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*Soviet Economy: Opening Up
and Stabilization*

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SOVIET ECONOMY: OPENING UP AND STABILIZATION

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Section 1 discusses the theoretical and practical dimensions of the ownership reform underway in the USSR, which may result (if successful) in a new social structure of production and a multi-sector economy.

Section 2 focuses on the problems of the country's participation in the world economy and of the "opening up" process, in particular a shift from autarchy towards a more liberal trade policy.

Section 3 presents a very brief outlook of medium-term development problems, namely a structural change, financial stabilization and sanitation, balance of payments, and regional aspects of the reform.

Economic reform in the USSR has had so far an experience of just four years or so. Therefore, it is an extremely difficult task to make reliable extrapolations for the medium-term period ahead. The paper seeks principally to highlight the essence of the new policy and to identify the main constraints to its implementation. With regard to the general framework of the project supported by UNU/WIDER, in the case of the USSR what we discuss is not exactly a medium-term stabilization programme nor the adjustment of the given economic model to new challenges, but rather the replacement of the existing model by another one able to assure a new quality of economic growth in the long term. Altogether, such a perspective does not exclude a further destabilization of the existing system in the short and medium run, which is the cost to be paid for a switch to a new development pattern.

We hope that the paper will to some degree contribute to an understanding of the political economy of *perestroika* in the USSR as well as this country's economic prospects.

Section 1

REFORM OF THE OWNERSHIP SYSTEM1.1. The "Classical" concept of socialist ownership and Soviet practice

The development of the Soviet economy after 1917 used to obey certain theoretical notions and aspirations and power requirements rather than objective economic necessities.² The "classical" concept of ownership under socialism is based mainly on the following postulates:

(a) socialist property is property belonging to all members of society on an equal basis;

(b) any kind of individual or group property contradicts to socialist property and, in essence, is private property subject to elimination;

(c) since many residues of the capitalist society remain in the socialism (i.e. socialism as "immature" communism), then for means of production of secondary importance to the cooperative and individual forms of ownership based on the individual's labour input may be allowed provisionally and under strict control of the state.

The present system of ownership was formed in the USSR in 1928-37. Within that period the share of the state and pseudo-cooperative forms of ownership³ expanded dramatically, namely from 35.1 to 99.0 percent of the fixed assets (including cattle), from 44.0 to 99.1 percent of the national income produced, from 82.4 to 99.8 percent of the industrial output, from 3.3 to 98.5 percent of the gross agricultural output, and from 76.4 to 100 percent of the retail trade turnover of trade companies including public catering utilities. (National Economy of the USSR Over 70 Years, 1987, p.42). Whereas in 1913 private entrepreneurs who employed hired labour (together with their family members) consisted 16.3 percent of the total population, by

1924 their weight fell to 8.5 percent, and by 1928 to 4.6 percent. After that, the official sources did not report any data on this specific economic sector. The private sector based on the proprietor's personal work (mostly peasantry) shared more or less the same fate. In 1928 the number of such persons, including family members, constituted 74.9 percent of the country's total population, then after collectivization it fell to 2.6 percent in 1939, and further to 0,3 percent in 1959. Latter editions of statistical yearbooks reported a share of 0.0 that corresponds to less than 0.1 percent.

A distinction between the state sector and cooperative sector has been very formal in the last decades. The economic activity of cooperative enterprises was completely subordinated to state authorities of economic management, so from an economic point of view an agricultural cooperative enterprise (a *kolkhoz*, or collective farm) can be considered as a public enterprise with some specific features in the management and production process. After 1959 the cooperative sector in industry was formally eliminated by a transfer of respective enterprises into state property which became all-encompassing.

Thus, after the late-1930s state property turned into an overwhelming form in the Soviet economy. All other actors were forced out into the sphere of an illegal ("shadow") economy. Such a system existed without major changes for almost half a century. It was consecrated in the now operative Constitution of the USSR (1977) which defined three forms of "socialist property", namely the state property as the main form, cooperative property, and the property of trade unions and other social organizations. The personal property of citizens' consumer goods, savings, housing, etc. was not considered as "socialist", nor was the

property of the means of production used by self-employed individuals.

The evolution of state property into the property of bureaucratic structures, as well as the problems of alienation of the workers from the means of production have been extensively studied in the East and West, so we do not go into further detail. The orthodox system was increasingly unable to cope with domestic and international economic challenges, which made its reforming inevitable.

1.2. Reform of ownership in 1980s: legal and conceptual background

At the 27th Party Congress (1986) a general economic reform was launched, but with respect to ownership it just provided a better regulation of the existing forms and a development of cooperative property in different branches. (Materials of the 27th Congress 1986, pp. 33,39-40). An official recognition of the need for an ownership reform came almost three years later, in the early 1989. Nevertheless, prior to that acknowledgement several normative documents with reference to the system of ownership had been passed and adopted. These documents enable different economic sectors to evolve and to interact legally, thus setting a premise for economic pluralism. Here is the reform "package" presented in chronological order:

- Law on Individual Labour Activity (1986);
- Law on State-Owned Enterprise (Association) (1987);
- Law on Cooperatives in the USSR (1988);
- On Emission of Securities by Enterprises and Organizations (1988), resolution of the USSR Council of Ministers;

- On the Further Development of the External Economic Activity of State, Cooperative and Other Public Enterprises, Associations and Organizations (1988), resolution of the USSR Council of Ministers;
- On the Lease System in the USSR (1989), decree of the Presidium of the USSR Supreme Soviet

1.2.1. state property

The Law on State-Owned Enterprise (Association) (1987) constitutes the first legislative attempt to put limits on the absolute authority of the state over enterprises. The Law re-distributes all the proprietor's powers in favour of the enterprise, particularly by transferring to the grass-root level the powers related to day-to-day economic activity.

According to the declarative clauses of the above mentioned Law, an enterprise has the right to possess, to dispose of and to make use of all its material and financial resources which are set apart; it should become a "socialist commodity-producer" operating on the market with the status of a judicial person. An enterprise can engage in any kind of economic activity; elaborate independently the programmes of operation; fix prices, except those fixed in a centralized way; hire labour and determine the forms and amount of wages; issue bonds and stock; enter foreign markets and set up joint ventures, etc. Correspondingly, an enterprise is entrusted with entire economic responsibility for its performance through cost-accounting and self-financing.

Powers of the state as proprietor of the enterprise are interpreted through the "state orders" for production of goods or services to be included compulsorily in the programme of the enterprise. The state fixes the rates of

taxation and other payments. Reorganization, closure, and the establishment of enterprises also belongs to the competence of the state planners and ministries.

1.2.2. cooperative sector

The Law on Cooperatives came into effect on July 1, 1988. The cooperative form of ownership is no longer treated as something inferior, subordinate to the state, and only temporarily tolerable. The Law legitimates cooperative enterprises in practically all spheres of the economy and provides them with complete autonomy. Two major expectations are reposed on the development of the cooperative sector: to fill in the market segments where the public sector has proved its inability to eliminate perennial shortages; and to compete with the state sector for the achievement of higher quality goods and services and lower prices. Cooperatives have the right to hire employees in the number they need,. They can also rent means of production from state-owned enterprises, and conduct foreign economic transactions on more or less the same terms as state-owned enterprises.

One has to distinguish between "traditional" cooperatives in agriculture (*kolkhoz*) and "new" cooperatives in other economic spheres. There are nearly 26,000 collective farms in the USSR which employ 10.5 m people. The new normative documents envisage a de-etatization of collective farms and a restoration of their decision-making autonomy. Collective farms can employ the contract system or the lease system. At the same time, cooperative ventures in services, trade and industry are supposed to operate from the outset without any kind of state paternalism.

1.2.3. individual sector

The USSR Constitution of 1977 allowed individual labour activity, but in practice the latter was subject to severe and voluntary restrictions. Most self-employment activities, in fact, belonged to the "shadow" economy. The Law on Individual Labour Activity (1986) legalized it in all areas with some exceptions (manufacturing of arms and drugs, etc.). The reasons for encouraging the individual entrepreneurship are very similar to those for the cooperative sector. However, individual entrepreneurs, unlike cooperatives, are forbidden to employ hired labour and to conduct foreign economic transactions.

1.2.4. foreign property in the USSR

Joint ventures and other forms of foreign direct investment may evolve into a new and quite unorthodox sector of the Soviet economy. Joint ventures include an investment by Soviet state-owned and cooperative enterprises, but they act as independent proprietors. Joint ventures do not enter into the system of centralized state planning and administration, so they can themselves effect all the decision-making, including investment decisions and employment of local manpower. The upper limit of 49 percent of the foreign partner's share in the joint capital has been lifted, thus opening the road to predominantly foreign-owned ventures on Soviet territory.

The next step in the development of the system of foreign investments may represent the establishment of special economic zones for joint ventures and foreign affiliates, granting them a kind of extra-territorial status with a specific regulation of taxation, customs duties, labour relations, accounts, etc.

1.2.5. methods of reforming the system of ownership

The Congress of People's Deputies (1989) formulated for the first time a somewhat comprehensive strategy for the reform of the ownership system:

"To assure a development of varied forms of socialist ownership which exclude exploitation and alienation of the worker from the means of production. To create equally legal conditions for the evolution of and free competition between: state property; local (communal) property; cooperative property, property based on the lease and on shares (shareholding); property based on individual labour activity; and as well various mixed forms of property..." (The Guidelines 1989).

The Soviet leader Mikhail Gorbachev commented on the essence of the ownership reform as follows:

"Society remains the owner of the national property and transfers its major part, through multiform leasing relations, to the disposal of labour collectives and individuals who assume entire responsibility for its utilization, perform certain duties to the state, run their economy independently on their own account or on credits." (Gorbachev 1989, p. 50).

As one can conclude, the Soviet leadership makes the main accent on the reshaping of the nature of the state ownership through more efficient (by contrast with a direct command) methods of its realization. In the initial phase of the reform the ideas of *khozraschet* (cost-accounting) were put forward, then consecutively the contract system and the lease system became the hallmarks.

The basic Decree on the Lease System in the USSR, passed on April 7, 1989, implies the leasing of land, of the real property of enterprises, and other material property. State-owned enterprises, cooperatives, social organizations, and individuals can give on lease their belongings and also act as lease-holders. The period of

lease can last from 5 to 50 years. The product developed by a lease-holder belongs to him; the means of production purchased on revenues of the business operations also enter his property. By consent of the lease-lender a lease-holder can ransom the object of lease, except for objects belonging exclusively to the state, e.g. land.

Working teams of factories and peasant groups at collective farms are actively called to take on lease some state-owned means of production, but the process advances at a low pace. The workers usually do not have sufficient money for initial investment, nor do they have much interest or incentive. The lease system certainly represents certainly a step forward from managerial reform attempts (*khozraschet*) but it is still a form of compromise which does not radically change the ultimate proprietor. In agriculture the lease system appears as a compromise between the preservation of collective farms and the distribution of land among households. Unlike the Chinese system where "communes" were disbanded at once, in the USSR it is now up to the *kolkhoz* to decide whether to give a plot of its land to a farmer-family or not, and who charges the rent payments.

A conceptual background for the ownership reform is still not complete and explicit in several respects. It seems that the reform architects have not made up their mind about how far a reform should go. Instead, ideological slogans and theses are put forward ("to preserve the socialist nature of ownership", "to exclude exploitation", etc.) which no-one can interpret in purely economic terms. For example, the very word "private" is stubbornly avoided in official documents. The Law on Individual Labour Activity defines the means of production owned by individuals and employed by them as "individual labour-based property", thus playing a terminological game with no rational meaning. The

Law does not directly mention the admissibility of private property but silently implies it. The same problem will arise with regard to the lease system: if an individual lease-holder purchases (ransoms) some means of production, how then does one define the resulting form of ownership?

Ambiguity exists also with respect to the employment of hired labour. Three individuals who establish a cooperative have the right to hire an unlimited number of employees, but this right is denied to an individual craftsman and to a lease-holder. The admissibility of a labour market under socialism remains an object of fierce scholastic discussions and is strongly rejected by those who fear "exploitation" and "alienation", although administrative economics brings sufficient evidence of advanced degrees of alienation and even exploitation of the workers by the non-productive bureaucratic apparatus. An analogical debate about the admissibility of stock markets seems to be solved now: a market for securities and investment resources is due to appear in forthcoming years.

A certain radicalisation of theoretical notions and of public opinion on issues of ownership occurs at present. At the Congress (1989) some of the People's Deputies made far-reaching suggestions about land allocation among farmers, disbandment or sell-out of loss-making collective farms and industrial enterprises, and so on. However, even in the most "radical" presentations the possibility of an individual hiring another was very implicit or was flatly denied. Is it the actual limit of tolerance to pluralism and genuinely new actors, or just a matter of tactics?

1.3. Problems of implementation

One must distinguish between the reform guidelines as fixed in normative documents, and their actual implementation. No wonder that a reform which challenges the very foundations of the existing model has to face numerous obstacles and constraints, leaving aside the attempts to neutralize the impact of the reform.

1.3.1. legal problems and state regulation

We have noted above some incompleteness and inconsistency in the reform "package". Often enough, the basic principles of the reform documents bear a character of exhortations and do not have adequate mechanisms for legal enforcement. The Law on State-Owned Enterprise proclaims the labour collectives as "owners" but fails to grant them real economic independence and immunity from bureaucratic interference. A mechanism of economic realization of each worker's ownership rights (something like shareholding) does not exist, so "ownership" remains abstract. Many experts argue that the above mentioned Law is not operational at all, since practically all the well-known phenomena of the command-economy persists, though in a slightly modified shape.

An evolution towards a multi-sectoral (pluralistic) economy implies that the legal status, the treatment and regulation of all the sectors become uniform. This trend has not taken place so far. Cooperatives enjoy a business autonomy unimaginable for state-owned enterprises; they can dispose of a higher share of incomes. In the first half of 1989 cooperatives had lower tax rates than those of state-owned enterprises, but then new higher taxes on cooperatives were adopted in several Soviet republics. The kind of "equalization" of economic conditions in which the

bureaucracy attempts to make the cooperatives as poor and restricted as state-owned enterprises usually are, seems to us wrong but quite understandable.

The state regulation of the economy lacks stability. A policy can change abruptly without any public consultations or warnings, just by a voluntary resolution of executive bodies at the central or local level. A progressive and far-reaching law (like the Law on Cooperatives) can be followed at any moment by a resolution or a decree which in essence contradict to this law. In addition, the norms and laws of the pre-reform age remain operative and restrict or forbid any economic initiative of the subjects not sanctioned from above.

The state regulation of the cooperative sector actually displays a visible controversy. In principle, laws and decrees taken at the top political level encourage the cooperative movement, but at the same time attempts to restrict or to suffocate cooperatives occur one after another. (It may seem that "the right hand does not know what the left hand is doing", as proverb says). The planners try to eliminate negative trends inevitable for the "infant" stage of the new sector on a distorted market, but in so doing they often take measures which discourage any cooperatives at all and thus perpetuate the monopolism of the state sector. For example, a sudden attempt to introduce suffocating income-taxes on cooperatives took place in 1988 but failed due to the resistance of public opinion. A new attack on cooperatives was launched in June 1989. Analogically, the share of profits to be disbursed by a lease-holder can change overnight if the managers of the *kolkhoz*, *sovkhos* or industrial enterprise conclude that the team is going to obtain "unjustifiably high" profits.

The degree of the cooperatives' vulnerability to bureaucratic arbitrarism (in the form of "permissions", "licences", "approvals", etc.) remains high. Cooperatives usually become an object of unrestrained extortion on the part of public officials who control the issue of licences for operation and the rent of installations. (Hence an explosion of corruption). The rates of taxation now belong to the competence of local authorities "according to local needs and requirements", which leaves the door open for local arbitrarism. As a general rule, cooperatives react to the situation of uncertainty and unstable regulation by avoiding investment in fixed assets and by channelling their activities into speculative ventures with immediate return.

The on-going democratization of the political system in the USSR is called to raise the role of representative organs as decision-makers on cardinal issues of economic policy and will correspondingly reduce the powers of the all-mighty administrative apparatus.⁴ At the same time, if the populist wing gains strength (which seems to be the case), it can for politico-demagogic reasons restrict the newly-created private enterprise and to hinder the de-etatization of the economy.

1.3.2. social constraints

The "classical" version of socialist economics in the Soviet Union, relies upon a quite a solid and broad social basis. The overwhelming position of the state originates from a long tradition. Under the monarchic regime the state stood higher than the civil society and its paternalism extended very broadly. The mentality of people had fixed the conviction that a "fair" and strong state can be the only guarantee of social justice. Even after the overthrow of the monarchy in February 1917 the concept of a "fair" monarch and "fair" state remained very widespread. Hence the

relative ease with which Stalin later imposed a regime of personal dictatorship. Nationalization of land and all means of production was perceived by the broad masses principally as the deprivation of property from immediate exploiters, namely the big land-lords and capital-owners. State property of the means of production appeared as a guarantor of a "fairly" egalitarian distribution.

At least three generations of Soviet people were educated in the spirit of rejecting any form of private property and "exploitation" as the greatest evil. This explains the harsh reaction of official circles and public opinion to eventual references to the possibility of private property in the USSR beyond the limits needed for consumption and self-employment. Such an ethical norm as the respect and inviolability of property has been eroded over the last decades, nor was it very strong in the past. If public opinion considers some property as "illegal" (sometimes simply for its magnitude) then it would readily justify a violation of this property by the state power or even by individuals. (Lvov et al. 1989). Numerous cases of violence against cooperators and their property have been registered recently in different regions of the USSR.

Most of the population does not associate the development of new entrepreneurship sectors in the USSR with advantages deriving from competition between sectors, demopolization, and broader economic freedom for individuals. A public opinion poll in 1988 revealed that 37 percent of respondents consider the activity of the "new" cooperatives and individual entrepreneurs as "unnecessary", another 32 percent had no definite attitude. (Glushetski 1988, p. 24). Most citizens protest against high prices and the poor quality of goods produced by cooperatives, despite the still lower quality or even unavailability of such goods in the public sector. The industry barons complain of an

outflow of the most energetic and capable workers from state enterprises to the cooperative sector.

The key reason, however, resides in the strong egalitarian stereotypes and especially of the combination of aggressive envy to higher-income strata with own passivity. In this respect Russia presents an extreme example among the reforming socialist countries. A very large share of the population identifies socialism with the primacy of state property and gets indignant with the performance of alternative sectors.⁵ In fact, what they reject is not exactly the form of ownership but the different pattern of distribution or the eventual economic stratification, though their envy is always disguised under a "concern for the ideals of socialism". (see Koryaguina 1989) The greatest "fault" of the members of cooperatives is that they earn "too much" by Soviet standards. Besides that, just a very small portion of peasants and workers actually feel like escaping from the paternalism of the state and relying entirely on themselves. P. Desai (1989, pp.104-5) seems to underestimate this crucial social constraint when arguing that the sanctioning of cooperatives is a relatively riskless and potentially popular reform, a reform which "cannot but be popular", or that hardly any group is hurt by it. A Westerner's logic is not valid in Russia. To our regret, this policy is very unpopular.

1.3.3. preliminary outcomes and short-term prospects

Theoretically, all state-owned enterprises and associations since 1989 operate in conditions of complete cost-accounting and self-financing. However, the change has been rather superficial so far, and the actual degree of the agents' autonomy did not grow markedly. The reform did not solve the issue of ownership, so the subordination of producers to orders from above is reproduced. At first, the

"state orders" covered practically the entire output, now that their share has dropped the system of centralized input-allocation became the main constraint. The enterprises possess 250 bn roubles but cannot spend them freely. Given the monopolism of production and the absence of competition, some decentralization of decision-making triggered further imbalances on the domestic market: many enterprises have discovered ways increasing profits and wages without reducing costs nor improving the quality of products. A reform of administration still lags behind. The overall number of professional bureaucrats and officials in the USSR (18 m) has not decreased because its 545,000 reduction at the top levels of management was offset during 1985-8 by an increase of 700,000 at lower levels. (Ekonomicheskaya gazeta 1989, no.18, p. 14). The reform could not, therefore, stop the reproduction of the bureaucracy.

The cooperative and individual sectors have displayed a remarkable dynamism in statistical terms. By April 1, 1989 there were over 100,000 functioning cooperative ventures in the USSR (we mean here only "new" cooperatives not regarding collective farms). The number of persons engaged in cooperatives, together with self-employed individuals, reached 2.7 m (2.1 percent of all manpower in the USSR), but over 40 percent of this figure relates to those who combine work in cooperatives with an occupation in the state sector. Self-employed citizens outnumbered 734 thousand by the end of 1988. In 1987 the cooperative sector had a total output of 350 m roubles, in 1988 - 6 bn roubles or 17 times more; its share in the output of consumer's goods and services increased from 0.1 to 1 percent during 1988. (Ekonomicheskaya gazeta 1989, no.18, p.14: Pravda 01.07.1989). It is yet an exaggeration to define the cooperatives and the individual labour activity as new sectors of the Soviet economy, comparable to the state

sector, regarding their modest share in total output, but in services it may soon be the case.

Interaction between economic sectors, particularly competition between them constitutes quite a new phenomenon for the USSR. With regard to the demand side, there are many spheres where the alternative sectors can unfold their activities without coming immediately into a direct confrontation with the state sector. Estimates of the amount of unsatisfied consumer demand vary from 70 to 150 bn roubles. In services and in public catering the state-owned enterprises are often re-organized into cooperatives instead of competing with them. In fact, cooperatives compete for customers mostly with the "shadow economy", not with the state sector. Sometimes cooperatives appear even as new monopolists in one kind of service or another in the given region. Expectations that cooperatives would immediately make the state sector move faster did not materialize, nor did they with regard to prices - on the contrary, prices in the cooperative sector are the highest despite rather poor quality because the mechanism of competition does not function.

As to the resource-allocation among economic actors and different sectors under an overall shortage, cooperatives find themselves in quite a discriminated position. They are not permitted to compete for inputs with the state-sector enterprises, which erects a decisive constraint to the evolution of the cooperatives. Whereas state enterprises get the inputs allocated through rationing at low wholesale prices cooperatives are charged extremely inflated prices and tariffs for the same products since they do not have the right to purchase subsidized products at public shops and stores nor from wholesale trade agencies. Practically, a cooperative practically cannot legally modernize nor launch a large-scale output of sophisticated products.

The methods how the state sector preserves its monopoly are multiform. Apart from economic pressing through inputs allocation and taxation, direct administrative arbitrarism takes place. Notwithstanding the Law on Cooperatives which permitted without additional conditions cooperative enterprises in all economic spheres, the Council of Ministers under the pretext of protecting public interests passed in December 1988 a resolution which requires a special licence or a contract with the interested state enterprises and agencies for cooperatives in medical care, publishing, foreign travel, manufacturing and sales of perfumery, cosmetics, household chemicals, copying equipment, organization of performances, etc. (Izvestia 30.12.1988). Cooperatives are not directly banned but put in a subordinate and vulnerable position vis-à-vis the arbitrarism of monopolists.

Legalization and emancipation of "entrepreneurship sectors" is usually expected to absorb a large share of the "shadow" (unofficial) economy which over decades functioned as a specific tool for adjustment and stabilization, or that is to say, for the survival of the population under a total shortage of products and services. In the mid-1980s nearly 18 m people (estimate) practiced "individual labour activity" illegally, i.e. without registration or taxation, and their yearly incomes from that activity amounted to 14 or 16 bn roubles. Another estimate suggests that an average year turnover of the "shadow economy" reaches 70 or 90 bn roubles (\$ 110-150 bn), including services to the population (14-16 bn roubles), trade, catering, illegal output and reallocation of inputs, narco-business, etc. Nearly one-quarter of all paid services to the population are not registered by statistics and not covered by taxation. (Trud 12.08.1988; Izvestia 12.12.1987). An important part of the "shadow economy" may disappear with the introduction of

wholesale trade in investment resources and the de-etatization of the services sector. Thus far, the cooperative and individual sectors have taken a modest part of the "shadow economy" turnover, since operators of the "shadow economy" have little incentive to institutionalize due to numerous administrative restrictions, unstable regulation and a continuing sellers' market.

The overall economic situation in the USSR remains unfavourable in view of the low economic efficiency, shortages, inflationary pressure and mismanagement. Such an environment, on the one hand, encourages the undertaking of sweeping systemic changes. On the other hand, it can bring the reform to a halt because the interests of short-term stabilization may require the restoration of full-scale state interference in the economy. If we assume at least a continuation of the present reform policy then in the short run the following developments can be expected.

- The autonomy of the enterprises will grow. The contract system and the lease system will gain momentum in industry.
- Regulation of the state-owned and cooperative enterprises will tend to become more uniform with regard to taxation, price-making, and freedom of choice, but we do not exclude serious setbacks in this respect.
- New forms of ownership of the means of production will emerge and expand, namely shareholding, collective property of working teams, mixed property of the state and cooperatives.
- A full-blooded market for stock is unlikely to appear in the near future, but the government and some enterprises will issue bonds.
- Individual and family farms based on long-term leasing will gain importance in agriculture. A dismissal of collective farms and reprivatization of land are not on the agenda, but in certain regions of the country (especially in its European parts) the

sector represented by collective farms and state farms may shrink.

- The cooperative sector in industry and services will keep on growing. It will also create internal mechanisms for reproduction and emancipation, namely banks, input supplies and re-allocation systems, information networks, professional and regional associations.

- The number of joint ventures with foreign participation will grow continuously, though their share in the gross output is unlikely to become palpable.

Section 2

"OPENING UP" TO THE WORLD ECONOMY2.1. Some methodological observations

We perceive international economic "openness" as a qualitative characteristic of a given economy with regard to the type of its integration in and inter-relationship with the world economy. An assessment of structural "openness" (export and import quotas in GDP) can provide us with quite handy indicators, but qualitative aspects (trade policy "openness", institutional "openness", financial "openness", and micro-economic "openness" seem to have more relevance, especially in our case - a centrally planned economy where foreign trade volumes do not necessarily reflect objective economic trends. "Openness" depends on the extent to which it is possible for the foreign exporter, importer or investor to penetrate the socialist market and for socialist enterprises to enter international markets, i.e. on the amount of distortions (price- and non-price) in the foreign trade in goods and services, foreign exchange transactions, international factor mobility. (Rosati and Mizsei 1989).

The pre-reform Soviet economy was universally considered as a "closed" one, despite relatively high foreign trade ratios in certain periods (e.g. during the industrialization which in the late 1920s relied heavily on imported technology). In the 1970s the volume of Soviet foreign trade grew rapidly although the essence of the foreign trade regime did not change.⁶ At present all Soviet economists condemn the self-insulation of the USSR from the world economy, blaming mainly for it political factors (human errors in planning, wrong aspirations, "underestimation" of foreign trade) rather than the systemic features of a demonetized economy where agents could not but behave in an autarchic way.⁷

By the 1980s the USSR had an economic system which was "closed" in all dimensions. A strong bias against foreign trade originated from the essence of planning and resource allocation, the institutional framework of foreign trade, an absolute state monopoly for foreign exchange transactions, etc. The regulation of export and import employed predominantly administrative tools. Convertibility of the domestic currency did not exist.

The structural "openness" of the Soviet economy is not high either, although statistical and methodological obstacles impede an accurate calculation of foreign trade quotas throughout the economy.⁸ Estimates of export/national incomes ratios tend to be around the level of 6 to 7 percent (Katushev 1988; Shamrai 1987) which looks quite realistic. By absolute volume of exports the USSR now holds seventh position among the world's major trading nations. In export per capita, however, the Soviet Union lags far behind other industrialized economies (1987, in dollars): USSR - 381, USA - 1,037, Japan - 1,878, Germany - 4,804, Belgium-Luxembourg - 8,076. (UN Monthly Bulletin of Statistics 1988 December. Selected indicators of the foreign trade of the USSR appear in the Annex Table 1.

In some cases high export/import quotas in a given branch or economic sector can to a certain degree counterweight a low qualitative "openness" in the sense of a high degree of exposure to external shocks, though the nature of the latter's impact depends on qualitative characteristics of the foreign economic regime. We must distinguish also between the degree of exposure to external shocks and a genuine economic "openness".

Export quotas in total output reach rather modest levels even for the leading items of export specialization

(see Annex Table 2) which reflects a strong inward-orientation of domestic production in the USSR. As for the share of import in apparent consumption, it amounts to 50-60 percent for certain types of machinery. (see Annex Table 3). The share of imported machinery and equipment in total investments of the USSR in machinery and equipment averages 35 percent.⁹ (Rybakov 1987, p.60). Import share in the internal sales of consumer articles oscillates between 15 and 20 percent. The country's dependency on imports is quite high for high-technology product groups.

2.2. International "opening up": policy options

For reasons of space we cannot present in this paper a detailed argument as to why an "opening up" is indispensable for the USSR's economic growth. A further autarchy leads to an ever lowering economic efficiency and widening distortions, that is to an economic impasse, so there exists no real alternative to "opening up" to the world economy.

Terminologically, expressions like "openness" or "opening up" are seldom employed in Soviet economic literature on *perestroika*, though they have at least become legal. Ivanov (1988) argues that "in order to accomplish the tasks facing us - both economic and political - we need an open economy built on the principles of competitiveness with the foreign market". Still, many other authors and particularly the documents of the reform "package" prefer another wording: "to participate more actively in the international division of labour" or "to improve the efficiency and to up-grade the management of foreign economic activities", or "to expand trade and economic co-operation", etc.

No-one dares today to advocate openly a complete self-reliance, but the concept of "economic and technological

invulnerability" or its latter-day versions ("economic security")¹⁰ appear in many studies, papers and political documents. This concept generally implies that the USSR should keep or bring its import/consumption ratios for goods and technologies of non-socialist origin down to lowest possible levels, thus avoiding the unilateral dependency of any Soviet branch, in particular the strategic ones.

As one can judge by the available literature, Soviet reform-thinking is just approaching the realization of alternative development patterns - autarchy versus "opening up". Many economists perceive the restructuring of foreign economic co-operation as an element (one of many) of the economic reform in general, but not as a qualitative change in the entire economic system. Important publications by leading Soviet reform-thinkers tend to concentrate exclusively on domestic issues and sometimes do not deal at all with international aspects.¹¹ The same observation is valid for many of the normative documents. For example, the "Guidelines for Economic and Social Development of the USSR for 1986-90 and to 2000" contain fourteen chapters, and Chapter 13 is devoted to foreign economic relations. (Materials of the 27th Congress 1986). One can question, therefore whether it corresponded to the actual priority of this issue.

Subsequent governmental resolutions and decrees on the restructuring of foreign economic relations, form altogether a "package" of which we can especially emphasize the two comprehensive documents adopted in the late 1988 - early 1989:

- On the Further Development of the External Economic Activity of State, Cooperative and Other Public Enterprises, Associations and Organizations" (resolution no.1405 of December 2, 1988), and

- On Measures for State Regulation of Foreign Economic Relations" (resolution no.203 of March 7, 1989).

By the end of 1988 the Soviet government prepared blueprints of three strategic documents (yet unavailable to the public), namely a Strategy for foreign economic relations of the USSR; a Concept of economic co-operation with socialist countries for the years ahead; and a Development programme for the export sector till 2000. In the next two years the government will elaborate a legislation on joint-stock companies, on norms of competition, on protection of consumers, on the exchange transactions regime, on economic activity of Soviet firms abroad; culminating in 1990 with a blueprint of a Law on foreign trade and other kinds of foreign economic activity.

The new policy that pursues an integration of the Soviet economy in the system of international division of labour can be examined through the following elements: changes in the institutional framework; export promotion; import policy; international factor mobility; convertibility of rouble; and choice between markets.

2.2.1. changes in the institutional framework

Since April 1, 1989 every domestic agent (enterprise, association, productive cooperative, etc.) has the right to deal directly with foreign partners, after a proper registration with the Ministry of Foreign Economic Relations. Cooperatives and joint ventures can export only their own products (goods and services) and import products for their own consumption only. Joint ventures can apply for a special licence for intermediary operations; cooperatives cannot effect such operations at all.

By June 1989 over 4100 domestic agents had registered as potential participants in international co-operation, of which only several dozens are specialized FTOs, and the rest are ministries, associations, enterprises, social organizations, joint ventures, etc. (Argumenty i fakty 1989, no. 25, p.2) The new institutional framework claims to bring domestic agents closer to the foreign market and its price signals, and to assure the direct impact of foreign trade performance on the economic position of the participant. Cost-accounting and currency self-recoupment on the firm level are pursued. Along with the agents' autonomy and initiative, a system of state regulation will be developed including four main ingredients:

- registration of participants in foreign economic transactions;
- declaration of goods moved across the border, for statistical and customs purposes;
- special procedures for export and import of goods which have national importance;
- "measures for effective regulation" of foreign trade, including export/import restrictions, and the suspension of the foreign trade transactions of selected firms. (On Measures for State Regulation 1989).

The state will retain the monopoly for export and import of some items, mainly the strategic and currency-intensive minerals, fuels, alimentation products, medicinal goods, as well as for banking operations in foreign currency. For each transactions in those products a domestic agent needs a special licence from the appropriate ministry or body. Foreign trade licensing will also take place for transactions within temporarily imposed export/import quotas, and as a preventive measure to agents who practice "unfair competition" or "cause damage to the interests of the state".

2.2.2. export promotion

In the export structure of the USSR raw materials and fuels account for nearly 75 percent. In Soviet export to developed market economies manufactured goods account for just 8 percent, of which machinery and transport equipment represents 3.3 percent. (calculated from UN Monthly Bulletin of Statistics 1989 May) This export structure is very vulnerable and unfavourable in view of international trade tendencies. Post-1985 economic policy pursues a re-orientation of Soviet manufacturing industries towards export. By the year 2000 the share of manufactured goods in the total exports of the USSR is due to rise to one-half, of which machinery and equipment will be up to 40 percent. In order to bring key-sectors of Soviet industry to the level of international standards and to improve their export capacity, the planners have launched large-scale programmes of modernization.

The new institutional framework facilitates the entry of domestic economic agents to foreign markets. In addition, we can mention several instruments designed to give incentives for export on the enterprise level, though some of them do not operate as yet:

- export retention quotas. The foreign exchange earned by enterprises is accumulated on special bank accounts. The higher the MVA of the exported commodity, the bigger the retention quota for the producer;
- possibility to spend foreign currency on purchases of inputs for investment and consumer goods for the workers of the enterprise;
- access to credit in roubles and foreign currency. The Foreign Economic Bank of the USSR (*Vneshekonombank*) can provide loans for the build-up of export-oriented capacities to the amount of 5 m roubles in foreign currency, that is around US\$ 7.8 m, to be paid off with the export revenues;
- foreign exchange bonuses;

- the right to sell and buy foreign currency from other firms at contract prices via the currency auctions;
- stimuli to the personnel of the enterprise in the form of imported consumer goods;
- tax exemptions or reductions
- the right to pay in foreign currency to domestic sub-contractors

Joint ventures with foreign participation are insistently pushed into export production. Normative acts strive for a self-financing of joint ventures with the currency earned from exports. Nevertheless, foreign partners prefer in most cases to explore the Soviet domestic market or to export slightly processed raw materials from the USSR than to engage in problematic export-oriented ventures in manufacturing. Correspondingly, the regulation had to bring de-facto some flexibility into the "closed-loop" approach.

Feasibility of export-processing zones is now actively studied, namely several projects concerning "zones of joint enterprising" or "special economic zones" in the Far East, on the Baltic Sea coast, around Saimaa Canal at the Soviet-Finnish border. (see Doronin 1989). Meanwhile, the Far-Eastern regions have only unexplored raw material reserves, and lack all other pre-requisites.

The new policy of export promotion has not had enough time to changes substantially the foreign trade behaviour of domestic enterprises, so the state assigns compulsory "orders" for all major supplies of manufactured goods. Sectoral export promotion programmes lean on target planning in physical units rather than on an economic environment that would push domestic producers to explore foreign markets.

2.2.3. import policy

According to normative documents over the recent years, the import policy of the USSR should encourage by all means the acceleration of scientific and technological progress and at the same time to contribute to the solution of social welfare tasks. Starting from these thesis, the government has given an absolute priority in the centralized exchange allocation to the import of producer's goods. Machinery and equipment alone account for more than 40 percent of Soviet imports. The import of consumer's articles suffered severe cuts after 1986 which made domestic shortages yet more acute.

The planners insisted on an attempt "to rationalize" the import structure and volumes. In practice it took the form of fostering import-substitution. All programmes for major economic sectors and branches (food and agriculture, industrial consumer's goods, engineering, etc.) witness a strong anti-import impact and do admit imports only as a channel of access to foreign technology. Input and output aspects of the unrestrained import-substitution are usually ignored. (Vernikov 1989).

A new system of import regulation is now in the making. Domestic economic agents other than specialized FTOs now have the right to import with a certain degree of independence, and they effected nearly 44 percent of all Soviet imports in 1988. An economic regulation of imports will gradually replace after January 1, 1989 the existing administrative machinery of protection. A blueprint for a new customs tariff must be submitted to the government before the end of 1989. At present, customs duties in the USSR average 3.7 percent, so most probably they will be raised, at least for a transitional period.

Non-tariff measures of protection include, in particular, temporary restrictions (quotas) on the export and import of certain items and trade-partners "in cases when the solvency situation or other economic and political conditions would require it", namely for:

- regulation of demand and supply on the Soviet market;
- fulfilment of the USSR's international obligations relating to the regulation of export and import;
- attaining mutually advantageous agreements at international trade talks;
- reacting to foreign countries' discriminatory measures. (see On Measures for State Regulation 1989).

Price controls represent another non-tariff tool. The state bodies in charge of foreign trade can set minimum/maximum price limits for certain commodities exported/imported by domestic firms, allegedly for preventing losses. In cases when their actual export/import prices are considered "unreasonably low/inflated" ("unfair competition") the state agency can suspend the firm's foreign economic operations.

2.2.4. international factor mobility

Since the mid-1980s the Soviet legislation on foreign direct investment has made a remarkable evolution towards a quite liberal treatment of joint ventures, as provided by the government resolution of December 2, 1988. Every Soviet enterprise and organization has the right to set up a joint venture with foreign partners, upon approval of the superior authority. No upper limit now exists on the foreign partners' share. A foreign citizen can hold one of the two leading posts in the company. Joint ventures are granted various tax and duty incentives: duty-free or minimal duty import; 2-year tax holidays from declaring profits; special

reductions from the 30-percent income tax and from the 20-percent withholding tax on repatriated profits to joint ventures engaged in the output of consumer and medicinal goods and R & D-intensive products, as well as to ventures operating in the Eastern regions of the USSR.

By January 1, 1989 there were 191 joint ventures registered in the USSR, reaching 365 by April, and 460 by June of the same year. The rates of this phenomenon are impressive. However, by January 1989 only 40 of such firms had come into operation, so the impact of joint ventures on the Soviet economy is mostly psychological so far. The viability of many of the registered ventures is questionable because they remain "enclaves" in the hostile environment of administrative economics, despite a favourable legal base. The investment behaviour of joint ventures is also unclear as yet.

Participation of foreign firms in the wholesale trade in investment goods also constitutes also an avenue to of improvement in international factor mobility. In 1988 the first wholesale fair for transferable roubles took place with the participation of 32 firms from socialist countries. On the supply side there were inputs worth 1 bn roubles. (Izvestia 13.01.1989).

Transborder mobility of individuals has also improved with a simplification of entry/exit procedures. During 1988, Soviet citizens made 4.2 m business, tourist, and private trips abroad; 6 m foreign citizens visited the USSR. (Pravda 22.01.1989).

2.2.5. convertibility of rouble

Non-convertibility of the Soviet domestic currency embodies, perhaps, the biggest obstacle to the economic

"opening up". An absolute majority of Soviet economists and policymakers put forward the need for convertibility of the rouble. At the first stage of the economic reform some euphoria existed about its feasibility within a short time, now experts are rather more cautious.

There are two scenarios of rouble convertibility as debated in the literature. The first one implies a strengthening of the rouble's purchasing power and international functions. The soviet rouble is now non-convertible domestically, i.e. it has no adequate coverage of goods and services. External convertibility must be preceded by an internal "opening" of the economy, by a creation of an equilibrium market for consumer goods and means of production. It is necessary to establish also a market for capital.

Another scenario consists of introducing a parallel currency - a special Soviet rouble for foreign transactions (maybe within "special economic zones") backed by exportable goods, gold and currency reserves. Petrakov (1987) referred to the *chervonets*, a convertible currency which existed in the USSR in 1922-26 after forcing out the devalued banknotes. However, unlike in the 1920s, some important preconditions for the introduction of a convertible parallel currency are lacking at present, namely strict controls over the emission of the new currency, the international gold standard and stable exchange rates.

The first of the two scenarios may look more preferable, given the well-known shortcomings of a double-currency system. However, we see no real mode of attaining the internal convertibility of rouble unless the devalued money held in the household and the public sector is drained off, which signifies, in fact, a monetary reform unacceptable at this moment for various reasons. On the

other hand, the *chervonets* ultimately became a mono-currency system thus finalizing a sweeping monetary reform as well. Sooner or later, some sort of a monetary reform will be required and before that only segments of a currency market can appear.

The creation of a foreign exchange market in the USSR will start with currency auctions under the auspices of *Vneshekonombank*, where firms will be able to buy or sell foreign currencies at contractual rates, thus liberalizing to some degree the exchange allocation. In this version of a currency market the convertibility will be limited principally by the amount of the submitted currency on the supply side, because the "price" of the currency has practically no upper limit in a situation of "soft budget" constraint of domestic agents. Consequently, the inputs purchased on that currency will make the production costs rise swiftly and increase inflationary trends.

The present exchange rate (US \$ 1 equals to 0.64 Soviet rouble) is unanimously considered by all experts as meaningless and inoperational. Several thousand "differentiated coefficients" (multipliers) for separate producers and export/import items exist. The government plans to replace these multipliers by a uniform exchange rate from January 1, 1991. One year earlier, i.e. after January 1, 1990 a 100 percent bonus will be added to the rate of freely convertible currencies to the Soviet rouble (only for accounts between Soviet exporters and *Vneshekonombank*), which signifies a de-facto devaluation.

Different opinions exist about the future exchange rate of the rouble. Most probably, in an imbalanced economy with extremely distorted proportions of prices and wages it is impossible to fix a "realistic" exchange rate at all. A devaluation of rouble seems inevitable, but its magnitudes

are unclear as is the mechanism of maintaining a new rate. In addition, the domestic price system perpetuates the need to complement a uniform exchange rate by subsidies in order to promote manufactured exports and to effect imports of technology.

Nearly 70-80 percent of Soviet foreign trade turnover is conducted within multilateral or bilateral clearing agreements, namely the trade with all socialist countries, with India, Finland, Syria, etc. An expansion of direct business ties on the firm level requires a wider utilization of domestic currencies, or hard currency. The sphere of clearing accounts is likely to shrink gradually, even in trade between the USSR and its CMEA partners.

2.2.6. choice between markets

Economic "opening" is often perceived in the USSR as a synonym for a mere expansion of economic co-operation with foreign countries. The priority traditionally goes to socialist countries, in particular CMEA-members, and the documents of the reform "package" have reconfirmed this stance.¹² On several occasions even special legislative acts have been adopted on co-operation with the above mentioned group of states. For example, in January 1987 two resolutions on joint ventures appeared, one for firms of CMEA countries, and the other for non-socialist partners.

The USSR now speaks out in favour of a liberalization of reciprocal trade flows between socialist states, with a view to creating, in this perspective, an integrated market on the basis of free mobility of goods and services, capital investments, and labour (as proclaimed at the 44th Session of the CMEA in 1988). The problem is that not all the members of the CMEA intend to dismantle administrative economics inside their respective countries, nor to

strengthen market elements in the intra-CMEA division of labour. Some countries plan to do, but rather on an individual basis.

The operative scheme and machinery of intra-CMEA co-operation are very imperfect and do not correspond to the USSR's national economic interests in this perspective. Still, one must consider that socialist countries now account for nearly two-thirds of Soviet foreign trade turnover, and that their economies complement each other in many spheres. Hence, for the USSR the priority for co-operation with East European countries reflects not just an ideological choice but an objective necessity which urges a search for new methods of reshaping the model of the division of labour. In view of the CMEA's limited possibilities in its present shape, some Soviet experts now study the feasibility of a new economic grouping in Eastern Europe as a nucleus for further mutual integration. (see e.g. Maksimova 1989). Recent developments in the practice of intra-CMEA economic relations, unfortunately, give little evidence of evolving towards a greater economic homogeneity and "openness". The prospects of mutual integration within CMEA (as well as between selected CMEA-member states) depend to a large extent on the success of reforms in individual countries, especially the Soviet Union, and their maturity to a market-type division of labour starting from the grass-root level. Thus far it is the developed market-economy countries who explore more actively the new opportunities of the Soviet market opened by *perestroika*.

2.3. Dilemmas and constraints to international "opening up"

2.3.1. adjustment to current account shocks in the mid-1980s

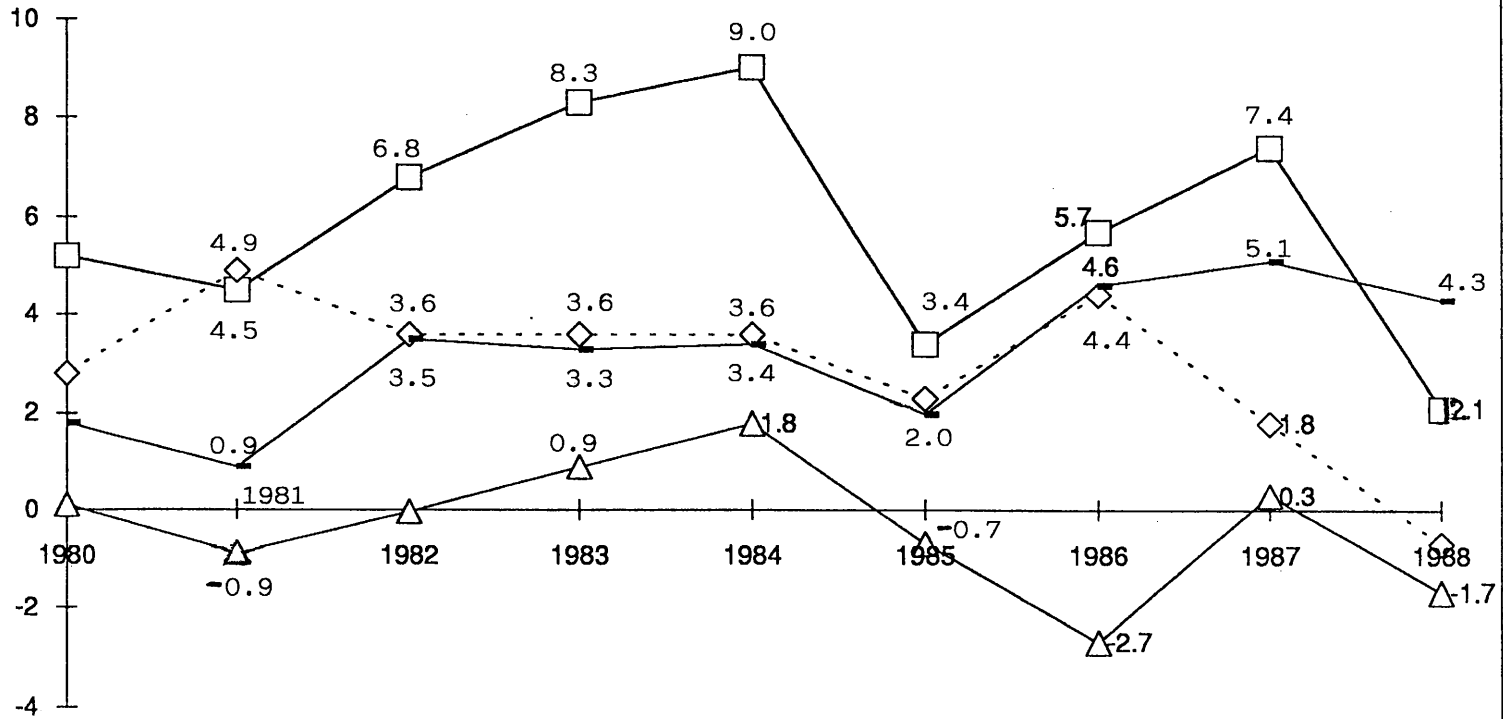
External economic shocks after 1985 revealed a high degree of vulnerability of the Soviet economy. A drastic fall in world oil prices caused a loss of expected export earnings by 37 bn roubles between 1985-8. (Pravda 08.01.1989). Total foreign trade balance of the USSR did not run into deficit (see Figure 1) but problems of current account did arise, particularly for hard currency, and urged painful short-term therapy.

The USSR could not make full use of the most logical response to the external shocks of mid-1980s (export expansion) due to limited export capacity of manufacturing industries and to physical constraints to export of raw materials and fuels. The dilemma was whether to cut imports or to incur a growing foreign debt.

Between 1985 and 1987 the value of imports fell by 12 percent, and imports from the West by 28 percent (see Figure 2). In 1988 the value of imports grew by 7.1 percent due mainly to an increase in import prices. In early 1989 import values continued to grow. We can also mention the fierce import-substituting drive occurring since the mid-1980s in practically all economic sectors. It shifted the import structure further in favour of investment goods, but did not save any currency, as had already happened to dozens of countries all over the world.

Import cuts did not suffice to meet the challenge of the balance of payments. In the age of *perestroika* the import requirements grew further, as a consequence of the

Figure 1
 Balance of Soviet foreign trade, 1980-88
 (billions of roubles)



Source: Foreign Trade of the USSR, respective years' editions.

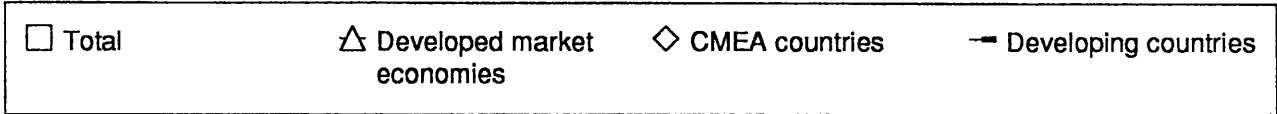
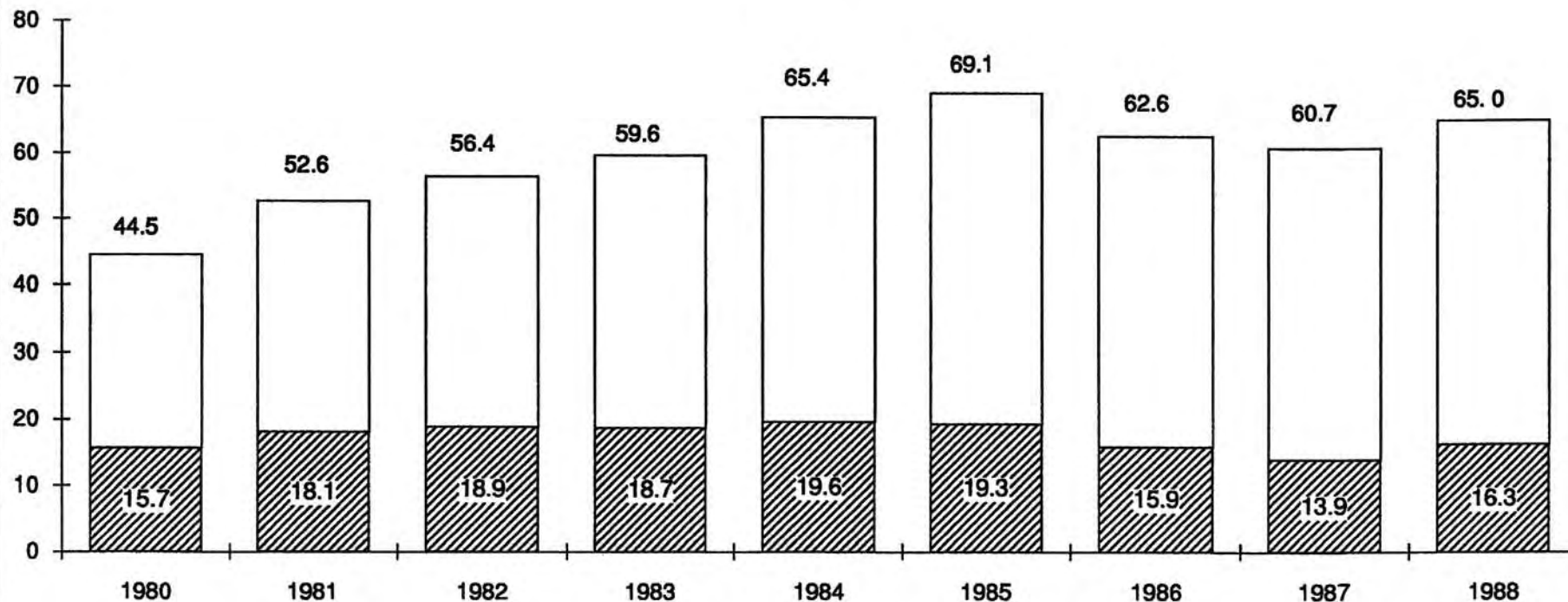


Figure 2
Commodity imports of the USSR, 1980-88
(billions of roubles)



Source: Foreign Trade of the USSR, respective years' editions

□ Total

▨ Developed market economies

expansionist pressure under the "acceleration" concept. Correspondingly, the Soviet Union had to increase markedly its borrowing activity thanks to the country's reputation as a first-rate borrower, but contrary to its usual cautiousness in this respect. If Western estimates are accurate, then the gross foreign debt of the USSR increased from \$ 24 bn at the end of 1984 to over \$ 40 bn in 1988.

2.3.2. interplay between domestic reform and international "opening up"

Economic system reform in the USSR and its "opening up" have many common regularities and constraints. The Soviet economy is now undergoing the first stages of a market-oriented reform, so the features inherent to the pre-reform economy still prevail. Correspondingly, one can also see evidence of the "classical" regularities of a CPE's participation in the world economy, namely 'import hunger' and 'export aversion' (in Janos Kornai's terminology), the uncompetitiveness of most economic sectors, the propensity to incur foreign debt, etc.

An incomplete economic reform in general impedes progress in international "opening up". For example, the distorted price system continues to give false orientations to domestic producers, although in fact the price signals play but a secondary role in the decision-making. Soviet domestic prices have very little to do with international prices, and there is no way to bring them nearer without a price reform. This latter, in turn, would make little sense unless some radical systemic changes take place because of a liberalization of prices under monopolism, the absence of competition and "soft budget" constraint would backfire immediately with an explosion of inflation. Prior to major changes in the price system and to the internal "opening up"

of the economy it is difficult to discuss seriously the introduction of the rouble convertibility and a single exchange rate.

In the long run an internationalization of the economy represents perhaps the most reliable method of elimination price distortions. A revision of domestic prices, which normally takes the shape of price increases for raw materials, fuels and foodstuffs, can create a premise for better price proportions but cannot alone solve the problem of integrating into international mechanisms of price formation, so within a very brief period distortions will again grow. Options such as a simulation of world prices and a transplantation of those prices to the domestic market usually end in failure, as suggested by the experience of some East European countries.

International "opening up" meant as a feature of a new development pattern embodies a challenge to the stability of the existing economic system (administrative economics), so this kind of destabilizing effect can contribute to the process of restructuring. However, a wrong or a premature "internationalization" is able to generate a large amount of short-term imbalances and distortions which would imperil the strategy of the reform. To be successful, the process of "opening up" must go ahead with a lot of care because a structural incompatibility of the domestic economy with the external environment threatens acquired acute diseases like hyper-inflation or a foreign debt explosion.

The Soviet economy differs structurally from that of other industrialized countries. A great gap in efficiency impedes efforts to internationalization. Official estimates (which are usually quite optimistic for the USSR) state that labour efficiency in the Soviet industry makes 55 percent of the USA level, and in agriculture less than 20 percent.

(USSR in Figures for 1988, p.273). The quality of Soviet products remains at a level that does not allow for international competition. A brisk exposure of domestic producers to foreign competition or an imposition of international efficiency criteria may produce massive bankruptcies. The Soviet economy needs different kinds of therapy but in present conditions a "shock therapy" would most probably fall short of desired results (increase in competitiveness, structural change, optimal pattern of specialization). At the same time the consequences of a "shock therapy" for the balance of payments may become fatal.

We do not argue, altogether, that the international "opening up" of the Soviet economy should wait until better times when domestic producers become stronger and more competitive: the latter condition simply cannot be accomplished within a "closed" economy. But many dangers await the balance of payments unless the "opening up" goes hand in hand with systemic reform. For example, a liberalization and decentralization of imports may become a serious debt-incurring factor on the micro level. Theoretically, each firm and organization must cover its currency spending by export earnings. In practice very few firms observe this rule. The treasury generally undertakes entire responsibility for repayment of foreign credits. The only way to avoid this situation is to abolish the absolute paternalism of the state over enterprises and the "soft budget" constraint.

The reform of international co-operation now proceeds to some extent ahead of the economic reform in general. Thus Soviet enterprises can penetrate foreign markets as independent commodity-producers while they cannot enjoy in full this status on the domestic market. Since administrative allocation still prevails over trade inside

the country, enterprises have more manoeuvring room when they deal with foreign partners than with national ones. Joint ventures on Soviet territory dispose of a high operational autonomy which ordinary enterprises can only dream of. The cooperative sector develops dynamically its international contacts because in many cases it can rely only on foreign sources of up-to-date technology and inputs. Therefore, a foreign trade liberalization has feedbacks from the domestic reform, it acts as a catalyst for the development of market elements. From this point of view the joint ventures, free economic zones and an "open sector" in the Soviet economy in general might serve as segments of a new economic system which restrict the area of bureaucratic coordination and deprives of its monopoly.

2.3.3. institutional problems and social constraints

The new institutional framework does not operate on a full scale yet in the Soviet foreign trade. Domestic firms and enterprises have gained a legal right to participate in international transactions but they can hardly enjoy this right in practice. Firstly, the entire economic environment remains the same in essence, with reference to economic management, machinery of planning and input allocation. Second, domestic producers feel quite comfortable under the state super-protectionism and have insufficient economic incentive to penetrate foreign markets.¹³ Third, the enterprises which desire to export abroad face obstacles embodied in the quality level of their products; lack of experience, reputation, trained personnel, information, etc. Fourth, bureaucracy at all levels of management renders an opposition to the enterprises' independent decision-making on foreign trade.

As far as legal regulation is concerned, the impact of various documents differs. One might consider the

governmental resolution (no.1405) of December 2, 1988 as a sensible liberalization of the foreign trade regime, whereas the subsequent resolution (no.203) of March 7, 1989 provided a long series of exemptions, reservations and conditions on the powers of enterprises, and actually conserved state monitoring, not to mention the monopoly for trade in the foremost items.

Some of the new instruments designed to encourage domestic agents to export do not work properly. An enterprise cannot dispose of its own foreign exchange on the special bank accounts as freely as they need to. Price signals from foreign markets do not reach domestic producers due to a myriad of "differentiated coefficients". Similar doubts exist with regard to the stability of export retention quotas, since the parameters of their distribution are set arbitrarily by each sectoral ministry (see Burov 1989) The authorities took the right "to centralize" (a Soviet euphemism for "to take away") up to 70 percent of the enterprises' export receipts, thus making the idea of "currency self-financing" meaningless.

Given the limited amount of exportables, the Ministry of Foreign Economic Relations and especially the sectoral ministries strive to cover the entire output of high-quality goods by "state-orders", so producers can market independently a very small part of that output. In addition, enterprises in practice do not have complete autonomy of decision-making on imports. As a result, the volume of foreign supplies under direct ties between enterprises did not exceed 1 percent of the USSR's foreign trade turnover in 1988. (Pravda 22.01.1989).

It is not easy to identify the groups of interest which back the policy of the international "opening up" of the Soviet economy. The balance of different strata's

interests turns out, at best, neutral to this process but not positive. Let us be more specific. A section of the political leadership and high-ranking managers support "opening up" to the extent that it benefits *perestroika* in general. However, at the top level of economic management there are influential sectoral "lobbies" which mostly care about their monopolistic position but not structural change. Practically all managers of enterprises and associations aspire to a greater autonomy in foreign trade (in the author's opinion, for reasons of broader access to foreign travels and prestige), though very few of them relish competing with foreign producers on the domestic market. Traditional and potential exporters would like to operate from a sheltered domestic market and to receive a paternalistic state support for their export ventures.

An "opening" of the Soviet market to foreign goods and services would benefit all citizens as consumers through reduction of shortages and a wider choice. But after long decades of autarchic propaganda most citizens associate "openness" with destabilization, vulnerability, menace to national interests, etc., and take self-sufficiency as an extremely important value.

2.3.4. external environment

The external economic and political environment can either encourage or discourage the process of "opening up" of the Soviet economy. The autarchic extremes of the 1930s emanated, in great measure, from the perception of the external world's hostility. At present many political obstacles and much discrimination still exist in international economic relations, not to mention such tools as embargo, boycott, export controls (COCOM lists).

The Soviet Union puts forward a programme of moving towards "international economic security" which includes the removal of political obstacles to world trade, renunciation of economic tools as a means of political interference, non-discrimination, etc.

In a favourable external environment the "opening up" would gain additional momentum. We mean, in particular, the fair treatment of Soviet commodities on non-socialist markets, an unrestricted export of modern technologies to the USSR and the reduction of military spending by all countries.

Another important issue is the readiness of Western countries to accept the Soviet Union's aspiration to integrate into the framework of international economic relations. The USSR now approaches GATT, IMF and the World Bank, EEC, OECD, other world-wide and regional institutions.¹⁴ Much will depend on the flexibility of both sides in working out a mechanism of mutual adaptation, because the USSR clearly cannot at once accept and fulfil all regulations and requisites for participation in international economic institutions.

Section 3

MEDIUM-TERM DEVELOPMENT PROBLEMS3.1. Financial stabilization

The present situation in the public finances of the USSR is very serious. The budget deficit in 1988 made up 50 to 60 bn roubles, and in 1989 it amounts to nearly 100 bn roubles (11 to 12 percent of GNP), of which 63.4 bn roubles is internal borrowing. (Lacis 1989) Financial imbalances on such a scale result from both the factors inherent to a CPE and from the new phenomena of the second half of 1980s. Before the mid-1980s the yearly deficits of the budget averaged 20 bn roubles, but then several new factors contributed to the widening imbalance, namely an anti-alcoholic campaign; a drop in export earnings and subsequent cuts in consumer goods imports instead of investment goods; an expansionist drive in investment under the wrong concept of "acceleration" and large-scale accidents.

The government suggested in June 1989 a programme of financial sanitation. Several scenarios had been rejected, viz. cut in social spending and an increase in retail prices; confiscation of the enterprises' funds; and external financing of the internal debt. The governmental programme includes two stages and extends until 1995. At the first stage (1989-1990) it puts forward a palpable growth of consumer goods output, a reduction of industrial investments, of military spending, of spending on the management apparatus; resource-saving measures, etc. The budget deficit is due to shrink by 29 bn roubles in 1989 and by 34 bn roubles in 1990. (Ryzhkov 1989, p.25) The state budget now has to pay over 11 bn roubles per year for the loss-making enterprises. The government threatens that after 1990 its paternalism will be withdrawn, so that loss-makers may go bankrupt or be sold out. (Not the first warning of

this kind and not the last one, as the experience of all CPEs suggests. A system of re-organization, re-allocation and re-training should be developed in order to operate the exit of inefficient producers.)

At the second stage (1991-95) the target is to stabilize the financial situation and to make ends meet in the state budget.

The investment mechanism will change its shape, firstly via a declining share of centralized investments (97 percent in 1986, 59 percent in 1989, and so forth). Between 1991 and 1995 the overall investments will not increase more than 10 percent. Several investment projects will be "frozen" or postponed.

Soviet military spending which as officially reported, reached 77.3 bn roubles in 1989 (15.6 percent of the budget expenditure) will decrease by 30 bn roubles from the planned level of the two years ahead (1990-91). By 1995 the ratio of military spending to the GNP must fall 1.5 or 2 fold. (Pravda 08.06.1989).

One can also mention the alternative suggestions for financial sanitation made at the Congress of People's Deputies in June 1989. The necessity to cure inflation, to stop the destruction of the consumer market prompted some extraordinary therapy measures. Apart from cutbacks in centralized investment (particularly in huge projects) and a restrictive monetary policy, Nikolai Shmeliov suggested the cessation of the anti-alcohol campaign thus returning the money from the "black market" to the budget; to increase the import of consumer goods by \$ 15 bn in 1989 and by \$ 5 or 6 bn in each of the next two years; to ease the state budget by selling out or leasing land permanently, free of charge, by selling apartments, commercial vehicles, tractors and

other means of production; to issue stocks and government bonds; to abolish agricultural subsidies which consume nearly one-third of the budget. The situation of public finance cannot wait until 1995, and drastic measures should start in 1990 with a view to bringing the deficit down to 10-20 bn roubles and to eliminate it completely in 1991. (Pravda 09.06.1989). Shmeliiov suggested also making the central bank absolutely autonomous and responsible for monetary policy.

It is clear that financial sanitation is for economic reform, in general, a *conditio sine qua non*. By contrast, widening financial imbalances push to restore direct administrative intervention in order "to keep control", which would disrupt the ownership reform and the international "opening up" process.

3.2. Inflation

Inflation represents a dangerous challenge to a market-oriented reform in a centrally planned economy. In the USSR inflation exists mainly in repressed forms - shortages, queues, postponed demand. Estimates of the rates of inflation differ from 2-4 percent, as suggested by the Central Statistical Office, to nearly 8 percent in 1988, calculated by the Economics Research Institute in Moscow. (Koryaguina 1989).¹⁵ In the age of *perestroika* open inflation starts to gain momentum. Unfortunately, the first measures taken within the reform turned out to be pro-inflationary. Expansion of investments and other factors detrimental to the budget balance contributed also to the inflationary pressure.

At present the inflationary expectations grow visibly. Supply of consumer goods becomes increasingly inadequate to effective demand. The savings of the population at the banks now make for over 300 bn roubles of which 60 or 70 bn roubles at least may represent "hot money" ready to flow into the market at any moment. An estimate on the amount of cash held by the population reaches 50 bn roubles (Shmeliiov 1989, p.143), which brings the total amount of "hot money" to 110-120 bn roubles. To compare: in 1988 the amount of retail trade and paid services to the population (legal sector) made up 428.2 bn roubles.

One can argue whether open inflation is preferable to repressed inflation. Certainly, distorted prices undermine cost-accounting and competition of enterprises and impede structural change. But due to the main regularities of a shortage economy, a liberalization of prices cannot lead to equilibrium prices automatically nor to an expansion of supply. On the contrary, a "shortageflation" phenomenon occurs as prices jump while shortages become more acute yet.

(see Kolodko and McMahon 1987). Planners in the USSR attempt at least to hinder the open (price) inflation - the lesser of the two devils. A revision of retail prices is postponed for reasons of political unfeasibility, but a reform of wholesale prices of the main inputs and raw materials is on the agenda for the two years ahead. (No doubt that it would trigger a chain reaction of prices and tariffs throughout the economy). Meanwhile, a governmental resolution aimed at a rigorous price discipline came into force in January 1989, forbidding enterprises to increase prices arbitrarily. On the enterprise level a stiff relationship between growth of wages and labour efficiency is imposed, though the anti-inflationary effect of such a measure arouses doubts. It hinders technological progress rather than inflation.

Measures designed for sanitation of the budget in the medium run serve the target of curbing inflation too, or at least bringing it to tolerable levels. A drastic cut in investment in productive sectors and of the non-productive budget spending has no alternative. (The obvious fact that the country should not launch ambitious programmes and projects if it cannot afford them is the hardest lesson for planners in the USSR). Various measures for withdrawing "hot money" from the market are also welcome, especially strict control over money emission; the issue of securities - stocks, bonds, sales of consumer durables and means of production to the population. In the longer run a demopolization of the economy and development of competition could introduce an anti-inflationary mechanism. At present just 5 percent of the total number of Soviet enterprises produces 80 percent of all output. (Pravda 09.06.1989).

3.3. Structural change

An economic system reform through de-etatzation and de-monopolization might result in a changing social structure of production. L. Abalkin (1989) estimates that by 2005 the share of the cooperative sector may reach 10 to 15 percent in industry, nearly 50 percent in trade, and up to 100 percent in selected sectors. G. Popov considers that the state sector should not exceed 50 percent of the economy while the other 50 percent will pass to the cooperative and private sectors. (Pravda 11.06.1989). These estimates, however, refer to the desirable structure but do not necessarily reflect the actual trends in the de-etatzation of the Soviet economy. In the medium run the share of the cooperative sector in total GDP will probably reach quite a modest level since the planners in fact do little to favour alternative producers. The perspective of the individual sector is unclear even on the conceptual level.

The government plans to carry out a reform of the economic system simultaneously with its reorientation and restructuring. What exists now is a self-devouring economy concentrated on the output of intermediate goods (60 percent of all industrial assets) and indifferent to social needs. Consumption levels of the population remain low, by European standards. Nearly 40 m people live below the official poverty level. (Ryzhkov 1989, p.10,15). From now on, more efforts must go to socially-oriented sectors and branches like housing construction, social security and medical care, light industries, agroindustry and environmental protection. In view of investment constraints imposed by the financial situation, new investments must switch from productive to the socially-oriented sectors. A considerable part of resources may be reallocated from the military sector. Within a programme of conversion many defence factories are switched over to the production of consumer durables, of

equipment for agriculture, light industry, trade and catering, etc. By 1995 the share of "civil" products may exceed 60 percent of the output - of enterprises which formally belong to the "defence" ministries.

We would like to note that the programme of conversion may backfire. The defence sector concentrates today on a very considerable share of the Soviet R & D and high technology, so it would make no sense to sacrifice all these capacities for the sake of output of much less sophisticated consumer articles with high costs. The targets of consumer goods compulsory output by every factory also imply usually, a low efficiency of such production.

As for the structure of employment, the share of services (non-productive branches) must increase markedly from its present level of 27.4 percent. It will also absorb the bulk of manpower liberated from the industrial branches in the process of reform.

A self-devouring economy possesses a great inertia. Paying lip-service to "social re-orientation" of production, sectoral ministries start new investment programmes, e.g. a complex of petrochemical plants in the Tyumen region in Siberia to be worth at least 41 bn roubles, (or 90 to 100 bn roubles as independent experts estimate). There are more than 300,000 investment projects under implementation at present in the USSR. The problem of modernization of Soviet industry and infrastructure still remains. Out of 1,900 bn roubles of fixed assets in the USSR some 40 percent are physically exhausted. The structure of investments after 1985 gave a priority to the engineering sector, but given the quality of the output and the inefficiency of centralized input-allocation, it will hardly produce a restructuring effect. Still, in view of the long-term development targets it is necessary to "pour fresh blood"

and to modernize, but it should follow a selective policy, i.e. to encourage the more promising sectors taking into account also the international criteria of efficiency.

3.4. Balance of payments

Foreign debt of the USSR reached 34 bn roubles by June 1989, or \$ 53 bn at the official exchange rate. This is not a very high figure of gross debt for a country with a population of 287m. Nevertheless, it exceeds more than twice the yearly receipts of hard currency from the export of goods and services (nearly \$ 20 bn). According to the Soviet Prime Minister, the safety limit of a 25 percent ratio between debt servicing and export earnings has been surpassed already. (Ryzhkov 1989, pp.37,45). In order to effect current payments the government has to take short-term loans and to "roll-over". In 1989 hard currency earnings of 16 bn roubles are expected, but debt servicing and vital import magnitude will certainly exceed this figure. On the grounds of foreign exchange scarcity the planners reject the proposals to boost the import of consumer articles for stabilization of the demand, though a disastrous situation on the consumer market can originate political unrest at any moment and challenge *perestroika* in general.

In our opinion, this challenge should be dealt with immediately. Strictly speaking, additional imports of consumer goods do not necessarily require an extension of foreign borrowing.¹⁶ The country could well afford cutting the imports of investment goods, especially those servicing "vicious cycles" (e.g. foreign equipment to continue and to expand the output of raw materials for exports). Often enough the imported inputs are ill-utilized or not utilized at all: by January 1, 1989 the amount of foreign equipment not installed (and partly spoilt already) reached 4.6 bn

roubles (Pravda 05.03.1989), while imports of machinery and equipment totalled around 26.6 bn roubles in 1988. We have little doubt that if additional foreign finances is attracted on a massive scale to the Soviet economy right now, it will not produce the desirably effect because under the present system of resource allocation a large share of those resources will be misused even if it actually goes to the purchase of technology.

Import requirements of the Soviet economy remain at a high level whereas its export capacity is unlikely to increase in the near future. The greater part of foreign credits goes to import-substituting industries and exerts little impact on export potential.¹⁷ Following the "classical" feature of all CPEs (investment hunger and import hunger in particular), all ministries and authorities compete for foreign exchange under the pretext of urgent modernization. Even at the top level of management the planners perceive restructuring in a technocratic way, i.e. just as the introduction of modern technology instead of changes in relations of production. It is widely believed, for instance, that a large-scale import of technology for light- and food-processing industries can alleviate shortages on the consumer market.

These considerations drive us to the conclusion that repayment problems will arise in the medium term, so there is not much room for stepping-up the foreign debt, particularly because the success of *perestroika* is not just a function of a net-inflow of external resources. One has to remember also that in the case of an emergency the USSR can hardly expect from its Western creditors the same treatment as that provided to other debtors. The political feasibility of Rumanian-style austerity programme would be altogether very doubtful.

Regarding the medium-term prospects for Soviet exports, we can note that primitive notions about an "optimal" trade structure, with machinery as the most "progressive" export item, start from emotions rather than from a careful analysis of potential comparative advantages of the Soviet economy. It seems that R & D infrastructure, some traditional industries and agriculture, tourism, transportation and the processing of raw materials can become important exchange-generating items. The USSR disposes of vast "human capital" whose level of education combined with low wages (234 roubles per month on average) might encourage an export specialization of some skill-intensive branches. However, labour efficiency and quality standards in the USSR can rise to international levels only as a result of systemic reform.

3.5. Regional aspects

The thesis that a unique economic model cannot fit the conditions of all republics and regions of the USSR does not need a detailed argument. Not only the specialization pattern but the social structure of output and the whole economic mechanism will vary from region to region if the planners actually loosen the local initiative.

As for Russia and the other Slavic republics (Ukraine and Byelorussia), the suitability of a market-type economy is doubted by quite a few authors on the grounds that it contradicts to the traditions of the society and would destroy national moral values. In fact, the social constraints we have mentioned in Chapter 1.3.2. will impede a de-etatization of the economy and affect the timing of the reform. Further, collective forms of ownership look more viable in those regions.

The Baltic republics (Estonia, Latvia and Lithuania) represent, perhaps, the most prepared area to perceive the economic reform if we regard cultural and labour traditions, standards of living, and the social environment. Pluralism of ownership, including private enterprise and shareholding, could develop in those republics with minor difficulties. The mentality of the people there is not so strongly affected by egalitarianism nor by lack of respect for the institute of property. As a deputy from Lithuania put it at the Congress (1989), "many deputies from other republics do not understand or cannot accept what is quite clear for most people in the Baltics." (Pravda 09.06.1989). Family farming and voluntary cooperation between private farms may quickly turn into the dominant economic form of agriculture in the Baltics if peasants receive a guarantee of inviolability of their property and continuity of the policy. Latvia already issued a law on farms which fixed land with the peasants permanently, and all the farmer's property can be inherited.

Major problems and constraints will arise in the process of "marketization" of the economy in the Central Asian republics - Uzbekistan, Tajikistan, etc. These areas have never had in the past somewhat developed market structures, so dismantling administrative controls and introduction of market coordination would be extremely difficult.

A complex and controversial reshaping of inter-republican relations is now taking place in the political and economic spheres. The idea of *khozraschet* (cost-accounting) on the level of a republic embodies a protest against redistribution of the national income produced in favour of poorer-performing areas, against the interference of central planners into the minutest detail of the republics' economic life. The government in principle

supports this process (or rather, tries not to lose control over it). In March 1989 the USSR Council of Ministers submitted to public discussion a draft of a document on republican economic autonomy which provides a palpable decentralization of economic management in favour of local authorities. (General Principles of Restructuring 1989). This document can establish a basis for a new law to come into effect after 1991. Nevertheless, the three Baltic republics elaborated more radical models of territorial economic autonomy, and they insist on introducing their schemes as early as of January 1, 1990. Lithuania has already passed a republican law on the foundations of economic autonomy.

If *perestroika* advances faster in one region and slower in another, it will no doubt arouse centrifugal tendencies which in turn may generate political and ethnic tensions. We are not yet ready to discuss how the USSR can or should face this challenge. "One country - different systems" is an interesting concept but there is no evidence of its practical feasibility.

CONCLUSIONS

Since 1989 the focus of the reform policy in the USSR definitely shifted to the relations of production, particularly to issues of ownership. (Previously, only the managerial aspects of economic transformation had been emphasized). Political and normative documents so far available create some premises for an evolution of the cooperative and individual sectors of the economy. The state-owned sector is also expected to undergo a reshaping with a view to reducing direct state interference, to broaden the autonomy of enterprises and to transfer to them most of the proprietor's rights for the means of production. The lease system is presented as a universal means for a better realization of the "socialist ownership", as a panacea from alienation. It can actually produce a favourable short-term effect, but not necessarily reshape the whole system. Crucial aspects of ownership reform such as admissibility of a labour market, or private property as a means of production and stocks, remain a topic for philosophers rather than policy-makers. Reform documents talk about competition and pluralism but the latter is defined as "pluralism of socialist forms of ownership" the interpretation of which may differ considerably from true pluralism. The two official forms of ownership (the state property and the pseudo-cooperative collective farms in agriculture) will no doubt become easy-winners of the "competition" with the discriminated small-scale cooperatives and individual entrepreneurs, unless some key constraints to the appearance and operation of genuinely new actors are removed.

One has to distinguish between political declarations and their actual implementation.¹⁸ The reform "package" has marked general orientations for the emancipation of

different sectors, but without a legal mechanism for it. In practice one can still witness the paternalism of the state over economic agents and interference their activity, administrative allocation of inputs and pricing and monopolism. The domestic economic environment has not yet become more competitive.

Nevertheless, some shifts and new phenomena have taken place in the USSR after 1985. In the state-owned sector agents now have a stronger profit motivation than before and introduce different versions of cost-accounting and self-financing, though with bureaucratic distortions. Having started practically from nil, the new "entrepreneurship" sectors are gaining momentum, especially in the manufacture of consumer articles and in services. By April 1989 the cooperative and individual sectors employed 2.7 m people, or 2.1 percent of all manpower in the USSR. It is to be noted, however, that these new sectors of the Soviet economy appear through the establishment of new enterprises but not a privatization of the state property to any considerable extent.

The reform of ownership and "opening" of the domestic economy encounter obstacles of a diverse nature. Ideological and social constraints hold a prominent place, given the inclination of the masses' mentality to a strong and paternalistic state and to egalitarian patterns of distribution. It looks like the majority of the population is not ready to accept a market-oriented reform if it includes economic stratification, nor greater individual economic freedom of choice. Administrative economy gets support from numerous and powerful groups of vested interests, namely the 18m-strong bureaucratic apparatus for which a de-etatization and de-monopolization of the economy would mean suicide. The bureaucracy of the public sector

effectively tries to suffocate the cooperative movement by administrative tools and by means of taxation.

An examination of the contemporary Soviet policy with regard to international "opening up" drives one to the conclusion that the very concept of "openness" is not yet clearly understood. Normative documents usually combine measures for wider international co-operation with an inward-looking stance. Soviet planners generally presume that if domestic restructuring succeeds then it will alone solve the major part of economic problems including international specialization. In the reform of prices and in some other important areas international aspects appear on the periphery.

Has the Soviet economy become then more "open" after the mid-1980s? A positive answer is very tempting in the light of all the political declarations made. However, if one sticks to the economic reality the answer will not be as simple. Policy responses to current account shocks in 1985-8 basically took the form of administrative restriction on import and domestic consumption. Also, quantitative indicators of foreign trade-intensity have visibly decreased since 1985 as a consequence of the trade turnover stagnation. A palpable democratization occurred in the institutional framework of foreign trade where many barriers to domestic firms' access were lifted. Still, the degree of "openness" in qualitative terms has not substantially changed. Foreign goods do not have direct access to the Soviet market where quantitative restrictions remain the main tool of import regulation. Bias against both export and import remain forceful, namely the "residual approach" to resource allocation for foreign trade; import-substituting policy throughout the economy; super-protection of domestic producers; bureaucratic control over foreign trade transactions; shortages; price distortions and a misleading

exchange rate, etc. Economic incentives given to producing firms in order to promote export do not suffice in most cases to offset the above-mentioned anti-export bias.

At the same time, a new type of foreign economic regime is in the making. The share of Soviet firms' "independent" exports and imports grows continuously. Foreign exchange allocation has become somewhat more liberal. The regime of foreign investment in the USSR is already quite compatible with international practices. Tariff protection is meant to replace the present system of import regulation starting from the early-1990s.

Therefore, the reform "package" and the practical action taken so far represent a big step forward from the pre-reform autarchic policies to a greater "openness" but it must be consistently followed by further steps.

The medium-term prospects of the "opening" process depend greatly on the impetus of *perestroika* policies and on economic stabilization in the short run. The reform itself is to a small extent responsible for the worsening of the socio-economic situation after the mid-1980s. Still, the interests of short-term stabilization can urge for stronger direct interference of the state into the economy which would certainly halt the evolution towards a more "open" economy. One might argue, at the same time, that only a far-reaching systemic reform can destroy the mechanism which permanently generates disproportions and distortions.

Development problems of the USSR in the medium run comprise quite a few challenges, viz. an aggravation of such maladies as inflation and foreign indebtedness, and strategic dilemmas like a "social re-orientation" of the entire economy, or the regional problems. A definite shift from administrative economics to another pattern of

development, even if successful, can take a long time, maybe 15 or 20 years hence. As the evidence suggests already, reform implementation is uneven between sectors and regions; we do not exclude some radicalization of the reform concept as compared with the initial "package". Within five years or so, then, one can expect to see an economy in the peak of transition, i.e. an economy which is not "centrally-planned" to the fullest extent any more, but is not a market either. Even this vague perspective, however, will result from sweeping systemic, political and structural changes to be introduced in the forthcoming one or two years.

NOTES

¹ A number of interesting and comprehensive studies on economics of *perestroika* have appeared in the East and in the West in the recent years. Among Western publications available for a potential reader of this paper, see Desai (1989), Goldman (1987), Hewett (1988), Hough (1988), Naylor (1988). Some issues of the Soviet economic reform were also dealt with by Vernikov (1989b) within the first phase of the research project in UNU/WIDER.

² It was K. Marx and F. Engels who put forward the idea of total etatization of the means of production, though reserving that it should take place only if other forms of ownership could not secure an efficient functioning of the economy. V.I. Lenin entirely shared the idea of a proletarian state as a single economic center, but having faced an economic and political crisis in the early 1921, he realized that the total etatization of production and distribution had not been accepted by the peasantry. However, he assumed the liberalization of private trade (and of private property, consequently) was just a provisional concession to the peasantry. An emphasis was then put on the development of state capitalism along with cooperatives. However, according to Lenin, cooperatives could be considered socialist only if they ran their economy on state-owned land and used state-owned means of production. Therefore, the recent attempts to present Lenin's policy after 1921 as a revision of his notions on socialism seem to us groundless, as do the references to his authority in argumentation of the ownership reform underway in the USSR. Stalin, under whose guidance the Soviet economic system was constituted, just absolutized and carried out in an orthodox way the "classical" concepts of a "socialist ownership" system.

³ With regard to agriculture, the word "cooperative" designates conditionally the etatized collective farms (*kolkhoz*) which emerged in the course of Stalin's repressive collectivization.

⁴ We should not overestimate the "liberalism" of broad representative organs at present. At the 1st Congress of People's Deputies (Moscow, 1989) only 37 percent of the participants supported an improvement of the cooperatives' rights, while 51 percent of respondents suggested "strengthening the control" over cooperatives. (Literaturnaya gazeta 21.06.1989, p.11).

⁵ A worker from the central region of Russia writes in a letter to the editor of "Pravda": "Not far from us capitalism is being restored. Machinery, cattle and land are distributed among households... Some households now earn more than our entire team of locksmiths. If things go further in this way, there will be nothing left of socialism. If this is what they call *perestroika* and democratization, then I am flatly

against it." (Pravda 24.09.1988).

6 "The so-called opening of the Soviet Union to the outside world which was undertaken in the late 1960s and early 1970s did almost nothing to change the incentive system under which the managers and ministries operate." (Hough 1986, p.320).

7 Spandaryan and Shmeliov (1988, p.11) argue that "over decades we underestimated such an important function of the international trade as measuring the national and world levels of production..." The same authors present the insulation of domestic producers from foreign competition as an "artificially born defect of the Soviet economy". Rybakov (1988, p.69) puts forward more or less similar theses. It may produce the impression that if "we" (who?) estimate properly the importance of foreign trade, it will suffice to reshape the "classical" socialist system and to overcome its inbuilt autarchic inclinations.

8 An accurate calculation of export and import quotas throughout the Soviet economy is hampered by a lack of reliable national accounts statistics and of conversion factors from roubles into dollars. The Soviet statistics of GNP, which began after 1987 only, operate with domestic wholesale prices. One cannot, therefore, regard directly the volume of foreign trade to GNP. Data on foreign trade in services is unavailable, so only the commodity trade can be considered.

9 Almost 100 percent of artificial fibres output, over 70 percent of cars, 60 percent of cement, 40 percent of cellulose and paper, 30 percent of all rolled metals are produced in the USSR on import-origin equipment. (EKO 1988, no. 12, p.146).

10 Kunitsyn (1989, p.47) defines "economic security" as maintaining "the level and structure of national output which provides the possibility of its adjustment to changed conditions in the world economy without the danger of getting into a lasting unilateral dependency from external sources of economic development."

11 For example, a collective monograph "Reform of Economic Management: Problems and Search for Solutions" (ed. by A. Aganbegyan, 1987) discusses the general concept of new economic management, but problems of autarchy and "opening-up" are not even mentioned among those key-issues. The textbook "Soviet Economy: A New Quality of Growth" (ed. by L. Abalkin analyzes central problems such as restructuring and re-orientation of the economy, rates of growth, social dimensions, etc., but participation in the international division of labour does not appear as an element of the "new quality of economic growth".

12 "Priority to the development of economic ties with socialist countries on the basis of socialist internationalism principles is a fundamental task of political and national importance." (Mechanism of Foreign Economic Activity 1988, p.11). Similar clauses appear in every political document related to international co-operation.

13 P. Bozyk (1988, p.264) writes that "the delegation of decision-making prerogatives to enterprises ...has not abolished the tendency to

autonomous development. The "opening up" of economies would remove the comfort of not having to stand up to the threat of foreign competitions."

14 Opinions differ. The Chairman of the USSR Foreign Economic Bank (Vneshekonombank) considers that "in present conditions membership in the IMF would not yield us any palpable fruits." (Izvestia 25.11.1988)

15 The Central Statistical Office has never published reliable price indices for consecutive years. Additionally, it is always difficult to find out to what extent the estimates on inflation regard the supply (repressed) inflation, if at all. Source data (if any) is very difficult to obtain.

16 N. Shmeliiov suggested that the currency needed for the import of consumer goods could come from: a suspension for 5 or 10 years of technology imports for macro-projects; a reduction of Soviet aid to its Third World partners; additional foreign borrowing; reduction of grain import and a switching of the foreign exchange over to the Soviet farmers. (Pravda 09.06.1989) These suggestions seem to us reasonable, except the additional foreign borrowing.

17 According to a survey, out of 124 plants completely equipped with foreign technology, just 22 plants produced goods for export, and exports account for less than 3 percent of total output. (Izvestia 25.11.1988).

18 As A.Aganbegyan (1989) commented on the Soviet economic reform: "In good documents we make a big step forward, but in their practical implementation we often make two steps back."

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TABLE 1
Foreign trade indicators of the USSR

| Year | 1965 | 1970 | 1980 | 1985 | 1986 | 1987 | 1988** |
|--|-------------|-------------|-------------|-------------|-------------|-------------|---------------|
| Exports, \$ bn | 8.2 | 12.8 | 76.4 | 87.3 | 97.2 | 107.9 | 106.1 |
| Share of world exports, percent | 4.3 | 4.1 | 3.8 | 4.5 | 4.6 | 4.3 | 3.8 |
| Imports, \$ bn *) | 8.1 | 11.7 | 68.5 | 83.1 | 88.9 | 96.1 | 102.8 |
| Share of world imports, percent | 4.0 | 3.5 | 3.3 | 4.1 | 4.0 | 3.7 | 3.5 |
| Exports per capita, \$ | 35 | 53 | 288 | 314 | 347 | 381 | 370 |
| Imports per capita, \$ | 35 | 48 | 258 | 300 | 317 | 339 | 357 |

*) imports f.o.b. **) preliminary data

Source: UN data (Monthly Bulletin of Statistics, various issues).

TABLE 2
Export share in output of selected products in the USSR, percent

| Year | 1960 | 1970 | 1980 | 1986 | 1987 |
|--|------|------|------|------|------|
| Equipment for wood and paper industry | 3.2 | 13.6 | 34.5 | 27.8 | 40.2 |
| Photo cameras | 4.3 | 30.4 | 28.8 | 42.4 | 37.5 |
| Cotton fibre | 25.3 | 24.3 | 30.1 | 26.8 | 31.7 |
| Potash fertilizers | 24.1 | 32.0 | 34.1 | 29.4 | 29.3 |
| Passenger cars | 22.0 | 24.5 | 24.9 | 23.0 | 25.5 |
| Oil, crude (including gas condensate) | 12.1 | 18.9 | 19.7 | 21.1 | 21.9 |
| Watches | 15.5 | 26.7 | 33.6 | 24.1 | 21.3 |
| Textile equipment | 5.1 | 7.9 | 24.1 | 12.5 | 19.2 |
| Ply-wood | 9.5 | 13.8 | 15.5 | 14.6 | 15.9 |
| Nitric fertilizers | 4.9 | 4.3 | 10.5 | 15.8 | 15.5 |
| Chrome ore | 26.2 | 38.9 | 16.7 | 13.0 | 14.1 |
| Ferrous ore | 14.3 | 18.3 | 15.6 | 14.4 | 13.8 |
| Cellulose | 10.7 | 8.8 | 11.5 | 12.8 | 12.6 |
| Paper | 5.2 | 11.4 | 12.2 | 11.7 | 12.3 |
| Combustible gas | 0.5 | 1.7 | 12.5 | 11.5 | 11.6 |
| Cardboard | 0.1 | 9.8 | 10.8 | 11.1 | 11.2 |
| Printing and publishing equipment | 7.7 | 15.4 | 9.0 | 13.1 | 11.0 |
| Timber and wood products | 4.7 | 7.0 | 7.3 | 8.9 | 8.0 |
| Equipment for food-processing industry | 0.4 | 12.9 | 14.5 | 6.6 | 7.8 |
| Tractors | 8.0 | 6.7 | 11.4 | 6.9 | 7.7 |
| Manganese ore | 16.6 | 18.2 | 12.9 | 11.8 | 7.5 |
| Metal-cutting lathes | 4.6 | 7.2 | 7.8 | 6.4 | 6.8 |
| Rolling equipment | ... | ... | 12.3 | 10.8 | 6.5 |
| Rolled ferrous metals | 5.5 | 7.8 | 6.9 | 6.8 | 6.7 |
| Equipment for chemical industry | 7.0 | 17.3 | 7.7 | 6.4 | 6.7 |

Source: National Economy of the USSR in 1987, p. 605

TABLE 3
Import share in apparent consumption of
selected products in the USSR, percent

| Year | 1960 | 1970 | 1980 | 1986 | 1987 |
|---|-------------|-------------|-------------|-------------|-------------|
| Fruits and berries, dried | 62.6 | 81.0 | 81.7 | 54.8 | 58.1 |
| Textile equipment | 13.6 | 23.3 | 48.8 | 53.1 | 57.7 |
| Rolling equipment | ... | ... | 65.9 | 44.5 | 53.9 |
| Equipment for food-processing industry | 23.3 | 27.6 | 48.8 | 46.7 | 48.0 |
| Equipment for chemical industry | 36.7 | 40.3 | 68.1 | 49.9 | 46.1 |
| Tea | 26.7 | 25.1 | 29.9 | 30.4 | 33.0 |
| Wool | 23.0 | 18.0 | 25.8 | 25.6 | 28.4 |
| Sugar, raw | 20.4 | 25.4 | 31.4 | 27.6 | 25.5 |
| Vegetable oils, alimentary | 3.8 | 2.6 | 12.4 | 14.1 | 22.5 |
| Tram-cars | 18.3 | 38.6 | 36.0 | 31.3 | 20.8 |
| Steel pipes | 9.4 | 9.9 | 14.9 | 22.6 | 20.6 |
| Butter | 0.6 | 0.2 | 16.5 | 10.9 | 19.7 |
| Caustic soda | 13.3 | 8.8 | 6.7 | 6.4 | 16.9 |
| Agricultural machinery | 1.0 | 1.2 | 10.0 | 14.3 | 14.4 |
| Grain, except groats | 0.2 | 1.2 | 13.7 | 12.1 | 13.7 |
| Metal-cutting lathes | 4.9 | 4.6 | 6.1 | 7.6 | 12.9 |
| Furniture | 9.3 | 12.4 | 15.7 | 11.7 | 11.4 |
| Buses | 0.1 | 9.7 | 11.6 | 11.3 | 11.3 |
| Footwear, of leather | 6.6 | 8.2 | 8.1 | 9.4 | 8.3 |
| Paper | 3.1 | 10.1 | 13.0 | 8.6 | 8.0 |
| Meat and products | 1.5 | 2.3 | 8.3 | 7.4 | 6.6 |
| Fruits, fresh | 6.4 | 5.5 | 6.4 | 6.6 | 6.1 |
| Cotton fabrics | 2.3 | 2.1 | 2.8 | 4.6 | 2.8 |

Source: National Economy of the USSR in 1987, pp. 608-9