

THE GORBACHEV REFORMS: THE SEARCH FOR ECONOMIC VIABILITY

Ian Ward

The reforms unfolding in the Soviet Union under the leadership of Mikhail Gorbachev are of momentous significance for students of economics and politics. After threatening to do so for more than three decades, the Communist Party of the Soviet Union has embarked on what is a far reaching restructuring (perestroika) of the economy. If realized, the economic and political system will be barely recognizable from what existed as recently as 1985. What should we make of the re-structuring? Is it yet another reform doomed to failure through internal inconsistency and the obstruction of powerful vested interests? Is it tantamount to a final rejection of the socialist vision or does it represent a well thought-out attempt to develop, for the first time, a viable socialist economic system?

What do we mean by a viable socialist economic system? An economic system is considered to be viable if it is able to sustain itself, with adjustments, over the long term. In the terminology of Nove (1983), it must be feasible. Such a system must be capable of sustaining a high rate of increase in the level of material production. It is unlikely that any system will prove viable unless it is able to sustain a high rate of increase in productivity especially in a world of growing international inter-dependence, competition and awareness. A viable socialist economic system is not going to be achieved if it is based on extensive economic growth:¹ such a strategy can, at best, achieve only short term increases in material production. Viability also requires the achievement of a set of

1 An extensive growth strategy emphasizes increases in the rate of investment, absorbing underemployed labour, increasing the workforce participation rate and extracting available raw materials rather than through improvements in economic efficiency.

outcomes which are, on balance, broadly acceptable to the population. While a limited period of 'tutelage' (non-pluralistic politics) may be necessary if a viable socialist system is to be achieved, it is clearly inconsistent with viability in the longer term. A sustained period of 'tutelage' may even serve to undermine the possibility of viability by discrediting socialist ideology in general: Poland might prove to be such a case.

These two elements - economic sustainability and popular acceptance - are consistent with market capitalist systems. A viable socialist system must, at the same time, challenge the inter-dependent relations of individual property, the exchange of individual property rights and individual material incentive which characterize a capitalist system. Thus, the challenge is to achieve the first two elements by establishing a system based on a consistent set of socialist relations.

The establishment of a viable socialist system may be pursued either as an end in itself or as a means by which transition to the Marxist vision of communism might be achieved. However, without establishing the former there is little or no prospect of achieving the latter. Some seventy-two years after the revolution, there is growing apprehension in many sectors of Soviet society that the socialist character of the economy is no longer assured. In their view, socialists are faced with a challenge to establish a set of relations which will prove to be a viable alternative to capitalism. If this challenge cannot be met, then, it is argued, it will be socialism rather than capitalism which historians will record as having had only limited historical significance.

The Pre-Gorbachev Struggle for Viability

It must be recognized, at the outset, that the task of establishing a viable socialist system is extremely difficult. It may even prove to be impossible. The contribution of Marx was not very helpful as this was not a question to which he addressed himself and he could not have anticipated the social reality that confronts the Soviet leadership today.

It would be simplistic to begin an account of the long struggle to achieve a viable system in the Soviet Union with the coming to power of Gorbachev. There is a great deal of theory and practice which has contributed, directly and indirectly, to the reform unfolding in the Soviet Union today.

I will focus on what, in my view, are some of the more significant landmarks in the struggle for viability, emphasising the role of ideology in shaping practical experimentation.

At a critical time in the 1930's, Oskar Lange (1938) developed the first model of a market socialist economic system. He considered the model to represent an answer to two systems which appeared to him to be non-viable. They were capitalism, in the depth of the crisis of the depression, and Stalinism with its 'bureaucratic' distortions. While his model of market socialism, without discretionary power by enterprises or households, does not provide a basis for achieving viability, it does contain a number of elements which are of some relevance to the Gorbachev model:

- the need for political pluralism;
- the superiority of market relations over central administration, except in special cases (such as collective goods), both in terms of efficiency and the danger of bureaucratization);
- the advantage of non-state property where socialization of production is low; and
- a recognition of the relevance of knowledge based on research irrespective of the social context in which it was developed.

Thus Lange rejected Stalin's view that neo-classical analysis had no relevance for socialism. However, written at a time when Stalin announced the first socialist constitution and Keynes provided his answer to the crisis of capitalism, Lange's contributions seemed of little relevance except to students of neo-classical welfare economics.

It wasn't for another twenty years that the struggle for viability received some support from the Party at the Twentieth Party Congress. While little followed in practical terms, there was a recognition of the need for greater Party democracy and a rejection of a number of key elements of Stalin's ideology; eg Stalin's concept of what is 'correct knowledge'; and Stalin's

'two property thesis' which had led to an ending of market relations in transactions between state enterprises.² The significance of this Congress is recognized by Zubkova (1989;40): 'The resolute changes in the foundations of the organization of Soviet society were initiated by the 20th CPSU Congress in 1956 ...'

The following decade or so was a period of great ferment, experimentation, conflict and promise in the search for viability. Not only did we see a desperate search to find an alternative to Stalinism without any extension of market relations (Maoist and Castro-Guevarist models), but there were a flurry of proposals which looked to generalized markets as the answer. A key figure in the recognition that viability could only be achieved with generalized markets (economic pluralism) combined with political pluralism was Ota Sik. Sik was a key figure in the Dubcek reform program in Czechoslovakia and, while it ended with outside intervention and denunciations of being 'anti-socialist', it provided a basis for the achievement of a viable socialist system based on economic and political pluralism (Sik 1970, 1971). Sik reaffirmed Oskar Lange's support for a significant, though minority, role for non-state property; the importance of the market over centrally administered co-ordination of economic units; the use of neo-classical analysis; and the central role of material incentive based largely on market determined wage differentials. However, Sik departed from Lange in certain key areas. While agreeing about the superiority of market relations, he rejected Lange's attempt to reproduce competitive market constraints, in favour of monopoly market socialism with discretionary power being exercised by enterprises and households. Importantly, he embraced the Keynesian revolution by his emphasis on the positive role of market planning (by government), including stability and allocative planning. (Despite his use of a Central Planning Board, there is no economic planning in the Lange model). Finally, he emphasized the need for political pluralism which, he believed, could be workable within a single party political system. Openness, however, was essential for pluralism to be workable. Pluralism would be

2 Stalin's 'two property thesis' states that market relations are permissible in socialism if a transaction between economic units involves a transfer of property rights. J.V.Stalin (1972); 1-4)

extended to allow for an independent trade union. Thus a predominantly pluralistic (market) economy would be mediated by a significant level of discretionary power exercised by the central authorities, particularly in the form of economic planning. Thus planning would be part of an open, pluralistic political system.

In common with Lange, Sik placed little emphasis on the participation of the masses, either by workers or groups, in decision making. However, it is of interest that, as part of the reform program, worker participation, in the form of workers' councils, was implemented in Czechoslovakia in 1969 (Fisera, 1978). In between the upsurges of Mao and Castro-Guevara and the market socialist experiments of Hungary, Yugoslavia and Czechoslovakia, the Soviet Union finally embarked on a reform which reflected the spirit of 1956, as well as the discussions, debates and experiments which followed. Rather than pursue Sik's commitment to economic and political pluralism, the new leadership of Brezhnev and Kosygin sought to achieve the 'best of both worlds', through a limited dose of marketization, including limited exchange relations within the state sector, while retaining the predominantly centrally administered form of co-ordinating specialized economic units. Thus an answer to the intolerable burden on the central planners and administrators and to a disappointing growth performance was sought through several initiatives:

- limited marketization, with an improvement in price setting; fewer central directives supplemented by direct links between buyers and sellers;
- a simpler and more meaningful incentive system; and
- a more efficient organization of both the state and the enterprise on the basis of administrative theory (Lieberman, 1965).

There was, interestingly, an attempt made, in 1969, to introduce a limited role of worker participation without challenging the management responsibility structure. (Breth & Ward 1982; 85-88).

In this way, it was hoped that the essentials of the socialist system would be retained while adapting it to answer the challenge of intensive growth and economic efficiency, now that the sources of extensive growth had largely been exhausted. In the view of Zubkova (1965; 44), while the

reform did not go nearly far enough, it came close to representing a new scientific approach.

How should we assess the Liberman-Kosygin model³ in the context of the struggle for a viable socialist economic system? There are three alternative ways of thinking about the model:

- as the basis for a long term, viable, socialist system;
- as a medium term solution, pending a breakthrough in mathematical-economic techniques of central planning, gradually overcoming the obvious difficulties of transforming a well-established centrally administered structure into a monopoly market system; or
- finally, as a means of rapidly moving to a market system.

By the end of the 1970's it was clear that the Party had failed to achieve any of these objectives. In fact, the reform had not only become stalled but much of its initial thrust had been reversed. What ensued is an outcome which is now commonly referred to as the 'stagnation' period. Clearly it was not possible to meet any of the criteria for viability during this period. This was particularly threatening in the light of the speed of technological change in many advanced capitalist societies and the growing burden associated with the 'second cold war'. By the time Gorbachev came to power, one could reasonably call into question the very survival of socialism in the Soviet Union.

What was to be done? Clearly there was much to build on, including the contributions discussed earlier - Lange, Sik, Liberman-Kosygin, as well as the experience of Hungary, Poland, Yugoslavia and China. The extensive contributions of writers such as Nove (1983, 1986) were of relevance. However, it is the Soviet Union's own scholars who have played and continue to play the central role in the search for a viable socialist system. Among key advisers/critics are Abel Aganbegyan and Leonid Abalkin who heads the State Committee of the Council of Ministers of the USSR on Economic Reform.

3 The Liberman-Kosygin model is named after a leading economist of the time, Evsei Liberman, and the Soviet Premier, Alexsei Kosygin.

In order to understand the concept of the socialist system unfolding at present, it is essential to examine the assessment made of the Liberman-Kosygin reform by these academic advisers and the Party. This is particularly crucial in the light of the sympathy and support initially given to the reform as well as the generally positive efficiency results achieved during its initial years. (Aganbegyan 1989: 59 and 81).

The first fundamental criticism is that the reform failed to seek a comprehensive restructuring of the entire system, economic, political and social. Whatever its long term outcome might have been, it represented more of a tinkering with the existing relations than a comprehensive reform. However, by rejecting a more fundamental change in the system, the consequence was a type of hybrid between central administration and market which raised a whole new set of inconsistencies. Among these inconsistencies were:

- decentralization of consumer goods but not intermediate goods;
- decentralization without meaningful indicators of opportunity cost;
- a continued contradiction between consumer choice and collective sovereignty, except for minor attributes of the commodities; and
- greater decentralization to enterprises without the ending of directives and without the use of competition and, possibly, bankruptcy as a market test.

One justification advanced for not decentralizing faster to enterprises was that wholesale trading would only be effective once 'shortages' had been overcome. However, the 'shortages' were themselves an outcome of the highly-centralized allocative mechanism. This point was emphasized both by Kornai (1980) and by Aganbegyan (1989; 60).

In the face of these inconsistencies, unfavourable outcomes naturally followed (for example, wages outstripping productivity) and were then used to justify recentralization. Momentum was lost and so were the potential gains of the reform.

However, the problem of inconsistencies was not sufficient to explain why the reform was subsequently reversed. In the view of Gorbachev and Aganbegyan there was a fatal flaw in the process by which the reform was introduced. The approach adopted was to focus attention on the shortcomings in economic relations. There was no recognition that a successful

economic reform requires a political reform and that a political reform requires extensive democratization and accountability at all levels of society. Democratization itself can only function in a context of openness (or glasnost). Without information there can be no criticism and no debate, and without criticism and debate there can be no democratization. Without democratization there can be no successful reform of the economic mechanism. Thus, the reform of economic organization and economic relations cannot function in the absence of a political reform. In this regard, the spirit of Ota Sik is clearly evident.

The lack of political reform not only inhibited the effectiveness of the economic reform - a lack of comprehensiveness - but it helped facilitate the decision by the Party leadership to slow down and then reverse the reform without being subjected to any effective opposition in the parliament, in the factory or in the media. In the absence of democratization and openness the community was unaware of the nature of the shortcomings. Those supporting the reform were unable to effectively oppose the powerful vested interests in the Party, the State, the management, the workers who feared possible changes in work conditions and unemployment and consumers fearing prices rises. Thus a decision made by the Party leadership to slow down or even reverse the reform could occur without any effective opposition being mounted.

With the political decision to slow down or reverse the reform '.... a total relapse to administrative methods took place.' (Aganbegyan 1989; 61). According to Zubkova (1989; 44), '.... the rights of enterprises were usurped by the ministries and institutions ... and to all intents and purposes the 'Law of Socialist Enterprise' came to a *de facto* halt.'

Why did the Party leadership change its mind? This is quite speculative. Certainly the dangers of growing marketization, as reflected in Czechoslovakia and in Poland, probably raised fears. However, it is more likely to have been a perception that, in the face of initial rises in efficiency, the benefits of detente, the dramatic shift in the terms of trade and the O.P.E.C. - originated crisis in capitalist societies, the pressure for sustained reform was no longer present. The 'success' hypothesis is stressed by Zubkova (1989:45): 'the movement for the continuation and deepening of the social transformations from the 'bottom' met with a certain passivity on the part of the 'centre' which took the first successes as a guarantee for the end result, and regarded the measures already taken as sufficient.'

What lessons can be drawn from the Liberman-Kosygin experience? Aganbegyan (1989; 64), in his assessment of the reform, singles out the lack of democratization and openness as having played a critical role. 'The first lesson is that *major perestroika can succeed only if it is all-embracing and includes the whole of society and all sections of the economy ... the most important lesson to be drawn from an analysis of the past concerns the need for democratization of society as the indispensable element in a successful perestroika.*' Thus, in any new attempt at reform, the emphasis must be placed on comprehensiveness, particularly the interdependence between a successful economic reform and democratization and openness. Moreover, in the sequencing of reforms, it is political reform which must precede economic reform.

The Gorbachev Search for Viability

How best can the unfolding Gorbachev reform be characterized? What concept of a socialist economic system is guiding these changes? What is the prevailing ideology of the Party leadership? How does it compare with Ota Sik or with Lange? Where does it differ from Liberman-Kosygin?

An excellent source on the broad character of the reform is Aganbegyan's book *The Challenge: Economics of Perestroika*. The title is significant, as one common characteristic both of the Party leadership and their advisors is a realization of the enormity of the challenge. They realize that, despite the wealth of theory and practice drawn from the past, they are treading on new ground - they are, in Gorbachev's words, seeking 'to develop a new economic model ... tantamount to a real revolution in the entire system of relations in society.' (1989;24).

In addition to the elements which constitute the 'new model', strong emphasis is being given to the process or strategy which should be adopted to facilitate the successful implementation of the 'new model'. The lessons of the ill-fated Liberman-Kosygin reform have clearly been learned.

The strategy is that economic reform requires, and can only be sustained by, political reform - democratization plus openness. Only if the masses are informed and have access to decision making, (eg. workers in relation to management and electors in their relation to their delegates) can the

transformation of a system based on sixty years of central administration be sustained. (Zubkova 1989; 65 and Gorbachev 1989; 9). While democratization and openness are seen to be a necessary ingredient for economic reform, the struggle for economic reform will provide a breeding ground for nurturing the seeds of democratization.

There is a clear recognition that the magnitude of the necessary re-structuring will create tension and conflict, but, if handled democratically and openly, it can serve the needs of reform. 'Destabilization is not only inevitable, but necessary: without it there can be no creative search for new forms of democratic power.' (Diligensky 1989). This view is shared by Gorbachev. While his critics, at home and abroad, pointed to the threat to his reform posed by the striking coal workers, Gorbachev, in a T.V. interview, publicly welcomed them as an integral and inevitable part of the struggle for re-structuring Soviet society: 'The workers not without reason have taken matters into their own hands. And despite the dramatic nature of the events, the fact that they have done so has heartened me greatly.' (Gorbachev 1989b)

One key consequence of democratization and openness is that foreign policy issues, particularly relations with its socialist neighbours will, henceforth, be subject to public discussion and pluralistic influences. Foreign relations are seen as being a key factor in the process of achieving re-structuring. This is viewed not simply in terms of the need to reduce the military burden so as to free resources for re-structuring and to gain better access to foreign credit and technology transfer, but also as a means of avoiding a repetition of events such as Hungary in 1956 and Czechoslovakia in 1968. These interventions are seen as factors which strengthened the power of the more conservative forces in the Party serving at critical moments to impede the struggle to achieve a viable socialist system. (Zubkova 1989; 44-5).

Of course, there are risks in this strategy. While openness and political pluralism are in full flower and, with them, the aspirations of the masses for a better material life, the economic re-structuring necessary to bring about improvements will not be in place. It is not planned to have the key elements of the new model in place prior to the commencing of the next Five Year Plan in 1991 (Aganbegyan 1989; 111-2). In the meantime, the destabilizing consequences of the partial reforms already introduced will, in all likelihood, exacerbate existing inconsistencies and result in a

deterioration of living conditions. The risk is even more acute as it is considered vital for the masses to realize the extent of the crisis in Soviet life. To many citizens, who are used to the rosy picture painted prior to openness, this must be demoralizing. But, in the view of the leadership, this dissatisfaction can and must be harnessed as a force to prevent a repetition of what happened to the Liberman-Kosygin model.

At the same time, the risks with respect to nationality issues must be taken. The link between the resolution of nationality issues and the economic reform, particularly local financial autonomy and accountability, are fundamental. Each interacts with the other. The risks are high but, in the view of the leadership, no other course is possible. (Abalkin 1989; 1989a)

The Gorbachev Political-Economic Model

What then are the major elements of the 'new economic model'? Does it have the capacity to become the basis of a viable socialist economic system? At this stage the character of the new system is unfolding. However, on the basis of Party and Parliamentary resolutions, together with the writings of key economic advisers like Aganbegyan and Abalkin, it is possible to specify the key relations that constitute the new system.

In essence, if plans are realized, the Soviet Union will have a market socialist system in which households and enterprises, as well as government, exercise discretionary power. This system will be more in line with *Sik* than with *Lange* or *Liberman-Kosygin*. It will combine predominantly market relations with a high degree of government intervention, particularly in the form of market planning. Economic pluralism will be inextricably linked to political pluralism and openness. The new system attempts to combine predominantly social (state and/or group) property relations with organizational relations which seek to make those who hold more power more accountable to the masses. In so doing, it is hoped that economic efficiency will rise sharply, popular support will grow and a consistent set of socialist relations will be established. Thus the bases for viability will be laid.

While property relations will continue to undergo significant changes, one of the integral elements of the capitalist system, predominately individual property rights, has been rejected. However, the almost exclusive dominance of the non-agricultural sector by state property is no longer

accepted. State ownership is no longer seen to be sufficient nor is it always necessary. (Xi Lei 1987; 18) The property sector should, it is argued, seek to establish the framework for the economy within which a variety of property forms can flourish without undermining the broad character of the system. (Gorbachev 1989; 24-5 and 1989c; 104)

Among the more diverse property relations, in the non-agricultural as well as in the agricultural sector, are co-operatives. These examples of group property involve the ownership and control by the members of the organization. The areas open to co-operatives and the regulation of their behaviour will be vested in the hands of local government. They will have tax obligations. State enterprises, unable to meet the market test, may be turned into co-operatives. Aganbegyan (1989; 28) estimates that fifty per cent of services and twenty-five per cent of the production of consumer goods will be handled by co-operatives⁴

A more striking break from the past is the recognition that legal individual property relations have a role to play. In line with openness, no longer is individual property described as personal property. Under the Law on Individual Enterprise, passed in May 1989, individuals are permitted to operate their own enterprises subject to certain regulations to be administered by local government. Among these regulations are the areas of activity permitted, a prohibition on hiring the labour of others (which is considered exploitative) and the obligation to pay tax (Lacis 1987; 21 and Aganbegyan 1989; 130). As this activity operates within the framework determined by the State sector it cannot, it is argued, threaten its dominance. Rather, it is seen to be complementary to both state and group property in that it is most effective in labour-intensive activities, particularly in the rapidly growing service sector. One consequence of legalizing individual enterprise is that it will help bring the large shadow economy into the open. (Lacis 1987; 21)

The potentially controversial issue of foreign equity is to be reconciled to socialist ideology by restricting the share of foreign capital to a maximum of forty-nine per cent. Tax will be levied on these enterprises. Whether or not such a package will be sufficiently attractive to foreign investors and,

4 Popov (1989) argues for about 50% of income being in the non-state sectors.

therefore, whether or not further concessions will be required, is uncertain at this stage.

Very recently, emphasis has been given to the general principle of the leasing of state owned property, including agricultural land. Under a law adopted in December 1989, certain state owned enterprises will be leased to the members of the organization. 'Labour collectives and individuals ... assume full responsibility for its use, discharge certain economic duties to the State and manage their own affairs independently ...' (Gorbachev 1989a; 82-3) In this way, the social character of property is combined with the direct responsibility of workers for the use of the assets. It is intended that some twenty per cent of all enterprises will go over to the lease system by 1995 (Bunich 1990).

Whatever final form the structure of property relations takes, it will not be sufficient to create a viable socialist economic system. The major challenge is to establish a new set of **organizational** relations, with a consistent form of **motivational** relations, which will lay the basis, together with the structure of **property** relations, for achieving viability.

In essence, the Gorbachev reform seeks to establish a set of organizational and motivational relations which not only become an engine of material progress by harnessing the sources of intensive growth, but achieve higher forms of accountability of those making key decisions. Some forms of accountability are consistent with capitalist society while others require socialist relations: thus, a socialist system, it is argued, will enjoy greater accountability to the masses. The new model is seeking to achieve this higher level of accountability in six sets of relations which impinge on the making of economic choices. These are accountability of:

- political decision makers to the masses in the Party;
- governments, at all levels, to the citizens they represent electorally;
- members of the public service, including planners and administrators, to the government;
- producers, in general, irrespective of property, to the citizens as consumers via the market;
- major investment decision makers to the people via the discretionary power of the government, particularly through national allocative planning; and

- management, in both social and group enterprises, to their members, including the application of the electoral principle.

Accountability of the Party leadership raises the key issue of whether or not the Party should maintain its leading role in establishing a viable socialist system and beyond that to the onset of communism. In contrast to recent changes in Hungary and Poland, the C.P.S.U. is maintaining its leading role status: 'a one-party system does not contradict socialism' (Medvedev 1988; 13) In the Resolution at the 1989 Congress of Deputies this position was clearly stated: 'We understand the importance of the consolidating role of the Communist Party of the Soviet Union as the ruling Party and the political vanguard of society ... It is only the Party that can lead the advance towards the realization of people's aspirations' (Gorbachev 1989c; 112) By contrast, Andrei Sakharov, just prior to his death, argued against Article 6 in the Constitution which gives the Party its leading role: 'I think that a Constitutional promotion of the CPSU is inadmissible, anti-democratic and, in effect, aimed against the real prestige of the CPSU' (1990;16). Which view will prevail is for the future.

The CPSU stand does not imply a rejection of democratization or of pluralism. What is being argued is consistent with the role of the party in the *Sik* model where it is no longer a correct-line party but is one which seeks to resolve conflicts between the differing views of its members, although the recognition of conflict between opposing views does have a limit.

At the same time, accountability will be enhanced by clearly defining the role and functions of the Party in relation to governmental bodies, at all levels of society, so as to avoid 'the state of affairs that existed when its organizations were substituting for government bodies and were actually performing the function of direct management of the economy and of all other areas of life' (Gorbachev 1989;27) As a consequence of their former directing role, the Party committees, in Gorbachev's opinion, 'lost the ability to appraise critically the development of society and play the role of its vanguard'. (1989;27) The Party must now focus on its historical role of guiding the overall character of society.

In addition to strengthening the role of the different levels of government, democratization requires that deputies be elected in multi-candidate elections. Further, candidates ought to represent different interest groups and not be restricted to Party members. The recent elections of the Congress

of State Deputies, the Supreme Soviet and the President, are viewed as important steps on the road to democratization and, with it, greater accountability.

A corollary of this process is the need to determine the optimal division of responsibility between the various levels of government - Union, Republic and Local - and to ensure that there is accountability of each level to its constituent members. This is likely to be strengthened by giving each level its own financial resources. This is stressed by Leonid Abalkin (1988;39) who argues that 'one of the central problems of the perestroika concept is the interrelation between democratisation of social life, self-government and the transition to full-scale cost accounting'.

One of the major criticisms of Stalinism, both by Oskar Lange and Ota Sik, was of the power acquired by the planning and administrative apparatus. In their view this 'stratum' of society exercised considerable power with little or no accountability to the masses or their government representatives. Gorbachev had this form of stratification in mind when he stressed to the Congress of Deputies that 'the reconstruction of representative bodies, the all-round widening of their rights and powers in accordance with the Constitution, and the unconditional subjugation of the apparatus to them is the first prerequisite of the return of real levers of power and administration to the Soviets'. (1989;26)

Together with the introduction of political pluralism, the new economic model embraces economic pluralism, or general market relations. It is argued that this will lead to the establishment of a new form of accountability, that of the producer in relation to the consumer via the market test. While agreeing with Liberman-Kosygin's rejection of Stalin's 'two property' thesis, the Gorbachev model is much more in line with Oskar Lange and Ota Sik in accepting market relations as the general rule and central administration as the special case. The long seventy year struggle over whether or not general commodity production is consistent with a socialist system has been thereby resolved, barring an unexpected change in leadership.

Markets are now viewed as being an integral feature both of capitalism and socialism and, in each system, they reflect the growth of specialization and the division of labour. Gorbachev, in his speech to the Congress of Deputies, (1989;25) made his position crystal clear: 'The market is, of course, not omnipotent. But mankind has not been able to devise a

different, more effective and democratic mechanism of economic management'. Or, in the words of Medvedev (1989;16), 'the market, freed from speculative distortions, is one of the major gains of human civilization'. In similar vein, Aganbegyan (1989; 127) believes that 'the conditions for the existence of commodity production and market relations in the U.S.S.R. are not of transient importance but part of the long-term development of socialist economy.'

In order to strengthen the accountability of the producer to the consumer the new policy proposes that enterprises be subject to the market test by way of both domestic and international competition (Gorbachev 1989c;111). The impact of consumer demand on the producer will be facilitated by allowing most prices to reflect market conditions. The unity between consumer choice and consumer sovereignty, stressed by Sik, will be restored. A critical consequence will be the end, in time, of the dominance of the producer in a world of continued shortages. With the end of reliance on central directives, 'Government guidance of the economy and economic management will be clearly separated'. (Gorbachev 1989;25)

To facilitate the effective functioning of market relations, wage differentials will be allowed to reflect relative scarcity even if this results in greater inequality. No longer will the central authorities pursue a policy of 'levelling'. One critical issue which has sparked vigorous debate among economists is whether or not unemployment will be permitted to serve as a motivating force. Aganbegyan (1989; 187-8) strongly rejects this as reflecting a non-socialist approach, claiming that with market-determined differentials 'the incentive to work well will be strong enough'. This conclusion will be tested in the coming years.

While market relations are believed to be superior in general to centrally administered relations, they are considered to be far from perfect. Thus to achieve optimal results 'the socialist market...' must be 'a regulated market'. (Aganbegyan 1989;119) At the recent Congress of Deputies, Nikolai Ryzhkov (1989;55) stressed that 'the government's position is based on an admission of the crucial role of the socialist market and competition in our economy. But I am sincerely convinced that the market will offer benefits to the people only if we create an effective economic mechanism to regulate and protect the interests of the citizens against the unruly forces of the market'. However, government intervention will be

'law based' and any 'Government guidance of the economy and economic management will be clearly separated.' (Gorbachev 1989;25)

Intervention by restructured governments, with the assistance of a reformed public service, will take on a range of forms ranging from limited central administration, state orders, regulation, *ad hoc* discretionary power and market economic planning. Economic planning will continue to represent a major form of government policy: 'A socialist economy is by its nature planned' (Aganbegyan 1989; 133). More specifically, planning will be used by the government to overcome unacceptable outcomes such as instability, excessive inequality and dynamic inefficiency. As such, the nature of government intervention is qualitatively, although not quantitatively, consistent with the approach of liberal interventionist governments in many advanced market capitalist societies. Gorbachev (1989a;83) put it quite simply - 'We should develop the socialist market, while retaining planning'. However, the nature of this planning will be quite different: in the place of the former reliance on central planning, we will now see new forms of market planning, such as policies for economic stability, income redistribution and national allocative planning (Ward and Kulkarni 1987).

While enterprises are to become more accountable to citizens as consumers, the management of larger state enterprises will also be accountable to Soviet society via national allocative planning. This form of market planning is to become a key element of the new system, as it was for Ota Sik, although not for Lange or Liberman-Kosygin. In essence, the basic structure of the economy, particularly the sectoral and spatial distribution of investment, will be subject to both political pluralism and economic pluralism. The national Five Year Plan will be derived primarily from the plans of the enterprises, which themselves are derived on the basis of projected market demand, including state orders. In addition to seeking to correct market failure associated with investment, including 'cobweb' problems, the planning process will provide the community, workers in the enterprise, citizens via their deputies, the media etc., with the opportunity to debate and influence the basic priorities. This will be facilitated by the provision, by planners, of a number of consistent and feasible variants of the plan (Aganbegyan 1989;112-120; Medvedev 1989;16; Abalkin 1989;12). In this way the planning process is facilitated by democratization and openness while the latter is enhanced by the former. Once ratified by parliament, the government will act, at its discretion, to

implement the specified targets. However, in contrast to earlier central plans, reliance will be primarily on market instruments. The achievement of this form of accountability will distinguish the Soviet socialist system from any existing capitalist society.

While the management of the enterprise is to become increasingly accountable to citizens, both as consumers and as voters, it is, similarly, to become more accountable to the members, particularly the workers, in their organizations. Although there was a token reform in 1969, the Liberman-Kosygin model gave little attention to the role of workers in the decision-making process (Breth and Ward 1982; 85-8). Similarly, this was not a feature of Ota Sik's basic model⁵, while Oskar Lange ignored the issue completely. Of course, given the dominance of individual property rights in monopoly market capitalism, it is not surprising that little effective accountability of management to their workers has been achieved in capitalist societies.

By contrast, re-structuring the state enterprise in order to strengthen the role of workers via worker-elected organizations is viewed as being an indispensable element of the new system. This is stressed both by Aganbegyan and Abalkin. Aganbegyan (1989; 193), for example, argues that 'the development of democracy and the involvement of workers themselves in management is of decisive importance for the radical reform of management'. Similarly, Abalkin (1988; 41 and 46) stresses the inter-dependence between worker participation, marketization and the general level of democracy: 'Genuine democracy and self-government are impossible unless workers and their collectives are safeguarded against arbitrary decisions and management by decree ... it is only through genuine involvement of workers and work collectives in the process of public appropriation and through transition to full-scale cost accounting and self-management that ownership can be filled with realistic import and become genuinely socialist ownership'.

5 V. Fiser (1978). *The Hungarian experience in worker participation in decision making* is of relevance to the Gorbachev model: see A. Zimbalist and H. Sherman, (1984; pp.419-421.)

To facilitate greater accountability, management will be subject to election by the members of the work collective. In addition, there will be elections of worker representatives to councils, brigades and sections. (Aganbegyan 1989; 31). In his Report to the Central Committee, Gorbachev (1987) stressed that electivity was consistent with the Leninist tradition of managerial responsibility: indeed, being elected would strengthen a managers feeling of responsibility. In addition to the positive benefits of making managers more accountable, the granting of greater rights to elected worker organizations 'in framing the plans of economic development for their enterprise, deciding the way incentives should be offered, on work conditions and salaries, and the social development of their collective' would enhance the provision of information, be a positive motivating force and generally lower alienation. (Aganbegyan 1989; 31)

It is in this aspect of the reform that we see all the key inter-dependent elements at work - social property, openness and democratization, marketization, economic planning, and direct participation by the masses.

Conclusion

We have identified the principal dimensions of Gorbachev's 'real revolution', while abstracting from the critical issues of how best to implement the changes and whether they are being achieved at present. Assuming that it is successfully implemented, is this model likely to achieve the elements required for a viable socialist economy? Or is this the beginning of a transition to some very interventionist variant of monopoly market capitalism, more like Sweden? The argument in this paper is that this reform has more potential for viability than earlier Soviet reforms. Much has been learned, both theoretically and in practice. In contrast to the Liberman-Kosygin model, considerable attention has been given to the need for comprehensiveness and consistency, as well as the process required for a successful reform. To succeed it will clearly need to facilitate a rapid growth in material production and, if it does, it seems reasonable to assume that it will have broad popular support. In such circumstances, a viable socialist economic system will have been achieved and Gorbachev and his supporters will have done much to ensure

a place for socialist economic relations in the twenty-first century. How likely is this outcome? That is another story.

References

- Abalkin, L (1987) 'The Main Trends in Economic Policy', *Social Sciences*, Vol. XVIII, No. 3, pp.34-35.
- Abalkin, L. (1988) 'Economic Reform and Lessons of the Past', *Social Sciences*, Vol. XIX, No. 4, pp. 38-47.
- Abalkin, L., (1989) 'For a Programme of Economic Improvement:', *Moscow News*, No. 6, p.12
- Abalkin, L. (1989a) 'Regional Cost Accounting is Not a Cure-All. But We Need It', *New Times*, No. 34, pp.32-4.
- Agabegyan, A (1989) *The Challenge: Economics of Perestroika*, (Hutchinson, London).
- Breth, R. and I. Ward (1982) *Socialism: The Options*, (Hargreen, Melbourne).
- Bunich, P. (1990) 'New Law on Lease', *Moscow News*, January 7, p.10.
- Diligensky, G., (1989) 'Who's Afraid of Democracy', *New Times*, No. 38, pp. 26-29.
- Fisera, V. (1978) *Workers' Councils in Czechoslovakia: Documents and Essays 1968-9* (Allison and Busby, London).
- Gorbachev, M.S., (1987) *Report to the C.P.S.U. Central Committee*, January 27, (Moscow).
- Gorbachev, M.S., (1987a) *Perestroika: New Thinking for Our Country*, (Collins, London).
- Gorbachev, M.S., (1989) 'On Major Directions of the U.S.S.R's Domestic and Foreign Policy', *Congress of Peoples' Deputies of the U.S.S.R., Documents and Materials* (Novosti, Moscow) pp.10-49.
- Gorbachev, M.S., (1989a) Concluding Speech, *Congress of People's Deputies of the U.S.S.R., Documents and Materials* (Novosti, Moscow) pp. 79-92.
- Gorbachev, M.S., (1989b), T.V. Interview, *Soviet Weekly*, September 9, p.15.
- Gorbachev, M.S., (1989c) Resolution of the Congress of Peoples' Deputies of the U.S.S.R., *Congress of Peoples' Deputies of the USSR: Documents and Materials* (Novosti, Moscow).
- Komai, J., (1980) *Economy of Shortage* (North Holland, New York).
- Lacis, O., (1987) 'Industrial Labour in the Modern Socialist Economy', *Communist*, No. 1, 1987, in *Supplement to Socialism: Theory and Practice*, No. 3, pp.15-22.
- Lange, O. and F.M. Taylor (1938) *On the Economic Theory of Socialism* (University of Minnesota Press, Minneapolis).
- Liberman, E., (1965) 'Plan, Direct Ties and Profitableness', *Pravda*, November 21.
- Medvedev, V., (1989), 'Achieving a Deeper Understanding of Socialism', *Communist*, No. 17, 1988, in *Supplement to Socialism: Theory and Practice*, No. 2, pp.3-18.

Mrachkovskaya, I.M. (1972) *From Revisionism to Betrayal: A Criticism of Ota Sik's Views*, (Progress Publishers, Moscow).

Nove, A., (1986) *Socialism, Economics and Development*, (Allen and Unwin, London).

Nove, A., (1983) *The Economics of Feasible Socialism*, (Allen and Unwin, London)

Popov, G., (1989) 'Give Efficiency A Chance', *Soviet Weekly*, July 18, p.15.

Ryzhkov, N., (1989) 'On the Programme for the Forthcoming Activities of U.S.S.R Government', *Congress of People's Deputies of the U.S.S.R: Documents and Materials*, May 25 - June 9, 1989, (Novosti, Moscow) pp. 50-78.

Sakharov, A., (1990) 'A Critical Time in our History', *Soviet Weekly*, January 11, p.16.

Sik, O., (1970) *Plan and Market Under Socialism* (International Arts and Sciences Press, New York).

Sik, O., (1971) The Economic Impact of Stalinism, *Problems of Communism*, May-June, pp1-10

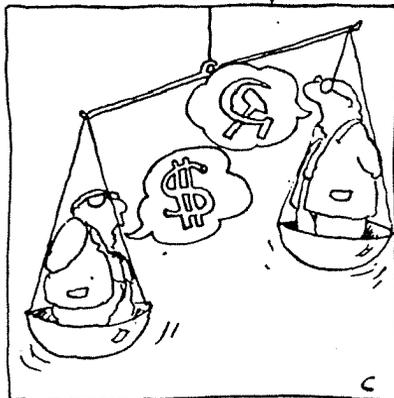
Stalin, J.V., (1972) *Economic Problems of Socialism in the U.S.S.R.* (Foreign Language Press, Peking).

Ward, I. and A. Kulkarni, (1987) 'The Rise and Fall of National Allocative Planning in Australia', *The Australian Economic Review*, 2nd quarter, pp.37-48.

Xi Lei (1987) 'Economic Reform in the U.S.S.R. - An Overview', *Beijing Review*, March 11, 1987, pp. 18-21.

Zimbalist, A. and H.J.Sherman (1984) '*Comparing Economic Systems*' A Political-Economic Approach, (Academic Press, Orlando).

Zubkova, Y. (1989) '1956, 1965: Lessons of Half-Way Changes', *Communist*, No. 10, 1988, in *Socialism: Theory and Practice*, No.11, pp.39-46.



Copyright of Full Text rests with the original copyright owner and, except as permitted under the Copyright Act 1968, copying this copyright material is prohibited without the permission of the owner or its exclusive licensee or agent or by way of a license from Copyright Agency Limited. For information about such licences contact Copyright Agency Limited on (02) 93947600 (ph) or (02) 93947601 (fax)