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Soviet Economic Reform
Under Gorbachev
Trials and Errors

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Since he became Party General Secretary on March 11, 1985, Mikhail Gorbachev has been presiding over a veritable revolution in the Soviet Union. It is but one facet of the upheaval occurring that, while continuing as Party General Secretary, he derives his authority over Soviet affairs in no less degree from his status as President, a post newly created on March 14, 1990 and to which he was elected by an extra-party legislative body.

Gorbachev has been endeavouring to achieve a restructuring—or perestroika as the process is now known everywhere—of Soviet society generally, but he has been especially concerned to reform the economy. As one need only refer to the daily news to become aware, the improved performance he is seeking has turned out to be decidedly elusive. A summary review, however, may provide perspective on a complex and ever-shifting scene. It may also provide needed background for judging the possible import of further dramatic reform measures currently being debated, though regrettably I cannot probe these in any depth here.¹
We must have in mind some more or less familiar facts concerning the state of the Soviet economy when Gorbachev became General Secretary. At that time, the Soviet economy was still organized much as it had been under Stalin, with the means of protection predominantly publicly owned. The collective farm, prevailing in a considerable segment of agriculture, was an outstanding exception to this rule, ownership there being cooperative rather than public. But the distinction was largely nominal, and enterprises of both sorts were administered through the famous system of central planning that in essentials had originated with Stalin.

Soviet central planning has become notorious for its cumbersome bureaucratic character, but tempos of growth under Stalin and for a time under his successors were quite respectable by Western standards. Nevertheless, such tempos did not persist. Soviet national income, which was still growing by as much as 5.1 percent yearly in the 1960s, has slowed markedly since that time. By 1981-85, the tempo had fallen to 1.9 percent (Table 1). Western students of the Soviet economy generally consider unclassified CIA estimates as more reliable than similar measures of growth released by the Soviet government. Soviet official data also show a marked decline in growth, but growth rates are almost always higher than recorded by the CIA.

While growth rates were once high, output expansion was expensive. Under an extensive growth process that Stalin initiated, the government relied primarily on the sheer multiplication of inputs of labor and capital to increase output. This process contrasts to the intensive one familiar in the West, where output expansion tends to be generated in good part by technological progress and gains in efficiency more generally. Although that requires outlays for research and development, the costs of additional output under the intensive process tend to be distinctly less than under the extensive one.

The difference is material, for the more costly the expansion the more limited the rewards for consumers. And under Stalin such rewards were limited indeed, but the Dictator died on March 5, 1953.
Table 1
Selected Economic Indicators, USSR, Average Annual Rate of Growth
(percent)

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<tr>
<td>1. Net material product (NMP), Soviet official&lt;sup&gt;a&lt;/sup&gt;</td>
<td>6.4</td>
<td>5.1</td>
<td>3.9</td>
<td>3.1</td>
<td>4.1</td>
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<td>2. Gross national product (GNP), CIA estimates&lt;sup&gt;b&lt;/sup&gt;</td>
<td>5.1</td>
<td>3.7</td>
<td>2.1</td>
<td>1.9</td>
<td>&lt;sup&gt;c&lt;/sup&gt;</td>
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<tr>
<td>3. Gross fixed capital investment, Soviet official&lt;sup&gt;d&lt;/sup&gt;</td>
<td>6.9</td>
<td>6.8</td>
<td>3.5</td>
<td>3.5</td>
<td>4.9</td>
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<td>4. Industrial output, Soviet official</td>
<td>8.5</td>
<td>7.4</td>
<td>4.4</td>
<td>3.7</td>
<td>4.6</td>
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<td>5. Industrial output, CIA estimates&lt;sup&gt;b&lt;/sup&gt;</td>
<td>6.6</td>
<td>5.9</td>
<td>2.4</td>
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<td>&lt;sup&gt;c&lt;/sup&gt;</td>
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<td>6. Agricultural output, Soviet official&lt;sup&gt;e&lt;/sup&gt;</td>
<td>&lt;sup&gt;c&lt;/sup&gt;</td>
<td>2.5</td>
<td>1.8</td>
<td>1.0</td>
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<td>7. Agricultural output, CIA estimates&lt;sup&gt;b,e&lt;/sup&gt;</td>
<td>&lt;sup&gt;c&lt;/sup&gt;</td>
<td>1.4</td>
<td>0.4</td>
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<td>&lt;sup&gt;c&lt;/sup&gt;</td>
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<td>8. Real income per capita, Soviet official</td>
<td>6.5</td>
<td>4.3</td>
<td>3.4</td>
<td>2.1</td>
<td>2.7</td>
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<td>9. Consumption per capita, CIA estimates&lt;sup&gt;b&lt;/sup&gt;</td>
<td>3.8</td>
<td>2.9</td>
<td>2.0</td>
<td>1.9</td>
<td>&lt;sup&gt;c&lt;/sup&gt;</td>
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<sup>a</sup> Utilized for consumption and accumulation.
<sup>c</sup> Not available.
<sup>d</sup> CIA estimates essentially accord with Soviet official data.
<sup>e</sup> Yearly growth rate of average for five-year period over average for previous five-year period.
If only out of a concern for morale and as incentives for an increasingly educated and sophisticated labor force, Stalin's successors have felt impelled to moderate his onerous priorities.

While consumers have benefited as a result (Table 1), that moderation has meant a slowing of expansion in the volume of investment, and that has contributed in turn to the slowdown in output growth. As a cause of the slowdown, however, the retardation of investment volume growth has only compounded the impact of another, widely reported trend. The Soviet labor force, which grew by 1.4 to 1.8 percent yearly during the 1960s and 1970s has more recently been increasing at less than half that pace. Although output growth has slowed, it has remained of the costly, extensive sort. Indeed, it may, if anything, have become even more costly than it was before.

The Soviet growth process nevertheless enabled a once backward country to become, in time, a military superpower. But in 1985, when Gorbachev became General Secretary, Soviet per capita consumption was little more and very possibly less than 30 percent of the U.S. per capita consumption.

In the USSR, the immediate pre-Gorbachev years have come to be referred to as years of stagnation (zastoi). Regarding the economy, that must be considered as hyperbole to a degree, but Gorbachev had good reason to be concerned upon being elevated to General Secretary. As we may judge from his actions as well as pronouncements, he was, in fact, deeply concerned.

II

The economic reform measures Gorbachev has initiated have been numerous and diverse, but a principal aim has been to restructure industrial planning. It seems clear that that is also a sphere in which his efforts thus far have not been especially fruitful. This is particularly evident in respect of the attempt to upgrade the role of the industrial enterprise vis-a-vis that of central planning authorities and in the process to substitute market-type for bureaucratic
control over enterprise operations. Under Soviet central planning, bureaucratic control over the enterprise has never been as complete and control of a market type never as lacking as often supposed; but, after a period of experimentation, the government in June and July 1987 adopted legislation supposedly providing for increased reliance on market-type control at the expense of bureaucratic control.6

The legislation affirms that "the enterprise independently works out and confirms its plans." The plans in question, it is explained, are to be those for five years as well as one year. This was, on the face of it, quite a shift from previous practice.

The grant of authority to the enterprise is qualified, however, and as it has turned out, the qualification has been rather important. Among other things, the enterprise is obliged to accept so-called "state orders" (goszakazy) for its output that are submitted to it by the superior ministry. Such orders apparently were intended to serve the ministry as a transitional means of directing and coordinating enterprise activities. Initially controlling a substantial share of the enterprise's output, the state order was supposedly to give way rapidly to wholesale trade.

In fact, the state order immediately became and still is a major instrument by which ministries control the activities of subordinate enterprises. As Prime Minister Nikolai Ryzhkov acknowledged in May of this year (Pravda, May 25, 1990), "for the most important products, government orders the basic part of output—up to 95 percent."

Why was so little accomplished in this sphere? One explanation often given in the USSR as well as the West stresses vested interests of superior bureaucratic agencies. Concerned about their hierarchical and material status, ministerial personnel in particular, it is said, seek whenever possible to maintain control over the enterprise.

There is doubtless some truth in that view, but under the 1987 reforms the ministry is still responsible for the performance of enterprises subordinate to it. At least, it is accountable for fulfillment of its own plan. In this circumstance, even personally disinterested ministry officials must hesitate to relax fully their grip on the enterprise.

Then, too, in order for wholesale trade to effectively supersede bureaucratic control, it must function as a market. That is to say, enter-
prises must be structured to respond appropriately to prices of their inputs and outputs, and prices in turn must fluctuate appropriately in response to the resulting enterprise supply and demand.

A principal aim of the 1987 reform measures was to subject the enterprise to increased financial discipline, which previously had often been wanting, and in doing so to make rewards more dependent than before on financial results, especially profits. Insofar as such rearrangements materialized, the enterprise should have been oriented broadly to respond to prices as in a market environment.

But financial discipline seemingly continues to be an elusive desideratum for the Soviet enterprise. Indeed, there may well have been some retrogression in this sphere, with the enterprise, perhaps as a counterpoint to its subjection to state orders, being even less observant than before of financial constraints. Particular difficulty apparently has been encountered in the control of wages. Unplanned growth of the wage bill accounted, for example, for more than half of an extraordinary increase of 9 percent last year.\textsuperscript{7} As we shall see, the unbridled growth of wages has been costly in more ways than one.

But for an effective market, not only must enterprises be subject to appropriate financial constraints, prices must be appropriately determined. For industrial wholesale prices, that was far from the case before 1987, and it still is. Rather than being determined by market forces, industrial wholesale prices are, for the most part, fixed by the government. Under the 1987 reforms, the principles observed in this sphere were to be altered in various ways, but prices were not to be revised accordingly until January 1, 1990. The price revision has since been further deferred, so that prices are still much as they were in June and July 1987, when the reforms were initiated.

That is also to say that they can have had little to do with the scarcity values that an effective market generates. Rather, they have, at best, reflected costs of earlier years—usually costs of 1982, when the last major price revision was carried out.

The failure of the government to revise industrial wholesale prices, if not to free them from control has been one of the most serious deficiencies of its efforts thus far to reform central planning, in my opin-
The more or less arbitrary prices have made a mockery of the government’s efforts to rationalize and invigorate financial controls over the enterprise. Such controls have, in any case, proved no more effective than they were before.

While seeking to enhance the authority of the industrial enterprise, the government has also been in the process of restructuring the enterprise’s internal administration. It has since retreated, however, from one particularly interesting 1987 innovation. The arrangement for workers’ election of the manager, Yugoslav-style, that was adopted in 1987 has since been abandoned.8 As Prime Minister Ryzhkov has explained, the manager of a state enterprise is appropriately appointed by the state whose interests, as owner, he represents.

III

While for Gorbachev the reform of industrial planning has been a cardinal concern, economic restructuring has called for action much beyond that. Indeed, reform in another related sphere, not so much stressed initially, may well have come to be considered of comparable urgency to that of industrial planning. The shifts in property relations being instituted could prove more rewarding, though here too the road to reform has not been exactly smooth. While the shifts occurring have attracted much notice in the West, they are not always well understood.

Early on (November 19, 1986), the Gorbachev administration declared to be permissible a wide variety of private enterprise activities that previously had been prohibited or were at least legally dubious. Subject to local licensing, private enterprise was legally sanctioned in such diverse fields as handicraft manufacture, construction and repair, and various other services. Diverse activities were still excluded, however, and individuals who are normally employable in the public sector were supposed to work on their own account only after hours. Employment of hired labor was expressly forbidden.9

Even as thus restricted, this legislation represented a distinct break with the past, but it was enacted in a milieu long conditioned to hostil-
ity to private enterprise. The restrictions maintained on private enterprise activity must be seen in that light, and so too must be the government's decision to levy onerously progressive taxes on any elevated private enterprise incomes.¹⁰

Not too surprisingly, enactment of the new legislation on private enterprise has not been followed by any wholesale shift to such activity. Nearly four years later there were still only 500,000 persons registered for employment in private enterprise (Pravda, July 7, 1990).

A near counterpart of such private enterprise, however, has fared decidedly better. While nominally a producers' cooperative (co-op) the collective farm, as I noted, is practically a state enterprise. That is also true of the consumers' co-op that continued through the years to function in trade, primarily in rural localities.

After much public discussion, however, the Gorbachev administration has declared the cooperative to be a basic form, along with state enterprise, of socialist economic organization, and has acted to codify its widespread use as a substantially autonomous entity in industry, trade, and services. Here too some activities have been expressly excluded, and members must participate actively in the cooperative's work; employment of hired labor is allowed, however.¹¹

While ideologically on a somewhat different plane from individual private enterprise, the cooperative has by no means enjoyed an easy acceptance. But in the critical sphere of taxation, its members, after much controversy and vacillation, have come to be treated on a par with workers in state enterprise.¹² The upshot has been a rapid increase in employment in co-ops, the number of persons engaged having reached by now five million (Izvestia, July 29, 1990) or some 3 percent of the labor force.

The activities of co-ops are diverse. Particularly noteworthy is the fact that they are beginning to take advantage of further novel legislation allowing them, along with other interested parties, to acquire control over productive assets by leasehold contract. In the process, they have even taken over, under contract, shops or departments of state enterprises. Under the lease agreement, they usually produce for sale to the lessor enterprise.¹³ While such arrangements are so far of very
modest dimensions quantitatively, they have been seen in the USSR as a possible basis for extensive privatization of state enterprise (FBIS, Dec. 20, 1989, p. 47).

Leasing has been envisaged in that way regarding not only industry, but agriculture. Indeed, some Soviet economists have seen the lease arrangement as a way to supplant collective and state farm agriculture with not only genuine co-ops but individual family farms. Here too, though, such restructuring has, to date, materialized only on a minute scale (Report on the USSR, July 14, 1989; Brooks, 1990a; 1990b; Pravda, July 29, 1990).

Promotion of private enterprise is also the apparent objective of a still more novel measure just enacted. As well as being very new, the law on joint stock companies is very complex. But, through an appropriate distribution of shares, it evidently could be, like the lease, an instrument for privatization of state enterprise, and its use in that way has been urged by no less a person than Nikolai Petrakov, an advisor to Gorbachev. Having enacted legislation of this sort, the government, not surprisingly, seems to have finally abandoned its prohibition of employment of hired labor by private enterprise.14

I alluded to the prevalence in the USSR of a hostility to private enterprise. Once deeply rooted ideologically, such hostility is now in the process of erosion. At least it no longer shapes public policy as it once did. By no means, however, has it been rendered nugatory. Its influence can still be seen in residual legislative disabilities and restrictions to which I have referred, and even more in the administration of relevant statutes. Often left to republican and local governments, such administration has tended to compound obstacles to newer enterprise forms.15

Private enterprise, moreover, continues to be affected by a related factor that is at the same time unfavorable as well as favorable. Soviet planning is in the process of being reformed, but it is as yet not radically different from what it was previously. That is to say, it is still a system where prices are notably distorted and shortages notably frequent.16
In this environment private enterprise, predictably, has often had to cope with daunting difficulties, especially in materials procurement, and has often experienced very favorable opportunities, such as provided by high prices for products in short supply. In these circumstances, private enterprise, also predictably, has often engaged in bribery and other illicit activities, and frequently earns large rewards which, even when derived from legitimate activities, are easily seen as inordinate. The Soviet leadership is apparently committed to the extension of private enterprise, but that can be expected to continue to be, as it has been, a troubled process.

IV

We have considered the number of major economic reforms initiated since Gorbachev became Party General Secretary in March 1985. In seeking to grasp the import of perestroika for the economy, we must now turn to a further development—though it is properly viewed as a retrogression rather than as a reform.

Under central planning, while the government relied generally on bureaucratic procedures to coordinate and direct economic activities, it also made limited use of market-like arrangements for that purpose. Among other things, it traditionally distributed consumer goods to households through a retail market. There households were able to purchase consumer goods with money they received in wages in return for services rendered or in other ways. For the most part, goods were made available to households at fixed prices in state retail shops, but households could also obtain foodstuffs in free markets where collective farms and their members disposed of surplus supplies.

Households could acquire consumer goods in these ways, insofar as such products were available. In fact, they were by no means always available, for with state shops the preponderant outlet and supplies and prices for the most part determined through a bureaucratic process, the retail market did not work very well. Lately, it has hardly worked at all.
Never entirely absent from the Soviet scene, queues and empty shop shelves have now become pervasive. Some scarce products are rationed locally or distributed preferentially to their workers by employing establishments. For the rest, the ruble has been aptly held to be not real money, but a kind of lottery ticket, generally redeemable for goods only with luck and perseverance.

The breakdown of the Soviet consumer goods market has been widely reported. As rarely understood, however, there has been no sharp fall-off in consumer goods supplies. Provision of some food-stuffs is down, and supplies of other products—cigarettes are the latest example—have fallen off irregularly. Per capita consumption overall, however, according to the CIA (CIA, DIA 1990) is little, if at all, below pre-Gorbachev levels.

Supplies, nevertheless, are in fact markedly short of demand. That is due chiefly to a mushrooming government budget deficit, which last year reached 92 billion rubles or 10 percent of the Gross National Product. The government has been funding the deficit in good part by inordinate currency emissions. Lax wage and credit controls, to which I have already referred, have compounded the inflationary development.

The government, however, has chosen to hold down most consumer goods prices, so that the inflation has been primarily repressed rather than overt. Thus, the major imbalance of demand and supply that has materialized has resulted not so much in price increases as in involuntary household savings in the form of cash and savings deposits. The savings have been involuntary in the sense that goods have not been available on which to spend them.

The breakdown of the consumer goods market has, needless to say, been onerous for consumers, but it has also been costly otherwise. By eroding labor incentives, as widely reported, it has begun to cause what in the USSR is euphemistically called a "falling off of interest in work."

I referred earlier to the difficulties posed for reform by the continued prevalence of economically irrational wholesale prices. It has not helped that at the artificially low levels at which the government has
held them, retail prices too have been notably divorced from scarcity values. For food products the prevailing low retail levels could be maintained only through provision of subsidies which in the aggregate were nearly as large as the entire government budget deficit (FBIS, Sept. 28, 1989).

Why has the Gorbachev administration allowed such a doleful conjuncture to materialize? Soviet commentary is not as incisive on that very relevant question as one might wish, but long accustomed to a consumer goods market that was not exactly flawless, the leadership, one surmises, was not as alert and sensitive initially as it might have been to the deleterious effects of the budgetary indiscipline in which they indulged. If only tardily, they have now come to grasp clearly enough the unfavorable results of such a financial policy, and have been seeking in diverse ways to repair the damage. But, as we know from our own experience, balancing a budget, once it is greatly out of balance, is a neat trick, not easily accomplished.

Gorbachev had reason enough to try to reform the Soviet economy. How has the economy performed since then? In view of the breakdown of the consumer goods market, the question in a sense answers itself, but it is still of interest to observe that, as estimated by the CIA, growth of output overall actually accelerated in 1986 (Table 2). That was due chiefly, however, to a bumper farm crop. Since 1986, growth has tended to be even slower than in 1981-85. The agricultural harvest this year has reportedly been exceptional again, but industrial output is now declining absolutely, and the fall could be marked. The ambitious targets of the 13th five-year plan (1986-90), set early on by the Gorbachev administration (Table 1), are evidently far beyond reach.

If Gorbachev has not yet succeeded in reinvigorating the Soviet economy as he set out to do, that is not very surprising. The political revolution that he has also been actively promoting has rightly been acclaimed in the West and clearly enjoys wide support in the USSR
itself, but the resultant disintegration of totalitarianism has often brought with it notable indiscipline and disorder, which are hardly favorable to economic performance. The recent, much-noted Soviet Republic assertions of sovereignty are only one, albeit important, manifestation of this new Soviet politics.

<table>
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<tr>
<th>Net Material Product (NMP), Soviet official*</th>
<th>Gross National Product (GNP), CIA</th>
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<tr>
<td>1981-85 3.1</td>
<td>1.9</td>
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<tr>
<td>1986-89 2.2b</td>
<td>2.2</td>
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<tr>
<td>1986 1.6</td>
<td>4.1</td>
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<td>1987 0.7</td>
<td>1.3</td>
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<tr>
<td>1988 4.6</td>
<td>2.2</td>
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<td>1989 c</td>
<td>1.4</td>
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SOURCES: Table 1; TSSU (1989, p. 16); CIA-DIA (1990).

a. "Utilized for consumption and accumulation."
b. 1986-88.
c. Not available.

In pondering the experience to date under Gorbachev, one must consider too that his five years in office is after all a very brief interval in which to transform an economic system that was some seven decades in the making. A surge in growth would have been nice, but as Soviet economists themselves have properly cautioned, was hardly to be expected.20

Granting the extenuating circumstances, however, questions may be raised about the nature and implementation of the reform program that the government has initiated. One must wonder particularly whether the egregious inconsistencies in the measures to restructure industrial planning could not have been foreseen and avoided. Among Western students of the Soviet economy, a questions is also often raised about the underlying strategy, especially the priority accorded the relatively
intractable task of reforming industrial planning over that of privatization of agriculture and services.

I have been referring to Soviet economic performance under Gorbachev as it is manifest in overall growth. Unsatisfactory as the record has been from that standpoint, it has been much less satisfactory in respect of the rudimentary task of distributing among households available supplies of consumer goods. Costly for the consumers, the retail market breakdown is probably also beginning to have an adverse impact on production and growth. And here too it is permissible to ask whether, with more skillful management at the highest level, a more favorable outcome might not have been achievable.21

But, disappointing though economic reform has been, it need not be irrevocably so. Do not some of the reform measures, especially those in the sphere of ownership, have potentialities yet to be effectively exploited? If, on the other hand, there has often been less than proficient management, is that not remediable? What, in any event, are the prospects that economic reform will become a more rewarding endeavor in due course?

The answers must depend in good part on the outcome of discussions now in progress, to which I alluded at the outset. The dismal results of reform thus far have, not surprisingly, provoked wide-ranging debate over its future course. The outcome of such discussion is still not too clear, but one perhaps need not wait for t's to be crossed and i's to be dotted on resultant measures to anticipate that restructuring favorable to private enterprise and the market already in progress will continue, very possibly at an accelerated pace. The imbalance in the consumer goods market could be ameliorated in the process, but that seems especially conjectural.22

Unfortunately, all signs also point to a continuation of the indiscipline and disorder lately experienced. Such behavior could easily become more prevalent under the impact of ongoing political shifts, especially the still unlegitimated transfer of power under way from the center to the republics. It is difficult to avoid the conclusion that the economic reinvigoration that Gorbachev has been seeking will likely continue to be elusive for some time to come. The USSR, it has been
said, is now at the edge of the abyss. That is doubtless hyperbole, but the short-term outlook for the Soviet economy is hardly bright.

NOTES

1. With the kind permission of Dr. Armand Clesse, I sometimes draw on a paper, "Economics of Perestroika" which I presented at a conference in Luxembourg in 1988, and which was subsequently published in Armand Clesse and Thomas C. Schelling, eds., The Western Community and the Gorbachev Challenge. Baden-Baden, Nomos, 1989. I allude in the text to an ongoing debate on the future course of economic reform, and in conclusion allow myself to speculate on the outcome of this controversy. These very general remarks still seemed sufficiently apt not to require revision when news came (on the day of the lecture!) of Gorbachev's recommendations to the Supreme Soviet on the matter at issue.

2. See the measures of "factor productivity" in Bergson (1989a; ch. 6); CIA (1988, p. 63).

3. The decline in labor force growth is due to reduced increases in labor participation rates as well as demographic factors. See Fesbach (1983); Rapawy and Baldwin (1982, Part 2), and CIA (1987, p. 70).


6. For the relevant decrees and related legislation, see O korennoi... (1987). For an illuminating discussion of this legislation and its antecedents, see Hewett, Winston et al. (1987); Schroeder (1987); Hewett (1988); Joint Economic Committee (1987); Desai (1989). Note that the key measure on the state enterprise, enacted on June 30, 1987, was not to become effective until Jan. 1, 1988.

7. Pravda, Jan. 28, 1990. The government instituted in the fourth quarter of 1990 an onerous tax on inordinate increases in wages in industries other than those producing consumer goods (Pravda, Aug. 11, 1990), but the intended discouragement of such boosts hardly materialized. That has been, it seems essentially because of the elliptic interpretation of the scope of exempt industries.

8. See FBIS, Dec. 14, 1989, pp. 42-43; Izvestiia, June 12, 1990. The 1987 legislation also gave to the workers' collective the option to have their incomes determined, in the Yugoslav manner, as a residual share after nonlabor expenses and taxes. This arrangement too, I believe, is no longer allowed.


10. In its latest formulation (Pravda, May 6, 1990), the tax on, say, a full-time handicraftsman is not as progressive as it was formerly, but the marginal rate still rises quickly from 20 percent on incremental income at the 3,001 ruble annual income level to 60 percent on such income in excess of 6,000 rubles. For wage earners and salaried workers, too, the marginal tax rate rises to 60 percent, but not until the annual income reaches 36,000 rubles. Even so, the tax on such workers has become more progressive than it was formerly.

12. See Pravda, May 6, 1990. All-union legislation on the taxation of cooperatives as such, as distinct from their members, also seems not to discriminate against such organizations, but republican authorities are apparently allowed a degree of discretion to do so, if they should so wish (Izvestiia, June 29, 1990).

13. Leasing of productive assets is not new in the USSR, but the government seems to have modified regulations for its wide use only recently, initially in a law of April 7, 1989, and then apparently in a revised version in a law of Nov. 23, 1989 (Pravda, April 9, 1989, December 1, 1989).

14. The basic law (Ekonomika i zhizn', No. 27, July 1990) should be read together with additional measures on ownership (Pravda, March 10, 1990) and on small business (FBIS, Aug. 10, 1990, p. 43). See also Report on the USSR, May 11, 1990. Petrakov apparently envisages a distribution of shares primarily among state institutions, such as banks and local governments, but they would also be made available to private individuals (Moscow News, No. 26, 1990).

15. On the restrictive republican and local policies and practices, and on the disabilities of private enterprise more generally, see Plokker (1990). Also illuminating regarding the status of the co-ops in particular is FBIS, July 13, 1989, pp. 71-74.

16. In the consumer goods market, of particular importance to private enterprise, the price distortions and shortages have, if anything, become more pronounced under Gorbachev. See below, Section IV.

17. Ofer (1990) and the related comment of Bergson.

18. Most notably in the program presented by Ryzhkov to the Supreme Soviet in May but not approved by that body. An outstanding feature was the proposal to sharply increase prices of consumer goods, including grossly subsidized food products. See FBIS (May 25, 1990).

19. The state statistical office reports (Pravda, July 29, 1990) that Net Material Product declined by 2.0 percent during the first six months of 1990 compared with the corresponding period in 1989. Reference is to ‘‘national income produced’’ rather than ‘‘national income utilized,’’ but the statistical office has now begun to report also on the GNP, apparently as that is understood in the West. For the first half of 1990, that shows a decline of 1 percent. These figures for the first half, which are probably inflated, would not register the exceptional harvest, but by the same token should indicate a decline in nonfarm output. There are many indications that that decline is accelerating.

20. Soviet economists seemed to be optimistic initially, though, in supposing that the transformation could be completed in a relatively brief period (FBIS, Feb. 12, 1988, pp. 66ff, May 11, 1988, pp. 81ff, May 23, 1988, pp. 81ff).

21. It may not be amiss to note that for the writer this is not just hindsight. I stressed the fiscal incongruities at a symposium in Moscow in December 1987. What I said, though, was apparently no surprise to at least one Soviet participant, Leonid Abalkin.

22. On the principal alternative programs being considered, see FBIS (May 25, 1990); Ryzhkov (Pravda, Sept. 12, 1990); Shatalin et al. (Izvestiia, Sept. 4, 1990).
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