a socialist market place, particularly as this market expands.

A number of enterprises have already begun to issue shares to their workers. I think this idea will spread enormously with time. We are preparing regulatory measures for the issue of shares in our socialist conditions. It is intended to start issuing certificates for the population and for various economic organizations. A new market in negotiable papers will grow up alongside the goods and services markets.

The June 1987 Plenum of the CPSU Central Committee on the problems of radical perestroika proposed that consideration be given to the creation of a convertible rouble. This means that in time there will be a currency market in the USSR. One of the most important steps along this road will be the price reform scheduled for the year 1990. This reform will bring prices within the Soviet Union closer to world prices, with allowances for duty tariffs but in accordance with recommendations made by GATT. Having done this we shall attempt to introduce a single exchange rate for the rouble instead of the number of different ones we have now, introducing what we call internal convertibility, which means that enterprises and organizations will be able to exchange roubles for hard currency according to an exchange rate established within the country. An alternative idea is to establish an exchange according to a floating rate that will take into account supply and demand. We shall aim to make currency convertible at first within the market formed by the socialist countries, then, with increased Soviet exports and closer links with western financial organizations, on the world market.

Making the rouble convertible will obviously be a difficult and complicated task and, naturally enough, will depend on other people, not just on us. But it is absolutely essential if we wish to develop external economic links between the Soviet Union and all other countries. Our view is that we must develop foreign trade more rapidly than home trade in order to increase the USSR's share of the world market. Clearly one reason for this is the need for the mutual economic benefit that accrues from such activities, a benefit that is to be measured not simply in terms of hard currency and goods but also in the exchange of personnel, in our understanding of the market, and in an ever-increasing ability to

produce and sell competitive goods. But that is not all. Foreign trade is of immense importance from the point of view of greater co-operation and trust between countries and peoples. This in turn will lead to a better management of thorny political problems and, in particular, to disarmament.

Finally, let us look at what we mean by our perestroika of the administration, what we are aiming to reconstruct. Perestroika cannot be the aim in itself. It is simply a method of solving looming socio-economic development problems. Furthermore, while we are discussing this, we shall examine what we have achieved in the three years of perestroika and especially in 1988, when a sizeable number of enterprises and organizations at last went over to management by cost accounting, self-financing and self-administration.

The first and most important task of the new administrative system is to abolish the dictatorship of the producer and to overcome the deficits of our economy. It must achieve a position where production is aimed directly at the satisfaction of society's needs and is governed by the demands of the consumer.

People's social needs and their satisfaction are of special importance. During perestroika we have abandoned the old principle of residual allocation of means to the social sphere and have redirected our economic development towards the satisfaction of people's needs. We have managed to overcome stagnation in the construction industry, in food production, in life expectancy and in the social services. But we have not yet achieved a radical transformation. The majority of Soviet families do not feel that perestroika has resulted in any real change. The point where results and real changes will be felt is a long way off, especially given ever-continuing shortages. However, this applies only to material goods. In the spiritual sphere, that is to say glasnost, we can feel a complete change, though even here there are certain unresolved problems.

The new economic conditions introduced at the beginning of 1988 have speeded up the production of consumer goods, the dynamics of commodity circulation and of paid services by one and a half times compared with the same period in the previous year. At the same time wages have grown far more than before. For the first time since 1978 we have managed to increase the GNP of the country by 5 per cent and the use of consumer goods and services by 7.5 per cent.

The satisfaction of social, including individual, needs will depend on economic efficiency and the quality of production. The new administrative system aims to redirect our development, to substitute intensive for extensive growth, to emphasize quality and to economize on resources. Success will depend on how well we can mobilize all our organizational, economic and technological progress. At the moment this progress is often achieved at the expense of socio-economic conditions. At the same time we are working towards the creation of a new technical base in many branches of our economy. Under perestroika we have managed to increase labour productivity quite noticeably. For the first time in our history the growth of social production is due to greater labour productivity, which in industry increased by 4.7 per cent in 1988. Enterprises that have gone over to the new administrative methods have increased productivity by 6.4 per cent, while those which have not yet gone over achieved only 4.2 per cent. The rate of increase in labour productivity in building and transport is even higher. An even worse problem in the past was the economic mismanagement of resources. Here, too, a notable change could be seen in 1988. There has been a great improvement in the return on capital investment, though much needs to be done to stabilize and raise these particular qualitative indices.

The results we have achieved in improving the quality and competitiveness of goods have been more modest. We have overcome negative tendencies in Soviet export and for the first time in three years there was a 3-per-cent growth in exports in the first half of 1988.

The positive changes are apparent to all. But these changes are not basic enough, and perestroika in economics is not yet irreversible. I believe that if we achieve all we have planned, if we advance fearlessly towards a radical reform of the administration, our positive tendencies will become stronger with each passing year. The greatest leap will probably come in the early nineties, at the start of the new Five-year Plan.

The key problem – the financial overhaul of the economy

One of the main problems in the transition to an economics-based method of administration is that of restructuring the financial