The 1987 Law on the State Enterprise (Association): A Case-Study of Policy-Making in the Soviet Union

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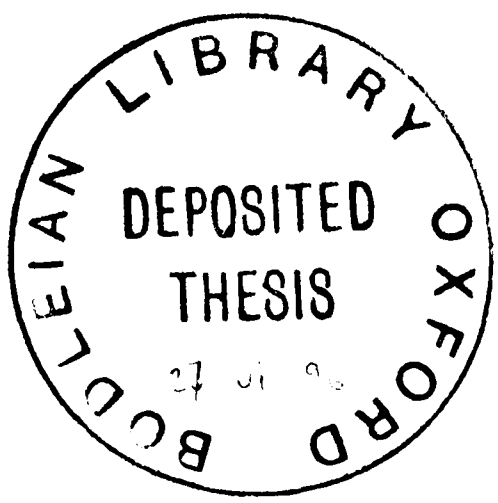
A thesis submitted in partial fulfilment of the requirements for the degree of D.Phil. in the Faculty of Social Studies of the University of Oxford

October 1995

with corrections

January 1996



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D.Phil. - October 1995

The Law on the State Enterprise was the most radical reform effort in the history of the Soviet centrally-planned system; it was also contradictory in its formulation, adopted in isolation and a complete failure in implementation. Previous economic reform attempts had also failed, but had been followed by retreat. This time, however, it was not. This thesis analyses the policy and the policy process of the enterprise law as expectations of the potential of reform shifted to convictions that central planning was unreformable. This case-study uses a number of traditional and revisionist theories about the policy process to analyse policy-making in the conditions of uncertainty and ambiguity of *perestroika*.

The chronic problems of the Soviet economy led to the generation of reformist alternatives which, with the close of the Brezhnev era, began to emerge in programmatic form. This alternative envisaged a simultaneous delegation of administrative decision-making authority to the level of the state enterprise and a redefinition of central powers. Enterprises were to finance their own activities, compile their own plans, engage in direct wholesale trading, and be governed by the labour collective in an economic environment manipulated by the centre through 'economic levers'.

Reformist domination of the policy agenda was constrained by limited penetration of the decision-making structures. Mutually indifferent policy-subsystems located within the ministerial and planning agencies held jurisdiction over the activities of pre-reform state enterprises; dominated the drafting of specific legislation; and set adverse initial conditions of reform implementation.

Unsuccessful implementation of reform both at the level of the state enterprise and that of administrative structures discredited the radical ideas on economic reform which had been gestating for thirty years. Failure both of the concrete policy and of the policy process contributed to the radicalisation of political and economic reform, while creating many new problems along the way.

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Chapter One

Scope and Methods

There are two fundamental facts about the 1987 Law on the State Enterprise.[1] First: It was the most radical economic reform to be attempted in the Soviet Union since the New Economic Policy. Enterprises[2] were to take responsibility for their fiscal affairs and production decisions through *samofinansirovanie* and full *khozraschet*; persistently loss-making enterprises would go bankrupt. Enterprises were to negotiate contracts directly with other enterprises in a revived but limited market. In its most radical provision on *samoupravlenie*,[3] the enterprise law gave decision-making powers over most investment and production decisions to enterprise employees, including the election of the enterprise director, and created a new decision-making body, the council of the

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[1]The law was adopted by the Supreme Soviet of the USSR on 30 June 1987. *Pravda*, 1 July 1987, 1-4.

[2]The full title of the law was 'On the state enterprise (association)'; the word enterprise will be taken to include both state enterprises and associations. The other organisational form, 'cooperative enterprise', will be referred to as cooperatives.

[3]Establishing equivalents of these key terms in English is problematic. *Khozraschet* has been translated as 'cost-accounting', 'price-accounting', 'business principles' and 'profit-and-loss accounting', among others. The root of *samoupravlenie* presents a similar problem: the words 'self-administration', 'self-management', and 'self-government' can all be translated into Russian as *samoupravlenie*. *Samofinansirovanie* has a direct English equivalent of 'self-financing', but for the sake of clarity and consistency, these key terms will be used in their Russian form. The same considerations apply to *perestroika*, *glasnost'*, and *uskorenie*. All other terms will be given in English equivalents whenever possible.

labour collective (*sovet trudovogo kollektiva*), to exercise these rights outside of either Party or state control.

In the past, enterprises had been given detailed instructions of what they were permitted to do; under the new legislation, the formulation was reversed, and enterprises were permitted to undertake any activity which was not expressly prohibited. Previous regulations had been defined in decrees; these new rights and responsibilities were given the status of a Law for the first time. Enterprises had these rights guaranteed by the state, and were empowered to seek redress if superior organs violated them.

With the enterprise law, *perestroika* was inaugurated at the centre of the economy in the industrial sector, and at the level of the basic unit of the economy, the state enterprise. The lesson had been learned from previous reforms that focusing on the higher agencies did not work; this time the state enterprises would be at the centre of the reformed economic structure. At the same time as the adoption of the enterprise law, the contours of system-wide economic reform were outlined in the 'Basic Provisions for the Radical Restructuring of Economic Management' for which the enterprise law was the first step.[4] Central planners would cease issuing detailed instructions to enterprises, and instead manipulate the economic levers of price, credit, cost and so forth to induce enterprise decisions which would generally conform with long-range strategic economic goals. By devolving some

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[4]'Osnovnye polozheniia korennoi perestroiki upravleniia ekonomikoi', *Pravda*, 27 June 1987, 1-3.

authority to the enterprise level the centre was to be able to increase the efficacy of its overall power within the economy. Within this reform agenda Gorbachev set the new law as the centrepiece of *perestroika*:

> We attach primary importance to the Law on the State Enterprise in our economic reform. We use it as a yardstick for our other steps and measures. We consider them from the point of view of how fully they conform to this law and contribute to its practical implementation.[5]

Change at the enterprise level would bring in its wake the rest of the economic system along the path of reform. On this point Gorbachev was also quite clear:

> We should start with finding the most effective economic model for them [enterprises and associations], then create the optimum economic conditions, extend and consolidate their rights, and only on that basis introduce fundamental changes in the higher echelons of economic management.[6]

All of this represented a new sense of determination to reform the economy as *perestroika* moved from the first stage of general preparation and moved into the second stage of concrete measures in preparation for the third and final stage of a complete reform of the economy.

The second fundamental fact about the enterprise law was that it did not work. Instead of reinvesting profits, enterprises raised wages. Enabling legislation was insufficient: there was, for example, no price reform - which had been a central theoretical component. The prerogatives of Gosplan, the ministries, and other higher agencies were left largely intact by the cautious packet of ten decrees -

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[5]Mikhail Gorbachev, *Perestroika* (New York: Harper and Row, 1987), 86.

[6]Gorbachev, *Perestroika*, 85.

ostensibly designed to bring their activities into line with the enterprise law - adopted in July 1987.[7] The central authorities were given the right to issue binding state orders (*goszakazy*) for priority production; in practice state orders frequently covered all production. While energies were directed at getting state orders and the bureaucracies under control - central ministries and economic bodies were cut by a third in 1988 - the pricing system remained unreformed. If enterprises had little say in formulating their plans, they did see their discretion over product assortment increase marginally: soon low-price labour intensive production became replaced by expensive goods. The result was that instead of ameliorating shortages, new ones appeared in products with low profit margins. In sum, the bureaucratic levers were disconnected from enterprises before the economic levers were in place.[8] Instead of halting the decline in economic growth and enhancing central power, the enterprise law accelerated the deterioration of both the economy and central control. When the enterprise law was adopted, Gorbachev had described the condition of the Soviet economy he inherited on becoming general secretary as being in a 'pre-crisis' condition;[9] by 1989 the prefix no longer applied as the Soviet economy

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[7]*O korennoi perestroike upravleniia ekonomikoi* (Moscow: Politizdat, 1987).

[8]E. Iasin, 'Sotsialisticheskii rynok ili iarmarka illiuzii?', *Kommunist* 15 (October 1989), 53-62, 55.

[9]Mikhail Gorbachev, 'O zadachakh partii po korennoi perestroike upravleniia ekonomikoi' [speech to the June 1987 Central Committee Plenum], *Izbrannye rechi i stat'i*, Volume 5 (Moscow: Politizdat, 1988), 159.

entered a severe crisis,[10] for which, in Åslund's assessment, the enterprise law was the 'outstanding cause'.[11] After just over a year of implementation, the enterprise law was effectively abandoned in 1989, and formally in 1990.[12] Over thirty years of development of theory had gone into the enterprise law; within one year the most radical ideas had been tested and discredited. The first major economic reform of the *perestroika* era was also a major failure.

An early sign of difficulty was in the law itself: it had many inconsistencies and contradictions; it contained more declarations of intent than specific programmes of action; and it raised as many questions as it sought to address, particularly on the issue of ownership. As was widely remarked at the time, the Law on the state enterprise was very much characterised by compromise. On the eve of the enterprise law's adoption, Gorbachev was frank in acknowledging that it had problems:

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[10]On this point, see the interviews of economists-turned-People's Deputies (and especially G. Lisichkin, who notes that at the First Congress 'at last it was said that it [the economy] is no longer in a "pre-crisis" condition', but in genuine crisis). 'Deputaty-ekonomisty o radikal'noi ekonomicheskoi reforme', *Voprosy ekonomiki* 9 (September 1989), 3-12.

[11]Anders Åslund, *Gorbachev's Struggle for Economic Reform*, Revised Edition (Ithaca, NY: Cornell University Press, 1991), 196.

[12]Termination of the enterprise law was a piecemeal process which started even before it came into effect, but a clear break was made in the form of a new Law on Changes and Additions to the Law on the State Enterprise in which substantial revisions to the enterprise law were adopted in August 1989; the following December the *samoupravlenie* provisions were made non-obligatory; and in 1990 when a wholly new law was promulgated, 'On enterprises'. These are discussed in Chapter Five.

> It is impossible to expect that we will have an ideal Law on the State Enterprise immediately, at a single stroke, at one sitting. To do this we would have to establish what such an ideal law is today and whether it would [still] be ideal tomorrow. I think that we have adopted a realistic approach.[13]

All decisions involve a degree of compromise; the most to expect is that the solution which is adopted is the best available option under the circumstances.[14] But some reform advocates regarded the enterprise law not only as far from the best option, but also as a set-back to reform.

Under the best of circumstances, the enterprise law would have required considerable fine-tuning. However, the condition of state enterprises within the economy was far from the only pressing issue for *perestroika*. As Herbert Simon has noted, there are times when 'the environment makes parallel demands on the system, but the system can respond only serially'.[15] The catalogue of problems which had been accumulating over the years and the pressures of setting in motion fundamental reform in a system noted for its tenacity in rejecting change placed a heavy strain on the political process. The many difficulties facing policy-makers during the time of *perestroika* framed by the enterprise law makes this case-study an excellent example of what Dror calls 'policy-making under

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[13]Gorbachev, 'Zakliuchitel'noe slovo na soveshchanii v TsK KPSS po voprosam korennoi perestroiki upravleniia ekonomikoi', *Izbrannye rechi i stat'i*, Volume 5, 112.

[14]Herbert A. Simon, *Administrative Behaviour*, Third Edition (New York: Fine Press, 1976), 6.

[15]Simon, *Administrative Behaviour*, 157.

adversity.'[16] At the same time, the rapidly evolving policy context of *perestroika*, the gap between what had seemed rational policy intentions and unexpected policy results together with the course of economic reform in the Soviet Union more generally contribute to present the enterprise law as a case-study of what might be termed 'policy-making under ambiguity'.

Research Goals

A virtue of the case-study approach is that it allows research to focus on one particular area, whether it be a specific policy decision or a policy area, and deploy a wide variety of analytical tools to establish as much insight and relevant detail as is possible in that single case. A case-study can contribute to the assessment of the validity of various generalisations and theoretical propositions[17] and it can be one of the building blocks in the construction of empirical theory.[18] This case-study of policy-making in the Soviet Union is decidedly eclectic. To provide a structure for the analysis, this thesis has four hypotheses relating directly to the enterprise law.

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[16]Yehezkel Dror, *Policymaking under Adversity* (New Brunswick, NJ: Transaction, 1986).

[17]Robert B. Albritton, 'Comparing Policies Across Nations and Over Time', in Stuart S. Nagel (ed.), *Encyclopedia of Policy Studies* (New York: Marcel Dekker, 1994), 159-200, 160; and Robert K. Yin, *Case Study Research* (London: Sage, 1994), 108-109.

[18]Alexander George, 'Case Studies and Theory Development', in Paul Gordon Lauren (ed.), *Diplomacy* (New York: Free Press, 1979), 43-68, 49.

1) There was a diffusion of power and authority both in the enterprise law and in the policy-making process which produced it (what Dror calls 'meta-policy'[19] and Heclo calls a 'meta-choice'[20]), involving simultaneous reform on two fronts. One front, the enterprise law, was relatively specific, focused and identifiable: delegate certain decision-making authority from the centre to the state enterprise, thereby repartitioning the economic system to foster the creation of a 'surrogate civil society'.[21] The other front, the policy process itself, was not, and the changes in this sphere automatically made the enterprise law as much a political reform as an economic reform. Though Soviet authorities in fact may have frequently promoted a liberalisation of policy while keeping a firm grip on the policy process,[22] this was not the case with the enterprise law. The role of specialists, in particular, was both extensive and increasingly organised. How, why, and to what degree the policy-making process was opened up is a central research goal.

2) The general reform end-point was not fixed in any one reform blue-print, but was informed by basic general

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[19]Yehezekel Dror, *Public Policymaking Reexamined* (New Brunswick, NJ: Transaction, 1968), 160.

[20]H. Hugh Heclo, 'Review Article: Policy Analysis', *British Journal of Political Science*, 2:1 (January 1972), 83-108, 85.

[21]Stephen Whitefield, *Industrial Power and the Soviet State* (Oxford: Clarendon Press, 1993), 180.

[22]Gordon B. Smith, 'Bureaucratic Politics and Public Policy in the Soviet Union', in Gordon B. Smith (ed.), *Public Policy and Administration in the Soviet Union* (New York: Praeger, 1980), 1-17, 2.

theoretical underpinnings to *perestroika*. Borrowing the term of Kornai, this general theoretical approach can be termed 'indirect bureaucratic control'[23]: and involved removing the role of central planning authorities from issuing detailed instructions on the day-to-day economy to concentrate on long-term economic planning. Enterprises themselves would make production decisions within an economic environment manipulated by the central planners, who would use credit, price and other long-term economic levers to move economic development in the desired direction. In this broad sense, indirect bureaucratic control was the unifying principle behind full *khozraschet*, *samofinansirovanie*, *samoupravlenie*, and so forth.

3) The policy-making process which produced the enterprise law, while marked by bargaining, persuasion, and struggle, was principally the result of the diffusion of new ideas, the advance of new decision-makers into positions of authority promoting these ideas, and a gradual but strategic accumulation of decisions on issues of enterprise reform. The enterprise law was deliberately placed within the context of the legislation and economic experiments which preceded it; the reform was intended to be both a codification and a radicalisation of these measures. Similarly, the enterprise law was intended to be one step in the accumulation and radicalisation of system-wide economic reform during *perestroika*.

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[23]Janos Kornai, 'The Hungarian Reform Process: Visions, Hopes, and Reality', *Journal of Economic Literature* 24 (December 1986), 1687-1737.

4) The causes of the failure of the enterprise law were multiple. Fundamental economic reform was to take place simultaneously with an increase in economic growth. The inconsistencies and contradictions which were present throughout the law were never sorted out in practice. Enabling legislation weakened many of its key provisions. Mechanisms for implementation were diffuse and contradictory. The General Provisions were insufficiently acted on, particularly in the area of price reform. The law itself had goals which were complementary on paper but contradictory in implementation. Any one of these problems alone meant that the enterprise law was going to be a difficult reform to implement. Taken together, the tasks would have been well beyond the capabilities of the system to cope with, even if there had not been a vast host of other issues crowding on to the reform agenda. As it happened, however, the problems stemming directly from the enterprise law had become eclipsed by events. The context of economic reform was constantly evolving: the initiation, formulation, implementation, and termination of the enterprise law each took place in entirely different circumstances. Already by the time that the enterprise law began to be implemented, the theories of indirect bureaucratic control were already being superseded. The enterprise law thus presents a valuable focal point for analysing the causes and significance of this evolution of reform during *perestroika*.

The chapters which follow will develop these themes, though individual sections will be devoted more or less

exclusively to the analysis of each question. At this point it is necessary to sharpen some analytical tools.

Policy and Reform

Reform and policy are both open-textured terms, each subject to a variety of interpretations which would be both impossible and undesirable to synthesise. What is important is that what such terms mean be clear and analytically useful in their given contexts. A policy can be 'a set of decisions taken by a political actor or group, concerning the selection of goals and the methods of attaining them, within a specified situation'.[24] Case-studies do tend to focus on particular decisions, especially when they result from crisis situations,[25] such as the Cuban Missile Crisis or Chernobyl. There are times, however, when a policy is a result of a decision not to decide, a 'nondecision'.[26] Decision-making can also be an on-going process, in which a policy is the accretion of any number of individual decisions.[27]

Many theorists therefore separate 'policy' from 'decision', which still leaves considerable room for

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[24]Geoffrey K. Roberts, *A Dictionary of Political Analysis* (London: Longman Group, 1971), 152.

[25]Brian W. Hogwood and Lewis A. Gunn, *Policy Analysis for the Real World* (Oxford: Oxford University Press, 1984), 16.

[26]Peter Bachrach and Morton S. Baratz, 'Decisions and Nondecisions', *American Political Science Review* 57:3 (September 1963), 632-642.

[27]Enid Curtis Bok Schoettle, 'The State of the Art in Policy Studies', in Raymond A. Bauer and Kenneth J. Gergen (eds.), *The Study of Policy Formation* (New York: Free Press, 1968), 16.

interpretation. A policy may be defined by intent as a 'general statement of aims or goals'.[28] Alternatively, a policy may be defined retrospectively by effect, to focus attention on what is done rather than what is proposed, as 'a purposive course of action followed by an actor or set of actors in dealing with a problem or matter of concern.'[29] Or a policy may be defined as an if/then proposition, defining the means to translate goals into outcomes, as a 'set of theories able to link specific human actions to a preferred outcome'.[30]

This discussion does not exhaust the competing definitions of 'policy', but makes clear that selecting a single definition would require continual adaptation of theoretical propositions based on very different conceptions of what constitutes policy. For this reason it is better to follow Hogwood and Gunn's limited synthesis and define policy as a complex process which includes the more specific connotations of policy as snapshots of this process over time.[31]

As with 'policy', just what is meant by 'reform' varies considerably both in the general social science literature and

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[28]Grover Starling, *Strategies for Policy Making* (Chicago: Dorsey Press, 1988), 2.

[29]James E. Anderson, *Public Policy Making* (New York: Holt, Rinehart and Winston, 1984), 3.

[30]Eugene J. Meehan, 'Policy: Constructing a Definition', *Policy Sciences* 18:4 (December 1985), 291-311, on 299.

[31]Hogwood and Gunn, *Policy Analysis for the Real World*, 19. Gorbachev himself would appear to concur: 'Radical reform ... is not a single act, but a process.' Gorbachev, 'O zadachakh partii po korrenoi perestroike upravleniia ekonomikoi [speech to the June 1987 Central Committee Plenum], *Izbrannye rechi i stat'i*, Volume 5, 182.

in studies of the Soviet system in particular. For the purposes of the thesis, the content of the term must be defined in such a way as to facilitate the integration of the goals of this study within a single analytical framework; it is necessary to construct a model of reform. Models are abstractions of reality, or 'analogies', which to one degree or another simplify complex systems in the real world through the use of symbols or words.[32] In order for a model to be useful, it must provide a descriptive framework which presents information in useable forms,[33] as well as supplying an analytical framework which permits the testing of how its individual components inter-connect.[34] Regardless of how detailed they are, however, models in the social sciences which attempt to explain real processes and systems are inevitably incomplete.[35] Inasmuch as the enterprise law was itself a failure, it is reasonable to anticipate that any model of reform which attempts to explain the enterprise law will, on its own, not provide a full explanation; what it can do is direct research attention systematically.

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[32]Alphonse Chapanis, 'Men, Machines and Models', in M.H. Marx (ed.), *Theories in Contemporary Psychology* (New York: Macmillan, 1963), 109.

[33]Patrick D. Larkey and Lee S. Sproull, 'Models in Theory and Practice; Some Examples, Problems, and Prospects', *Policy Sciences* 13:3 (June 1981), 233-246, 236.

[34]M.I. Piskotin (ed.), *Problemy obshchei teorii sotsialisticheskogo gosudarstvennogo upravleniia* (Moscow: Nauka, 1981), 71.

[35]Larkey and Sproull, 'Models in Theory and Practice', 235.

For Colton, 'reform involves improvement and change but promoted by gradual and peaceful means'.[36] Much depends on just how incremental 'gradual' exactly is. For instance, the *sovnarkhozy* certainly constituted reform, but their introduction was a far less gradual process than that which accompanied *glasnost'*. Gustafson also counterpoises reform against change through violence, but includes a further subtle distinction to set reform apart from mere adaptation of existing policies. In his definition, reform is 'the purposeful attempt of a political leadership to remove a danger to itself, not by stop-gap measures or repression but by developing new policies'.[37] To sharpen the contrast between adaptation and fundamental change, however, there is utility in seeing reform as more than policy innovation.

A firmer distinction is made between reform and policy changes by most economists specialising on Soviet-type economies. Hewett gives the standard definition of policy changes, which is adopted here, as consisting of 'the myriad measures available to the leadership in which they seek to improve performance by using the system, rather than changing the system'.[38] Hewett also provides for two types of reform, comprehensive and partial. A comprehensive reform of the three

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[36]Timothy J. Colton, *The Dilemma of Reform in the Soviet Union* (New York: Council on Foreign Relations, 1986), 4.

[37]Thane Gustafson, *Reform in Soviet Politics. Lessons of recent policies on land and water* (Cambridge: Cambridge University Press, 1981), x.

[38]Ed A. Hewett, 'Gorbachev's Economic Strategy: A Preliminary Assessment', in Ed A. Hewett and Victor H. Winston (eds.), *Milestones in Glasnost and Perestroyka. The Economy* (Washington, DC: The Brookings Institution, 1991), 5-22, 13.

integral parts of the economic system would 'affect all the institutions simultaneously: the hierarchy, the information system, and the incentive system'.[39] Partial reform would affect only one or two of the institutions.

Sutela, who adopts Hewett's formulation, makes the important observation that a reform may be 'partial' in two senses. First, a reform is partial if only one or two of the parts of the system are affected. Secondly, a reform may be partial in that it 'does not encompass all of the parts of the system as a whole'.[40] Sutela gives the example of the 1965 reform, which was aimed at changing all three elements of the economic system, but only at the level of the enterprise.

Changes to the relationships between the organisations in the economy is precisely the distinction Kurashvili makes between 'reform' and 'quasi-reform'.[41] Though he does not include a compartmentalisation of the structural elements of the economic system, Kurashvili does present a nuanced distinction which echoes Sutela's approach while avoiding some of the confusion arising from using the same terminology for both vertical and horizontal aspects of reform. Kurashvili's

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[39]Hewett, 'Gorbachev's Economic Strategy', 16. Hewett is following the terminology of Berliner, who sees the economic system as consisting of four elements: prices, rules, incentives, and the organisational structure. A comprehensive reform would change all four elements. Joseph S. Berliner, *The Innovation Decision in Soviet Industry* (Cambridge, Mass: The MIT Press, 1976), 11-12.

[40]Pekka Sutela, *Economic Thought and Economic Reform in the Soviet Union* (Cambridge: Cambridge University Press, 1991), 132.

[41]B.P. Kurashvili, 'Ob"ektivnye zakony gosudarstvennogo upravleniia', *Sovetskoe gosudarstvo i pravo* 10 (October 1983), 36-44, 44.

terminology can also be a more explicitly political tool of analysis. Thus, while quasi-reform is 'purely a restructuring of the *apparat*', reform is something 'more serious' which 'changes the organisational relationships between the state *apparat* and the members of society, collective and individual'.

Thus, the degrees of reform can be understood from two angles. On the one hand there is Hewett's comprehensive and partial reform (where attention is focused on the horizontal linkages of the economic system), and on the other hand there is Kurashvili's reform and quasi-reform (where the emphasis is on the vertical structure of the economy). The two equations are complementary rather than contradictory. Though the words used are similar, they refer to different aspects of reform. Putting them together makes full reform possible only when it is neither partial nor 'quasi'.

These distinctions are directly relevant in assessing the final form of the enterprise law and its implementation. Though the enterprise law was adopted in isolation, it was not necessarily meant to be implemented in an absence of complementary, subsequent legislation. Taken together, the enterprise law and the 'Basic Provisions' constituted the outline of a reform which encompassed virtually every area of the economy.[42] Thus while the enterprise law may have been both a partial and a quasi-reform, the context in which it was

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[42]Gertrude E. Schroeder, 'Anatomy of Reform', in Ed A. Hewett and Victor H. Winston (eds.), *Milestones in Glasnost and Perestroyka. The Economy* (Washington, DC: The Brookings Institution, 1991), 204-224, 217.

formulated was full, comprehensive reform. Full, comprehensive reform is, however, essentially an analytical construct; it would be asking too much of a single reform to be that far-reaching.[43]

The question then arises of just what kind of reform was intended, and that requires putting reform into some kind of context which allows more detailed distinctions to be made. One possibility would be to follow Ellman, and view reform in the Soviet context as

> a major institutional change that replaces the traditional model of a socialist economy by an alternative model of a socialist economy that combines centralised state decision making with a market mechanism.[44]

The emphasis on replacing plan with market certainly fits the description of the enterprise law, but giving pride of place to successful marketisation forces the conclusion that an economic reform had not been carried out since the days of NEP. This was clearly Ellman's intent, since in his view economic reform was 'attempted [and not necessarily implemented] in the Soviet Union in 1966-69 and from 1988'.[45] Similarly, Breslauer defines 'economic reform' as 'the process

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[43]Hewett remarks that there never had been a comprehensive reform in the Soviet Union or eastern Europe, and offers as 'a practical matter' a less rigorous definition of a comprehensive reform as recognising 'vital interconnections' and seeking 'to deal with them in a way that seems a priori to have a chance of succeeding'. For the purposes of this dissertation, a stricter definition will be retained. Ed A. Hewett, *Reforming the Soviet Economy* (Washington, DC: Brookings), 17.

[44]Michael Ellman, *Socialist Planning* (Cambridge: Cambridge University Press, 1989), 53.

[45]Ellman, *Socialist Planning*, 54.

of decentralising managerial autonomy within the economy',[46] and states categorically that by this definition,

> there has not been a genuine decentralisation [ie, genuine reform] of the Soviet economy since the NEP period. But there have been, since Stalin, efforts of varying scope to move in this direction.[47]

Ellman and Breslauer agree that there had not been a successful economic reform in the post-war Soviet Union, and they rightly draw attention to the gap between the intentions and consequences of the reform efforts which did take place.[48] However, as with the idea of full and comprehensive reform, a perfect match between policy goals and policy outcomes imposes ideal-world expectations on what is achievable through reform. Indeed, it would seem to be in the nature of reform to be both partial and incomplete.[49] On this note, reflecting on his own efforts at reform, Boris Yeltsin has remarked that,

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[46]George W. Breslauer, 'Soviet Economic Reforms since Stalin: Ideology, Politics, and Learning', *Soviet Economy* 6:3 (July-September 1990), 252-280, on 255. Breslauer makes a distinction between managerial decentralisation (attempted in in the late sixties) and deconcentration of the economic administrative system (implemented in the late fifties with the *sovanarkhozy*). Breslauer, 'Soviet Economic Reforms', 255, 260. This terminological point will be developed in Chapter 2.

[47]Breslauer, 'Soviet Economic Reforms', 255.

[48]On this point, also see Gregory and Stuart, according to whom: 'The term "reform" is commonly used to denote a significant change in working arrangements. Used in this sense, the Soviet economy has not had an economic reform. Instead, Soviet authorities have focused on organizational changes, partial experiments, and changes in the weights and numbers of performance indicators.' Paul R. Gregory and Robert C. Stuart, *Soviet Economic Structure and Performance* (New York: Harper & Rowe, 1986), 413.

[49]George Woodcock, *Anarchism* (New York: Penguin, 1962), 29.

> Not a single reform effort in Russia has ever been completed. In a certain sense, Peter the Great's reforms have not been achieved to this day.[50]

Although Peter the Great may not have accomplished all he wanted, what he did achieve certainly can be classified as reform. The original intent of reformers is a somewhat different question from what constitutes reform, and the two questions are better treated as analytically distinct.

On what constitutes reform, Ellman and Breslauer essentially see reform in the same way, since marketisation and decentralisation are two dimensions of the same problem: there cannot be one without the other.[51] However, defining reform this narrowly (ie, successful decentralisation-marketisation) lends the term little utility for analysing the Soviet Union. This restriction on reform means that such measures as abolishing the *sovnarkhozy* and reintroducing the ministerial system in 1965 could not be seen as constituting reforms of the economic system. Part of the 1965 decrees was the intention to make use of certain market mechanisms, but on the implementation side it was the administrative transformations which took hold, and to that degree it was a reform even if limited 'marketisation' - however defined - did

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[50]Boris Yeltsin, *The View from the Kremlin* (London: Harper Collins, 1994), 145.

[51]Włodzimierz Brus, *The Market in a Socialist Society* (London: Routledge & Kegan Paul, 1972), 62. Breslauer's actual definition of decentralisation is 'the transfer of decision-making authority over major entrepreneurial issues (investment, wages, input-output mixes, prices, etc.) to lower levels, and *the creation of markets* and a rational price structure to help coordinate such decentralised initiative'. Breslauer, 'Soviet Economic Reforms', 255. Emphasis added.

not occur. Marketisation (decentralisation) is rather more a type of reform than an exclusive classification.

On a similar point, Breslauer's thesis that reforms since Stalin have increasingly moved in the direction of the market[52] is difficult to square, for instance, with the creation of industrial production associations in the seventies, clearly something more substantial than a change in policy, at a time when the word 'market' was strictly taboo. Breslauer's point can be revised to state that when marketisation was on the agenda, then each successive effort was more radical in formulating reform.

Reform will be understood more simply as a change in the economic model, which, according to Brus, 'denotes the economic institutions, the principles by which they function and the nature of the relationships which are established between them within the economic system'.[53] Thus, a policy-change takes place within the parameters of the model, but without changing the model's structural characteristics. Reform may either be within-structure (by, for example, changing the relationships but not the institutions) or involve inter-structural transformation (such as replacing the ministries with the *sovnarkhozy* - and then back again).

These general derivations from Brus's concept of the model may be combined with concepts introduced by Kornai to

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[52]Breslauer, 'Soviet Economic Reforms', 255.

[53]Włodzimierz Brus, *Ogólne problemy funkcjonowanija gosprodarki socialistyczney* (Warsaw: PWN, 1961), quoted in Jean-Charles Asselain, *Planning and Profits in Socialist Societies* (London: Routledge & Kegan Paul, 1984), 6.

arrive at a set of models of economic reform. Kornai, in assessing the Hungarian reform process, concludes that the 'New Economic Mechanism' in that country had yielded a system in which economic coordination by the bureaucracy had changed in form, but not in such a way that the market became sufficiently strengthened to function as the major driving force in economic relations. Instead, the command economy was replaced by something in between, in a system of 'dual dependence', in which the economy depended 'vertically on the bureaucracy and horizontally on its suppliers and customers'.[54] The shift, in his terminology, was from a system of 'direct bureaucratic control' based on binding plans and resource allocation to a system of 'indirect bureaucratic control' which relied on financial levers in the economic environment to manipulate enterprise decision-making.[55] Kornai offers a general formulation:

> The frequency and intensity of bureaucratic intervention into market processes have certain critical values. Once these critical values are exceeded, the market becomes emasculated and dominated by bureaucratic regulation. That is exactly the case in the Hungarian state-owned sector. It does some coordinating work, but its influence is weak.[56]

Thus, the enterprise manager continues to concentrate more on the planners' priorities above than on consumer preference below.

The essential distinction between the models of what shall be termed direct bureaucratic control and indirect

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[54]Kornai, 'The Hungarian Reform Process', 1693-1694.

[55]Kornai, 'The Hungarian Reform Process', 1700-1701.

[56]Kornai, 'The Hungarian Reform Process', 1700.

bureaucratic control is that the latter includes a product market. Central planners cease to issue direct, detailed plans, but instead massage policies of credit, wages, prices, and other such economic instruments so that enterprise production decisions conform with the general goals of the central planners. Enterprises engage in direct, wholesale trade, but in an environment shaped by the central authorities. The introduction of market principles does not extend to the creation of a capital market where, for instance, profits may be invested outside of the enterprise proper. The enterprise may use (*usus*) and benefit from the property assigned to it by the state (*usus-fructus*), but not transfer these rights to a third party or dispose of the property (*abusus*). The third model, loosely termed market socialism, includes provisions for a capital market,[57] including the property right of *abusus*. The notion of market socialism, involving as it does fundamental changes in attitudes towards property rights, becomes much more political than the other models. Nuti summarises market socialism as

> a mixed economy still with prevalent public ownership and a dominant communist party but with generalised market exchange, regulated by public policy, and with a form of political pluralism.[58]

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[57]In Brus's definition, market socialism 'shifts the responsibility for capital formation away from the state to enterprises themselves'. Włodzimierz Brus, 'Political Pluralism and Markets in Communist Systems', in Susan Gross Solomon (ed.), *Pluralism in the Soviet Union* (London: Macmillan, 1983), 108-103, 122.

[58]Mario Domenico Nuti, 'Market Socialism: The Model that Might Have Been - But Never Was', in Anders Åslund (ed.), *Market Socialism or the Restoration of Capitalism?* (Cambridge: Cambridge University Press, 1990), 17-31, 18.

In the market socialism model, then, the central planners regulate the economic environment, but sufficiently removed from the day-to-day economy not to cross Kornai's 'critical values' necessary for the coordinating role of the market to function, at least in the sphere of wholesale trade. In other words, markets would be regulated, and most of the means of production would be publicly held. These three models are broad enough to encompass the bulk of the reform debate, but sufficiently distinct to allow a means by which to categorise economic reform proposals according to political preferences.[59]

There were, then, five categories of possible action which preserved the basic value of public ownership of the means of production: 1) No change to the existing model of direct bureaucratic control; 2) Policy changes within the model of direct bureaucratic control (revised plan indicators, for example); 3) Within-structure reform to the model of direct bureaucratic control (by, for instance, amalgamating enterprises into larger units); 4) Inter-structural reform towards the model of indirect bureaucratic control (introduction of a product market); and 5) Inter-structural reform towards the model of market socialism (introduction of

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[59]The specific focus of market forms in this analysis is on product and capital markets. For instance, nominally there was a labour market in the Soviet Union, although with the many restrictions a free labour market may be said to have existed only during a brief period, 1925-26, during NEP. See, for instance, Blair Ruble, *Soviet Trade Unions* (Cambridge: Cambridge University Press, 1981), 21.

a capital market).[60] These policy options are summarised in the table below.

Course of Action:	Economic Model:	Market Forms:
No Action	Direct Bureaucratic Control	---
Policy Change	Direct Bureaucratic Control	---
Within-structure Reform	Direct Bureaucratic Control	---
Inter-structure Reform	Indirect Bureaucratic Control	Product
Inter-structure Reform	Market Socialism	Capital + Product

This table provides a provide a descriptive tool for assessing reform proposals. Two specific hypotheses may be generated. First, a coalition emerged during the policy process advocating reforms towards indirect bureaucratic control. Secondly, the coalition was a fragile one, which began to break down even as the enterprise law was first being implemented, making it increasingly difficult to continue with reform in the same vein, and thereby undermining the model of

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[60]These models roughly conform with those presented in other research. For example, compare the courses of action described for 2) through 5) with the descriptive taxonomy developed by Berliner: conservative, reactionary, radical, and liberal. Joseph S. Berliner, 'Planning and Management', in Abram Bergson and Herbert S. Levine (eds.), *The Soviet Economy: Toward the Year 2000* (London: Allen and Unwin, 1983), 350-390, 362-381.

reform and ultimately resulting in a polarisation of debate on economic reform.

In formulating these propositions, there is, of course, the benefit of hindsight. At an all-union seminar[61] Abel Aganbegian, one of Gorbachev's principal economic advisors in the initial years of *perestroika*, was asked whether he was a supporter of an economy in which the market or the plan dominated. Aganbegian's response fits squarely with the model of indirect bureaucratic administration:

> I don't like this juxtaposition. The thing is that we always understood the word 'plan' as a system of direct orders, which was incorrect. The plan can be realized by economic methods. And this means including through the market. The market we have is regulated; we have no capital market, no labour market, no market in natural resources. We have the basic prices on leading goods and services centralized.[62]

Prices on major inputs were controlled; there was no market in capital; in other words, there was a product market. The fact that Aganbegian insisted that there was any market at all at a time when there had yet to be any change in the pricing mechanism, even for intermediate or retail pricing, indicated an act of faith in how markets emerge held by reformers and which soon proved unsustainable.

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[61]The seminar was entitled, 'Problems of radical restructuring of the management of the national economy in the light of the decisions of the June 1987 Plenum of the Central Committee of 13 June 1987'. This was the Plenum at which the enterprise law was approved.

[62]A.G. Aganbegian, *Perestroika v ekonomike: Problemy, zadachi, i pervye itogi* (Moscow: Znanie, 1988), 36.

The Framework of Analysis

Just as the enterprise law was formulated in a broader context of economic reform, analysis of the enterprise law must likewise be undertaken with a wider view than the reform measure itself, and assume a contextual orientation. In policy analysis, the meaning of a detail 'depends upon its relation to the whole context of which it is a part.'[63] There is an environmental context of the constraints and conditions which shape a policy in particular and the policy process in general. Some of the key constraints include the types and scope of information about what needs to be done; the nature of the available policy proposals; the limits on policy action imposed by political realities; and the receptivity of organisational and societal structures to the implementation of a policy. No policy decision takes place in a vacuum; and the environmental context of the enterprise law during *perestroika* was in a state of constant flux.

There is also an historical context of previous policies and practices, attention to which not only contributes to a fuller understanding of the policy process, but also facilitates the identification of the deeper sources of a policy. In his study of Soviet decision-making, Löwenhardt points out that how decisions are made must be understood in the context of where and how issues originate, without which an 'incomplete and incorrect picture' will result.[64] It is also

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[63]Harold Lasswell, *Power and Personality* (New York: WW Norton, 1976), 218.

[64]John Löwenhardt, *Decision Making in Soviet Politics* (London: Macmillan Press, 1981), 17.

frequently the case that issues develop not so much at some point before the decision under analysis is made, but that they originate in an earlier decision process which has proved unsatisfactory. As Wildavsky notes, policy-making is to a considerable degree about dealing with the problems of past policies.[65] The last time that a concerted effort at economic reform had been undertaken was in 1965. A new series of decrees was issued, and though the reform programme of which they were a part was soon curtailed, they continued to govern state enterprises for over twenty years. Reformers in 1987 were quite clear that their intention was in part to rectify the problems originating in the implementation of that series of decrees.

The point of departure for policy studies is that there are a number of factors or steps in the policy process which can be analytically dissected and assessed in a systematic fashion. There are almost as many methodological approaches as there are studies, and several of them will be deployed in the chapters which follow. The overall analytical framework which is adopted in this dissertation is, however, based on two approaches of policy analysis, labelled 'rational competition' and 'temporal sorting' by March and Olsen.[66] Rational competition analyses the policy-making process as consisting of separate stages which tend to occur sequentially - though

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[65]Aaron Wildavsky, *Speaking Truth to Power* (Boston: Little Brown, 1979), 4.

[66]James G. March and Johan P. Olsen, *Rediscovering Institutions: The Organizational Basis of Politics* (New York: Free Press, 1989), 12.

they may indeed overlap - in which different actors and different dynamics may be involved; this is the more established of the two approaches. In contrast, temporal sorting examines policy-making as a pattern of linkages between problems, solutions, policy participants, and choices. Both methodologies will be more fully explained below, but the basic difference between the two is that rational competition focuses on the horizontal stages of the policy process, whereas temporal sorting focuses on the vertical dynamics of the major factors shaping policy over time. Both approaches are adopted with a view to provide something of a cross-section of the policy process and the enterprise law.

Theories which fall broadly under the rubric of rational competition which have been employed in studies of Communist systems derive principally from three sources:[67] Lasswell, Easton, and Almond and Powell.[68] The three examples which are given here stand out for explicitly adopting a framework of analysis of the policy process which are based exclusively on one or another of these sources. Among the first efforts to develop a comparative framework of policy-making was Lasswell's suggested 'seven categories of functional

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[67]Gabriel A. Almond and Laura Roselle, 'Model Fitting in Communist Studies', in Frederic J. Fleron, Jr, and Erik P. Hoffmann (eds.), *Methodology and Empirical Theory in Sovietology* (Boulder: Westview Press, 1993), 27-75, 34.

[68]See, respectively: Harold D. Lasswell, *The Decision Process* (College Park, MD: Bureau of Governmental Research, University of Maryland, 1956); David Easton, *A Systems Analysis of Political Life* (New York: John Wiley and Sons, 1965); and Gabriel A. Almond and G. Bingham Powell, Jr., *Comparative Politics: A Developmental Approach* (Boston: Little, Brown and Company, 1966), 14.

analysis', which include: intelligence (information gathering), recommendation (promotion of policy alternatives), prescription (enactment of general rules), invocation and application, appraisal, and termination.[69] A shorter version of this approach informed Brzezinski and Huntington's framework,[70] itself among the first to analyse Soviet policy-making for comparative purposes, and consists of four phases:

initiation	the initial response to a new need or problem and a preliminary formulation of a proposal;
persuasion	garnering support in a process of amending the original proposal as needed
decision	the selection or rejection of the modified proposal
execution	the implementation of approved decisions

The second principal source has been Easton's systems approach, which is based on an image of the political system as a 'box', which converts inputs from the environment into outputs, which in turn affect the environment in a continuous feedback loop. In the simplified schema, there are two significant inputs, 'demands' and 'support'; outputs are reduced to one, 'binding decisions'.[71] The analytical framework

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[69]Lasswell, *The Decision Process*, 2.

[70]Zbigniew Brzezinski and Samuel P. Huntington (eds.), *Political Power: USA/USSR* (New York: Viking Press, 1964), 202-203.

[71]Easton, *A Systems Analysis of Political Life*, 32.

of Holmes[72] is explicitly developed out of this approach, as adapted for Communist systems:

'demand' input	calls [for change] from those not occupying senior positions in the party and/or government apparatuses
macro policy statements	general statements of policy by the political leadership, usually of Politburo rank
micro policy formulation	elaboration of the details: the legislation endorsing, amplifying, and explaining the general statements made at Party Congresses, and so on
policy implementation	normally, point at which stages 2 & 3 put into effect; success can merge with stage 1, and can become a level of 'support'; poor support can lead to a new round of outputs, and criticisms of implementation constitute a new round of 'demands'

Thirdly, Almond and Powell identify three levels of analysis of political systems: the political system itself, the policy process, and policy outcomes.[73] Barghoorn and Remington[74] apply this three-fold approach to their study of Soviet politics, and adopt with minor amendment Almond and Powell's outline of the 'conversion function' of the policy process function:

interest articulation	formulation and expression of demands to political leaders

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[72]Leslie Holmes, *The Policy Process in Communist States* (London: Sage Publications, 1981), 26-27.

[73]Almond and Powell, *Comparative Politics*, 14.

[74]Frederick C. Barghoorn and Thomas F. Remington, *Politics in the USSR* (Boston: Little, Brown, 1986), 26.

interest aggregation	combination and generalisation of such demands into platforms of broader application and with broader bases of support
policy making	selection among alternative courses of proposed action and the authoritative adoption of decisions
policy implementation	execution or carrying out of policy, typically by bureaucratic government agencies

Not all studies of the Soviet policy process which employ, implicitly or (less frequently) explicitly, a rational competition framework are based exclusively on one or another of these principal sources; there is frequent blending.[75] These three examples do demonstrate, however, the methodological eclecticism characteristic of Soviet studies which has produced a rich scholarship analysing from a variety of perspectives the basic question of how policy was made in the Soviet Union. Moreover, regardless of the point of departure, these frameworks are, broadly speaking, congruent in their description of the stages in the policy process. The official policy process for the enterprise law itself followed the same path: the drafting of the enterprise law was announced in June 1986; it was formulated over the course of the next year; adopted in June 1987; implemented from January 1988; evaluated from that point on until it was effectively terminated in 1989

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[75]Bruce, for instance, posits a framework based on that of Brzezinski and Huntington which, in his adaption for purposes of exploring the 'bureaucratic politics model' closely resembles Holmes's approach. James B. Bruce, *The Politics of Soviet Policy Formation: Khrushchev's Innovative Policies in Education and Agriculture* (Denver: University of Denver, 1976), 5-6.

(and formally in 1990).[76] The question of adopting a framework in this dissertation is thus largely instrumental: which approach is likely to be most efficacious for analysis of rational competition and the enterprise law? The answer for this case-study is primarily a Lasswellian framework, for several reasons.

Two reasons are perhaps superficial. First, Lasswell explicitly includes evaluation and termination among his functional categories. These considerations have attracted much attention in policy studies generally, and to a somewhat lesser extent in Soviet studies, and are clearly relevant for the dramatic failure of the enterprise law. The other two frameworks are of course amenable to the inclusion of these considerations. Secondly, Lasswell's framework is decidedly, and with intent, flexible; the organising principle is the identification of functions of the policy process, and the absence of some or the advent of new functions with regard to a particular policy is entirely compatible with the approach. The other two frameworks, centred more firmly on the taking of decisions, are arguably less amenable.

More fundamental are criticisms of the rational competition frameworks as useful descriptions of the policy process such as those put forward by Jenkins-Smith and Sabatier. The first limitation they identify is that the underlying pattern of these frameworks, which they group under

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[76]As Jones has noted, in general synoptic policy-making by stages was seen as the ideal in the Soviet literature. Ellen Jones, 'Committee Decision Making in the Soviet Union', *World Politics* 36:2 (January 1984), 165-188, 174-175.

the label 'stages heuristic', does not produce a causal model: it 'lacks identifiable forces to drive the policy process from one stage to another and generate activity within any given stage'.[77] The criticism is certainly valid, and is one which few proponents of such frameworks would contest.[78] There is a causality in Easton's systems approach (inputs cause decisions which then cause outputs) which is far less evident in the Almond-Powell approach and essentially non-existent in Lasswell's approach; on the other hand, in the frameworks outlined above which derive from these sources, there is no claim for a fixed, linear causality. In their survey of approaches to the study of policy-making quoted above, Almond and Roselle pointedly avoid the word 'model' when describing these conceptual framework as 'heuristic devices facilitating description and comparison'.[79] In short, this particular criticism, while accurate, does not in itself wholly detract from the viability of the resulting frameworks in Soviet studies as descriptive tools.

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[77]Hank C. Jenkins-Smith and Paul A. Sabatier, 'The Study of Public Policy Processes', in Paul A. Sabatier and Hank C. Jenkins-Smith (eds.), *Policy Change and Learning* (Boulder, CO: Westview, 1993), 1-9, 3. See also: Paul A. Sabatier, 'Toward Better Theories of the Policy Process', *PS: Political Science and Politics* 24:2 (June 1991), 147-156, 145.

[78]That is not to say that there are no proponents who do make this claim. See, for instance (and explicitly named in Sabatier's critique): James E. Anderson, *Public Policy Making* (New York: Holt, Rinehart and Winston, 1984); and B. Guy Peters, *American Public Policy: Promise and Performance*, Second Edition (Chatham, NJ: Chatham House, 1986).

[79]Almond and Roselle, 'Model Fitting in Communist Studies', 33.

A more important criticism for the purposes of this study is that the 'stages heuristic suffers from descriptive inaccuracy in its positing of a sequence of stages starting with agenda setting and passing through policy formulation, implementation, and evaluation'.[80] As Jenkins-Smith and Sabatier note, deviations from this sequencing are quite frequent (and would constitute a serious blow to the approach if it were in fact a causal model). In principle, all three frameworks can be sufficiently flexible to accommodate this point. Although according to Almond and Powell, the policy process is set in motion by interest articulation,[81] it is conceivable within the framework that a decision could be made which then prompts articulation of interests (perhaps most likely within crisis situations). Similarly, within Easton's framework, a binding decision could be issued which generate *post hoc* demands. This is indeed a possibility which Holmes identifies in his adaptation of Easton's systems approach as an important variable in the policy process, and 'would be expected anyway' in a Communist state; Holmes suggests in those cases where demands indeed preceded decision that fact may constitute an indication of interest group influence.[82]

However, notwithstanding the considerable stretching of these two frameworks, they can become increasingly difficult to adapt in more dynamic situations. Often implementation can

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[80]Jenkins-Smith and Sabatier, 'The Study of Public Policy Processes', 3.

[81]Almond and Powell, *Comparative Politics*, 169.

[82]Holmes, *The Policy Process in Communist States*, 26.

precede decision: actions taken at lower levels to solve a particular problem may later receive the blessing of decision-makers. This would seem to be at least a factor in *perestroika* policies which legalised sectors of the shadow economy. The enterprise law itself promoted formal horizontal linkages between enterprises, thereby legalising many of the informal, and nominally illegal, activities of the *tolkach* who arranged barter exchanges in industry to smooth over the irregularities the state supply system. It is also not always a question of sequencing within these frameworks; phases of the policy process can and frequently do occur coterminously. This is worth bearing in mind particularly when there is no single fixed decision behind a policy but rather a number of decisions which over time accumulate into a broader, identifiable policy.[83] This is a central argument of this case-study; the decision represented by the enterprise law was the accumulation of a number of other decisions. While not wholly answering these problems, the original Lasswell framework appears to go the furthest. While the framework is nominally sequential, it is explicitly founded on the idea of functional categories, not causal relationships.

On the basis of this brief and far from exhaustive discussion, an updated Lasswellian framework of the policy process will form the foundation for this dissertation. The

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[83]For more on the potential difficulties in identifying a policy decision as a formal, identifiable event, see Garry D. Brewer and Peter deLeon, *The Foundations of Policy Analysis* (Homewood, IL: Dorsey, 1983), 189-190.

framework is provided by Brewer and deLeon,[84] and adapted, *pace* Brzezinski and Huntington, for descriptive rather then prescriptive purposes. This revised framework will consist of:

problem identification (initiation)
agenda setting (estimation)
decision (selection)
implementation
evaluation
termination[85]

The specifics of this framework will be developed in the individual chapters which follow.

In an ideal world, decision-makers would systematically gather all the required information, identify all possible options, assess the consequences of each option, relate those consequences to values, then choose the best option.[86] However, decision-makers are rarely confronted with clearly defined problems; nor are they normally able to gather sufficient information to assess the ramifications of each possible alternative even if the problem were clearly defined; nor are the values of decision-makers necessarily in accord.[87] Simon

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[84]Brewer and deLeon, *The Foundations of Policy Analysis*. For positive evaluations see: *American Political Science Review* 78:1 (March 1984), 292-293; and *Policy Studies Journal* 12:2 (December 1983), 399-409.

[85]Brewer and deLeon, *The Foundations of Policy Analysis*, 20. For a similar conceptual approach, see: Judith May and Aaron Wildavsky, *The Policy Cycle* (Beverly Hills, CA: Sage, 1978).

[86]Hogwood and Gunn, *Policy Analysis for the Real World*, 46-47.

[87]Anderson, *Public Policy Making*, 8.

refers to limitations such as these as 'bounded-rationality'.[88] Faced with the impossibility of weighing all possible alternatives to arrive at an optimal selection, decision-makers instead usually 'satisfice' by comparing an alternative against a set of goals, and adopt it if those goals are met or exceeded.[89] Fixing such criteria is facilitated by the fact that most decisions are 'programmed', repetitive and routine. Prescriptive theories of decision-making built on these basic premises have concentrated on methods of filtering out alternatives which will not meet a particular set of criteria and improving means of generating alternatives which will do so - and selecting the best candidate among the resulting satisfactory alternatives available[90] - thus enhancing the rationality of decision-making as much as possible. For the far less frequent instances of 'non-programmed' decisions involving unstructured and novel problems, the system must instead adopt a more problem-orientated and adaptive approach to the degree that there are no specific procedures available.[91]

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[88]Herbert A. Simon, *The Sciences of the Artificial* (Cambridge, MA: MIT Press, 1968). Through censorship, propaganda, and myth, the deficiencies in information can also be intentional. See: Brewer and deLeon, *The Foundations of Policy Analysis*, 29 n. 37.

[89]James G. March and Herbert A. Simon, *Organizations* Second Edition (Oxford: Blackwell, 1994), 161-162.

[90]Edward S. Quade and Hugh J. Miser, 'The Context, Nature, and Use of Systems Analysis', in Edward S. Quade and Hugh J. Miser (eds.), *Handbook of Systems Analysis* (New York: North Holland, 1985), 1-32, 23.

[91]Herbert A. Simon, *The New Science of Management Decision* (Englewood Cliffs, NJ: Prentice Hall, 1960).

The history of Soviet economic policy-making was in fact marked by a quest to overcome limitations placed on rationality and bring real-world processes closer in line with the ideal dictates of the comprehensive planning system. Simon's insight and its implications had close analogues in Soviet theorising, which will be briefly discussed in Chapter 2. The planning process involved routine, programmed decisions which lent themselves to methods of improving the formulation and selection of alternative allocation strategies. However, the enterprise law involved an unstructured, non-programmed decision requiring adaptation and further refinement, a situation reflected in Gorbachev's observation that 'it would be impossible to have an ideal ['optimal' in Simon's terminology] Law on the State Enterprise immediately, at a single stroke'.[92]

Two other partial theories which attempt to explain the constraints which characterise real-world policy processes are incrementalism and learning. Incrementalism is closely associated with Lindblom, and originates in the same kinds of limitations imposed on comprehensive rational decision-making as those suggested by Simon. Lindblom, who has also described this pattern of policy-making as 'muddling through',[93] counterpoises gradual step-by-step evolution in policy against a sudden break in decision-making:

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[92]Gorbachev, 'Zakliuchitel'noe slovo na soveshchanii v TsK KPSS po voprosam korennoi perestroiki upravleniia ekonomikoi' [June 1987], *Izbrannye rechi i stat'i*, Volume 5, 112.

[93]Charles E. Lindblom, 'The Science of Muddling Through', *Public Administration Review* 19:2 (Spring 1959), 79-88.

> It is decision-making through small or incremental moves on particular problems rather than a comprehensive reform program. It is also endless; it takes the form of an indefinite sequence of policy moves. Moreover, it is exploratory in that the goals of policy-making continue to change as new experience with policy throws new light on what is possible and desirable.[94]

Incrementalism has generated considerable criticism and a fair amount of confusion. The criticisms will be noted in a moment. The confusion surrounding the concept was, as Lindblom readily acknowledges, present in the original articles outlining the concept, and it is useful to distinguish the different varieties of incrementalism which he subsequently offered. Lindblom distinguishes between incremental analysis, incremental politics, and what he calls 'partisan mutual adjustment' - incremental adjustments within the political system itself.[95]

Incremental analysis consists of recommendations which are 'limited to consideration of alternative policies all of which are only incrementally different from the status quo'.[96] An excellent example of incremental analysis was in the planning process, where the current plan deviated only marginally from the previous plan, or 'planning from the achieved level'. Incremental analysis in the planning process arose not so much because careful consideration settled on this practice as the most viable approach, but because of

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[94]David Braybrooke and Charles E. Lindblom, *A Strategy of Decision* (London: Free Press, 1963), 71.

[95]Charles E. Lindblom, 'Still Muddling, Not Yet Through', *Public Administration Review* 39:6 (November-December 1979), 517-526.

[96]Lindblom, 'Still Muddling, Not Yet Through', 517.

cognitive limits placed on the planners in the form of complex and unclear information and priorities.[97]

Incremental politics as a pattern is 'political change by small steps (regardless of method of analysis)'.[98] An alternative based on incremental analysis can be (but is not necessarily) judged by policy-makers as the best alternative of the available options, and to that degree incremental policy analysis and satisficing may overlap. Where incremental analysis filters out non-incremental alternatives, other decision-making strategies may yield alternatives which are incremental while retaining the potential of offering decidedly non-incremental policies[99] which would be rejected in the realm of incremental politics.

Incremental changes may also be the result of some groups countermobilising against other groups gaining political advantage, inducing a negative feedback loop which prevents large changes to the current state of the system. This process is the third type of incrementalism Lindblom identifies, labelled 'partisan mutual adjustment' (a term which studiously avoids the word 'incremental' to demarcate it as a

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[97]Igor Birman, 'Planning from the Achieved Level', *Soviet Studies* 30:2 (Summer 1978), 153-172. 'Planning from the achieved level' was certainly not unique to centrally-planned economies. Wildavsky found that in Western economies policy-makers tend to adopt 'incremental budgeting' in which 'past decisions determine most future expenditures'. Aaron Wildavsky, *Budgeting: A Comparative Theory of Budgetary Processes* (Boston: Little, Brown, 1975), 10.

[98]Lindblom, 'Still Muddling, Not Yet Through', 517.

[99]For instance, see John D. Steinbruner, *The Cybernetic Theory of Decision* (Princeton, NJ: Princeton University Press, 1974), 80-81.

qualitatively different activity), in which a broad range of interests and participants advance their respective goals in a continual process of give and take. These mutual adjustments help to coordinate these various actors as policy-makers. Out of this process both incremental and non-incremental policies may result.[100] This last permutation of incrementalism is closely associated with pluralism; the others have no such inherent linkage.

'Incrementalism', like policy and reform, may have become an open-textured term, with interpretations and applications varying considerably. The more important point which emerges from Lindblom's clarification of his own views is that there is no causal connection between what he calls incremental analysis, incremental politics, and partisan mutual adjustment - although as he implies they may frequently be found clustered together.

Such distinctions help to clarify how incrementalism has been applied in Soviet studies. Hough evidently has in mind all three connotations described above when he remarks that incrementalism was the 'hallmark of the system' (with Lindblom's revised terminology inserted in brackets):

> To the extent that accommodation of the demands of some groups requires restrictions upon other groups {partisan mutual adjustment}, the changes are undertaken gradually {incremental politics} and in a way that is accommodating to the disadvantaged group {partisan mutual adjustment}... [Within this system] any citizen can make

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[100]Frank R. Baumgartner and Bryan D. Jones, *Agendas and Instability in American Politics* (Chicago: Chicago University Press, 1993), 9-10.

> appeals or suggestions for incremental changes {incremental analysis}.[101]

Hough's primary purpose was to argue that the Soviet policy process was moving towards what he labels 'institutional pluralism', in which competing institutions gradually adjust their relative positions of dominance in the political system. Hough does not clearly delineate between different types of incrementalism, but does support his argument by marshalling evidence for all three types of incrementalism described by Lindblom. In more stark terms, and on less sure footing, is Smith's argument that

> Incrementalism holds that policies should be made for the short run {incremental politics}. Since it is difficult or perhaps not even possible to accurately forecast consequences of alternative policies in the long run, the incremental model proposes serial decision-making {incremental analysis}. Incrementalism assumes the dispersal or decentralisation of decision-making power - in other words a pluralistic social and political environment {partisan mutual adjustment}. It is the only model consistent with the group basis of politics.[102]

Using the same term for very different phenomena, Smith assumes a connection between them which theoretically is not there; incremental politics may not be taken as proof of incremental, partisan mutual adjustments between political actors. Moreover, there surely are other policy-making approaches consistent with the group basis of politics which can effect non-incremental policies (as well as incremental

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[101]Jerry Hough, 'The Soviet System: Petrification or Pluralism?', *Problems of Communism* 21:2 (March-April 1972), 25-45, 29.

[102]Smith, 'Bureaucratic Politics and Public Policy in the Soviet Union', 11.

policies, for that matter), log-rolling and band-wagoning being two.

Thus on the issue of incrementalism three rather different questions emerge for this case-study of the enterprise law. First, the degree to which it was the result of prescriptive incremental analyses. Second, the degree to which it was the result of incremental policy decisions.[103] Third, the degree to which the policy process itself was characterised by partisan mutual adjustment between the actors in the policy process.

Incremental politics and incremental analysis rest on the same basic principle of small, reversible steps in the adoption of policy decisions, and it is worth bearing in mind the limitations shared by these two phenomena. Many policies are in fact irreversible, though they may not appear to be so at the time;[104] learning, a basic tenet of incrementalism, sometimes does not occur until well after effective intervention is possible;[105] and large-scale policies have 'thresholds' which must be reached in order for there to be any pay-off in terms of goal achievement and which cannot necessarily be reached incrementally.[106] Without a broad

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[103]Or, to paraphrase Löwenhardt, was a large decision taken over a large issue, or were there incremental decisions behind a series of large issues? Löwenhardt, *Decision Making in Soviet Politics*, 12.

[104]Richard Rose, 'Models of Governing', *Comparative Politics* 5:4 (July 1973), 465-496, on 480-481.

[105]Brewer and deLeon, *The Foundations of Policy Analysis*, 90.

[106]Paul R. Schulman, *Large-Scale Policy Making* (New York: Elsevier, 1980), 13.

theoretical framework, incrementalists are reactive, having no way to decide when they should intervene or how they should interpret the results.[107] Incrementalism, in both the Soviet and the Western experience, can lead to immobilism.[108]

Learning in the policy-making process has gradually become established in its own right in studies of Communist systems. While learning *qua* theory focuses on somewhat different questions than are within the scope of this study, the way the approach has been used can help further direct research. For this purpose, there are two relevant studies, Breslauer on the Soviet Union[109] and Petrick on China.[110] Both Breslauer and Petrick are attempting to explain political processes as partly the result of the accumulated experiences of past policies. Significantly, however, they seek to explain exactly the opposite phenomena. For Petrick, the 'social learning model' demonstrates why policy-making in China has become more cautious over time as a result of the experiences of the occasional wild swings in the Great Leap Forward, the Cultural Revolution, and so forth. In other words, the scope of change envisaged in Chinese policy-making has become

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[107]R.E. Goodin, *Political Theory and Public Policy* (Chicago: University of Chicago, 1982), 34.

[108]Ronald J. Hill, 'Leaders and Policy in the USSR', *Problems of Communism* 32:1 (January-February 1983), 57-60, 60; Donald J. Calista, 'Policy Implementation', in Stuart Nagel (ed.), *Encyclopedia of Policy Studies* (New York: Marcel Dekker, 1994), 117-155, 130.

[109]George W. Breslauer, 'Soviet Economic Reforms since Stalin'.

[110]Richard L. Petrick, 'Policy Cycles and Policy Learning in the People's Republic of China', *Comparative Political Studies* 14:1 (April 1981), 101-122.

consistently more narrow. On the other hand, Breslauer deploys 'collective learning' as an explanatory variable for why economic reform efforts in the Soviet Union since Stalin had become increasingly radical, based on the cumulative experiences of more limited reforms.

In the terms of the temporal sorting model of policy-making which will now be introduced, both Breslauer and Petrick were examining the relationship between politics and solutions; the different conclusions about the policy process are partly attributable to the different problems which were present in each learning environment. In China, the 'problem' was that reform policies had been too radical; in the Soviet Union it was that reform policies had been too cautious.

In contrast to rational competition, temporal sorting involves the confluence of a number of relatively independent streams exogenous to the system. A basic feature of temporal sorting is that the making of decisions is not always an exercise in purpose and control.[111] One of the first studies exploring this approach, and still the most influential, is the work of Cohen, March and Olsen and their 'garbage can' theory of decision-making.[112] Cohen, March and Olsen argue that

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[111]Springer, 'Policy Analysis and Organizational Decisions', 497.

[112]Michael D. Cohen, James G. March, and Johan P. Olsen, 'A Garbage Can Model of Organizational Choice', *Administration Science Quarterly* 17:1 (March 1972), 1-25. March and Olsen have further developed the garbage can model in *Ambiguity and Choice in Organizations* (Bergen: Universitetsforlaget, 1979); and 'Garbage Can Models of Decision Making in Organisations', in J.G. March and R. Weissinger-Baylon (eds.), *Ambiguity and Command: Organizational Perspectives on Military Decision Making* (Cambridge, MA: Ballinger, 1986).

four principal streams can be identified: problems, solutions, participants/politics, and choice opportunities.[113] Each stream flows largely independent of the others, and independent of the day-to-day activities of the organisation. People offer solutions not so much to solve particular problems, but because offering solutions is what they do. Participants come and go, taking their views of problems and solutions with them. Cohen, March and Olsen describe the situation as one of:

> a collection of choices looking for problems, issues and feelings looking for decision situations in which they might be aired, solutions looking for issues to which they might be the answer, and decision makers looking for work.[114]

From time to time there appears a choice opportunity. This is the 'garbage can', whose mix depends on what has been dumped into it by the various streams, how often the contents of the garbage can are collected and removed, and on the mix of other garbage cans.[115]

Kingdon has imported the garbage can model into political science in his study of agendas in American politics; his adaptation of the model will generally be followed. The revised model Kingdon proposes consists of three process streams: problems, policies, and politics.[116] People recognise problems, they make proposals for new policies, and they

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[113]Cohen, March and Olsen, 'A Garbage Can Model of Organizational Choice', 3.

[114]Cohen, March and Olsen, 'A Garbage Can Model of Organizational Choice', 2.

[115]Cohen, March and Olsen, 'A Garbage Can Model of Organizational Choice', 3-4.

[116]John W. Kingdon, *Agendas, Alternatives, and Public Policies* (Boston: Little, Brown, 1984), 92.

pursue political activities. Though there tends to be a certain specialisation for each stream, individuals may be engaged in one, two, or all three of these processes. Interest groups may lobby for recognition of their own problems as well as for adoption of their proposals, and politicians may come to office on a platform of solutions. The distinction to be made is between participants and processes. Participants may be active in any or all of the processes, but the processes themselves are relatively discrete.

Where the streams do connect in the pre-decision phase is in the person of the policy entrepreneur. Policy entrepreneurs have a particular pet policy they wish to see adopted. When an opportunity comes along to push that project, they are prepared with arguments, charts and diagrams to get their project approved. If that does not happen (and sometimes even when it does), they recede into the background, awaiting the next opportunity. Each time roughly the same policy alternatives and frequently even the same people may surface, but the terms of debate can be quite different.

To clarify how these streams relate to agenda-setting, Kingdon distinguishes between agenda and alternatives. 'Agenda' can mean many things, and Kingdon offers a broad definition of the agenda as

> the list of subjects or problems to which governmental officials, and people outside of government closely associated with those officials, are paying some serious attention at any given time.[117]

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[117]Kingdon, *Agendas, Alternatives, and Public Policies*, 3.

The list of potential subjects or problems which may occupy these individuals' attention is infinite, and it is the agenda-setting process which narrows this list down. There is first the governmental agenda, or the list of items receiving serious attention, and secondly its sub-set, the decision agenda, or the list of items subject to a binding decision. Apart from these items on 'the agenda', there is a set of alternatives which are considered as potential courses of action. For instance, if trade imbalances between the US and Japan are on the agenda, alternative solutions range from tariffs, to managed trade, to World Trade Organisation negotiations. What this useful distinction implies is that some actors may be more active in setting the agenda, namely politicians, while others, such as specialists and academics, may be more important in generating alternatives.

The policy window is the brief period of time when problems, alternatives, and politics can come together to effect action. This is the 'garbage can' or 'choice opportunity' described by Cohen, March and Olsen. The window may open quite suddenly and policy entrepreneurs must be ready to act quickly; this is usually encountered in crisis situations. Policy windows more usually are regularly scheduled - when decisions are expected to be made. Everyone prepares for the series of negotiations and has to be ready with their arguments and statistics to push their own proposal. On this point, it is worth noting just how much Soviet politics was characterised by routinised choice opportunities. Five-year plans, yearly plans, Central

Committee plenums, weekly Politburo meetings, and Party Congresses were all institutionalised choice opportunities.

Although 'garbage can' theories have not been applied formally in studies of Soviet policy-making, the interplay of problems, participants and alternatives has certainly been recognised as an important factor shaping policy decisions. Introducing new ideas into the political process was 'the politics of waiting for the open window'.[118] Leadership successions in particular offered a 'regularised process' for policy innovation as new leaders came to the fore, priorities were reassessed and policies were reexamined.[119] On the post-Brezhnev succession specifically, the likelihood of 'significant shifts of policy' was enhanced as increasingly serious problems became acknowledged by new leaders willing and able to take them on, and who had at their disposal an important if hitherto circumspect body of reformist thinking to draw from and promote.[120]

In the light of the earlier discussion on terminology in policy studies, Kingdon's labels will be slightly amended. In view of the diversity of meaning attached to the word 'policy', in the context of the process streams, 'solution' and 'alternative' will be used. For similar reasons, the concept of Kingdon's 'policy window' will revert to Cohen,

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[118]Gustafson, *Reform in Soviet Politics*, 51.

[119]Valerie Bunce, *Do New Leaders Make a Difference?* (Princeton: Princeton University Press), 239.

[120]Archie Brown, 'Power and Policy in a Time of Transition, 1982-1988', in Archie Brown (ed.), *Political Leadership in the Soviet Union* (London: Macmillan Press, 1989), 163-217, 163-164.

March and Olsen's original 'choice opportunity'. Thus the four process streams include problems, solutions/alternatives, participants, and choice opportunities.

One critic of Kingdon's model has argued that it may be better suited to describing policy-making in the United States, where the institutional structure is fragmented and participation is fluid and permeable, than in other countries where policy-making is more centralised and participation is limited.[121] In this sense, it could be construed as inappropriate to apply the model to the highly centralised Soviet Union. However, the apprehension is somewhat misplaced, as Kingdon was more interested in agenda-setting than decision-making:

> In these pages we will consider not how issues are authoritatively decided ... but rather how they came to be issues in the first place.[122]

Though it may be possible that the approach is expandable to the entire policy-making process,[123] Kingdon's model will be applied primarily to the question of agenda-setting; other contributions deriving from 'garbage-can' and similar theories will be used (and detailed) in subsequent chapters. On the wider point of the approach's applicability to systems other than the US, as the studies cited above make clear, Soviet policy-making was not a wholly unified and monolithic process,

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[121]Gary Mucciaroni, 'The Garbage Can Model and the Study of Policy Making: A Critique', *Polity* 24:3 (Spring 1992), 459-482, on 466.

[122]Kingdon, *Agendas, Alternatives, and Public Policies*, 2.

[123]Sabatier, 'Toward Better Theories of the Policy Process', 151.

nor devoid of policy innovation prompted from outside of formal policy-making institutions, particularly during times of leadership succession. Kingdon's process streams provide one way of assessing those dynamics. The same critic argued that Kingdon's model, by emphasizing the independence of problems, solutions, and politics, leaves out the important linkages between them which may develop.[124] This is a more relevant concern, and efforts towards analysing these linkages will be made.

Finally, a word on political institutions. Both the rational competition and temporal sorting models tend to treat the state as the setting in which policy is made, but which itself is a neutral force.[125] This understanding, prevalent in American political science until relatively recently (though far less evident in Europe), is reflected in such concepts of politics as Lasswell's 'who gets what, when, and how',[126] and Easton's 'authoritative allocation of values'.[127] In reductionist theories such as rational competition and temporal sorting, the state, through its political institutions, serves as an adjudicator of conflicts.[128] Policies and policy-making are shaped by contextual factors in

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[124]Mucciaroni, 'The Garbage Can Model', 482.

[125]March and Olsen, *Rediscovering Institutions*, 3.

[126]Harold Lasswell, *Politics: Who Gets What, When, How* (New York: McGraw Hill, 1936).

[127]Easton, *A Systems Analysis of Political Life*, 21.

[128]Charles E. Lindblom, *Inquiry and Change* (New Haven, CT: Yale University Press, 1990), 49.

the whole of society; politics itself is a reflection of this context.[129]

The fundamental idea behind the methods and models in policy studies which have been discussed in this chapter is that there are dynamics in the policy process which can be analytically separated and be broadly compared across a variety of policy situations. This is an idea which is central to the purposes of this case-study. However, policy analysis along these lines will tell only part of the story; the other part is supplied by the characteristics of the Soviet political system in general and its political institutions in particular. The years 1987-89 which principally frame this study were already a time of major institutional change in *perestroika*, and this case-study will not neglect the characteristics and changes in political institutions, and how these impinged on the policy process of the enterprise law.

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[129]David Easton, 'Political Science', in D.L. Sills (ed.), *International Encyclopedia of the Social Science* 12 (New York: Free Press, 1968.

Chapter Two

Prelude to Reform

This chapter consists of four sections. The first three sections are organised around Kingdon's three policy process streams discussed in the introduction - problems, alternatives and participants - and examine the content and internal dynamics of these streams before the drafting of the enterprise law was announced in mid-1986, before there was a formal 'decision to decide'. How the streams came together during the policy process of the enterprise law is analysed in subsequent chapters, but the groundwork is prepared in the fourth section of this chapter by examining the enterprise law in the context of the previous efforts at economic reform.

The Problems Stream

According to Wildavsky, a 'difficulty is a problem only if something can be done about it' - that is, if there is a solution at hand.[1] In Kingdon's usage, which is adopted here, problems and solutions do not have this direct a relationship. A problem may be said to exist if people are seeking to change a situation - without necessarily having a specific solution in mind. A condition, on the other hand, is more a simple fact of life, unless and until it is called a problem.[2] For example,

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[1]Aaron Wildavsky, *Speaking Truth to Power* (Boston: Little Brown, 1979), 42.

[2]John W. Kingdon, *Agendas, Alternatives, and Public Policies* (Boston: Little, Brown, 1984), 115.

for many years industrial air pollution was essentially a by-product of the industrial revolution, a condition of modern life, until an increased awareness of its hazards became widely accepted, and people sought to do something about it. What had been more or less a condition for industrialising countries in the first half of the century, including the West and the Soviet Union, had become a problem in the second half shaping the development policy of newly industrialising countries. This section examines both problems and conditions (or perhaps more accurately, indicators) relating generally to reform of the state enterprise, and groups them all generally as 'problems'.

The problems relating to the state enterprise will be analysed in two sections. The first section is a brief exposition of the state enterprise and its place in the economy, focusing primarily on the formal operations and structures. The second section then builds on that foundation to detail the problems relating to the state enterprise in the planned economy, and how those problems were becoming more acute. A few well-known examples of systemic problems afflicting the Soviet economic system included the imperfect match between actual performance and planned indicators in industry; the poor quality of industrial and consumer goods; and the tendency of state enterprises to hoard labour, capital and other productive inputs. To a considerable degree, these systemic problems became quite familiar, even comfortable, issues in the economic debate over the years. But by the mid-1980s the situation had evolved considerably. In the some

twenty years since the last concerted effort at reform in the mid-1960s, new problems had developed and old, unsolved problems had become more complicated.

The State Enterprise in the Soviet Economy

Soviet law permitted three forms of economic activity based on the three forms of recognised ownership: individual, cooperative, and state. Individual activity was restricted to working private plots and providing some consumer services. Cooperative activity centred primarily on the collective farms,[3] which for all intents and purposes operated much the same as state farms. The economic impact of these ownership forms prior to *perestroika* was very limited and it was the state sector which was the backbone of the economy, accounting for well over ninety per cent of all production.[4] State ownership was embodied in the basic unit of the economy, the state enterprise, the point at which the plan was converted into production. The 37,000 state enterprises[5] tended to be

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[3]Industrial cooperatives were liquidated in 1960. E.Z. Maiminas, 'Konteksty ekonomicheskoi reformy', in A.N. Zav'ialova (ed.), *Postizhenie* (Moscow: Progress, 1989), 422-440, 423.

[4]International Monetary Fund, et al., *The Soviet Economy* (Paris: OECD, 1991), Volume One, 9.

[5]M.S. Gorbachev, 'O zadachakh partii po korrenoi perestroiki upravleniia ekonimikoi' [speech to the June 1987 Central Committee Plenum], *Izbrannye rechi i stat'i*, Volume 5 (Moscow: Politizdat, 1988), 176.

both large, averaging 800 employees each,[6] and specialised, with 1,100 having monopoly production.[7]

Management within the state enterprise revolved around the 'troika' of management, Party and union officials.[8] These officials in turn were typically selected from the various, respective nomenklaturas; the more important the enterprise, the higher the agency involved in selecting suitable candidates, up to and including the Council of Ministers and the Central Committee for the largest enterprises. Under the principle of one-man-management (*edinonachalie*), however, it was the director who held primary responsibility for the activities of the enterprise and the successful implementation of enterprise plans.

The state enterprise had a clearly defined role in law which stood in sharp contrast with its status in practice. Nominally, the state enterprise was recognised in all legislation after 1923 governing its activities as a juridical person as both responsible for its own activities and not answerable for the activities of others, including those of the state.[9] The state enterprise held limited 'operative

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[6]Abel Aganbegyan, 'The Economics of Perestroika', *International Affairs* 64:2 (1988), 168.

[7]'Na puti k reguliruemomu rynochnomu khoziaistvu (Beseda s otvetsvennym sekretarem ekonomicheskogo soveta O.M. Iunem)', *Planovoe khoziaistvo* 6 (June 1990), 34-43, 38.

[8]Blair Ruble, *Soviet Trade Unions* (Cambridge: Cambridge University Press, 1981), 52.

[9]S. Bratus', A. Makovskii, and V. Rakhmilovich, 'Pravovoe regulirovanie khoziaistvennoi deiatel'nosti', *Kommunist* 8 (May 1988), 95-103, 95.

rights' (*operativnoe upravlenie*) of possession, use and disposition over the collective property assigned to it, with ultimate ownership being retained by the state.[10] In practice, the line separating the ownership rights retained by the state and those transferred to the state enterprise was blurred, and the efforts to clarify it within administrative law were of a secondary nature; the lines of decision-making legitimacy were defined primarily by what kinds of decisions could be made at which levels of the economic administrative structure, on to which ownership rights were grafted.[11] The principal term defining the decision-making rights assigned to the level of the state enterprise was *khozraschet*, which included responsibility for profits and losses, contract fulfilment, quality, and so forth. In practice this meant basically that an enterprise's funding was conducted through bank accounts; higher agencies often redirected enterprise assets without permission or compensation.[12] Imparting operational

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[10]For the early comprehensive treatment of the concept of *operativnoe upravlenie* which provided the reference point for nearly all later treatments, see A.V. Venediktov, *Gosudarstvennaia sotsialisticheskaia sobstvennost'* (Leningrad: Izdatel'stvo Akademii Nauk SSSR, 1948), and page 347 for this particular point.

[11]Overlapping ownership rights over state enterprises between the centre, ministries, republics, regions, state enterprises and indeed Soviet citizens were embedded into the framework. It was not until *perestroika* that ownership and ownership rights became the principal language of defining state enterprises and their role in the economy, a topic to be addressed in a subsequent chapter.

[12]Alec Nove, *An Economic History of the USSR*, Second Edition (London: Penguin, 1989), 257. According to official figures, enterprises did not keep much of their profits. The percentage of enterprise profits going to the state budget increased from 77% in 1950 to 84% in 1965, then began a

significance to *khozraschet* was a perennial problem in economic policy.

The primary administrative structure linking the centre with state enterprises was the ministerial system, and it was the various ministries which effectively exercised control over state enterprises.[13] The organising principles for the economic administrative structure were hierarchy and branch of production, the names of the various ministries ostensibly reflecting their respective areas of specialisation. There were all-union ministries based in Moscow, under whose jurisdiction most state enterprises fell, as well as union-republic ministries with dual offices and republic ministries, specialising primarily in light industry and food processing.[14] However, between the autarkic tendencies within that hierarchical system and the persistent supply problem, the actual production of enterprises overseen by a particular ministry was considerably broader than its remit would suggest.[15]

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gradual decline until reaching 55% in 1977, at which point there was an upward creep, reaching 60% by 1980. M.I. Piskotin, *Sotsializm i gosudarstvennoe upravlenie* (Moscow: Nauka, 1984), 231-232.

[13]Stephen Whitefield, *Industrial Power and the Soviet State* (Oxford: Clarendon Press, 1993), 42.

[14]Joseph S. Berliner, *The Innovation Decision in Soviet Industry* (Cambridge, Mass: MIT Press, 1976), 36; Andrew Freris, *The Soviet Industrial Enterprise* (New York: St Martin's Press, 1984), 5.

[15]Typically twenty per cent of a ministry's output was outside of its specialised product range. Peter Rutland, *The Politics of Economic Stagnation in the Soviet Union: The Role of Local Party Organs in Economic Management* (Cambridge: Cambridge University Press, 1993), 21.

The intermediate level between ministries and their enterprises was historically the linch-pin of the administrative system.[16] The *glavki* which had occupied that position were gradually replaced from 1973 by associations (*ob"edineniia*). Three types of associations were created. Two of them were intended to group enterprises together, regardless of their ministry, in order to effect greater productivity either through the economies of scale achieved by amalgamating enterprises of similar production or by grouping together enterprises where the output of one was an input for another. These were the production associations, typically grouping four enterprises into a single administrative unit, and the science-production associations, which had a research and development institute attached. The third type was the industrial association, which was to oversee whatever enterprises remained of the *glavki* after the other, preferred types of associations had been formed.

The creation of the associations was slow, and they were still being formed into the 1980s.[17] By that time, the preferred production associations and science-production associations of integrated enterprises accounted for half of industrial production and employment;[18] the balance was

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[16]Ed A. Hewett, *Reforming the Soviet Economy* (Washington, DC: The Brookings Institution, 1988), 116.

[17]J.A. Dellenbrant, *The Soviet Regional Dilemma* (New York: M.E. Sharpe 1986), 75.

[18]Alec Nove, *The Soviet Economic System* (Boston: Unwin Hyman, 1986), 72. There were by 1983, however, only around 100 science-production associations. Dzhermen M. Gvishiani and Boris Z. Mil'ner (eds.), *Organizatsiia upravleniia. Problemy*

accounted for by the 17 per cent of enterprises which remained independent,[19] most of them being found within industrial associations. However, the advent of the associations in fact did little to alter the organisational relationships between enterprises. Most were created from enterprises of a single ministry, and frequently even of the same *glavk*.[20]

The basis of enterprise operations was the plan, which came in a variety of forms - five-year, annual, monthly - and detailed extensive lists of output targets. With the introduction of 'counter-planning' in the early 1970s, the drafting process of the plan involved a complex series of negotiations between state, Party and enterprise officials. The central authorities issued initial guidelines of economic development, which were then disaggregated through the planning agencies (primarily Gosplan, Gossnab and Goskomtsen) and the ministries down to the enterprises. The enterprises would then give estimates of the supplies needed to fulfil provisional plans, providing information which was aggregated further up the system. Eventually a final plan would be approved, which itself was disaggregated down through the system. The result at the enterprise level was the

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perestroiki (Moscow: Ekonomika, 1987), 83.

[19]Freris, *The Soviet Industrial Enterprise*, 8.

[20]Gavriil Popov, 'Razvitie otraslevogo upravleniia promyshlennost'iu', *Kommunist* 18 (December 1982), 48-59, 54.

tekhpromfinplan, specifying the enterprise's major activities according to a number of categories.[21]

The plan received by the state enterprise was only one of many forms of the plan. All told, there were up to 1 million plans of various sorts, including enterprise plans, material-technical plans, and other intermediate plans governing around 30 million items[22] - there were instructions 'down to the last screw and rivet', as Gorbachev put it.[23] There was some division of labour in plan decision-making, with Gosplan responsible for about 2,000 commodities deemed to be of major importance, Gossnab tracking another 15,000 items, and the ministries being responsible for 50,000 product groups[24] - the latter being clearly vested with the most planning discretion.[25] The amount of discretion left to the state enterprise was certainly limited, but important: while enterprises could not change their production, they could make improvements in quality to their products for which the state would pay higher prices. This 'game of prices', as Gorbachev

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[21]Paul R. Gregory and Robert C. Stuart, *Soviet Economic Structure and Performance* (New York: Harper & Rowe, 1986), 217.

[22]'Na puti k reguliruemomu rynochnomu khoziaistvu (Beseda s otvetsvennym sekretarem ekonomicheskogo soveta O.M. Iunem)', *Planovoe khoziaistvo* 6 (June 1990), 34-43, 34.

[23]'Korrenoi vopros perestroiki. Soveshchanie v TsK KPSS', *Pravda*, 13 June 1987, 1-2, 2.

[24]O.M. Iun', *Intensifikatsiia ekonomiki: Teoriia i praktika planirovaniia* (Moscow: Ekonomika, 1986), 140; and V. Popov, and N. Shmelev, 'Anatomiia defitsita', *Znamia* 5 (May 1988), 158-183, 159.

[25]Whitefield, *Industrial Power and the Soviet State*, 36.

termed it,[26] and the collusion of higher agencies in it amounted to hidden inflation, with obvious implications for the validity of the official statistics on economic growth (discussed below).

The planning process itself involved thousands of instructions as to which organisation approved which decisions, with some 400 organisations engaged in administering the economy.[27] As of 1986 there were 17.7 million people in administrative positions,[28] or 15 per cent of the working population. The Soviet Union was the world leader in the ratio of managers to population, with twice the ratio of China, which apparently occupied second place.[29] Even so, most Soviet managers were within the enterprises themselves, with over 90 per cent of these positions found in enterprise administrative and technical staffs.[30]

The plans were determined in physical terms. The plan targets would specify how much cement, how many shoes, and so on. Directive planning work centred on calculating material

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[26]Gorbachev, 'O piatiletnem plane ekonomicheskogo i sotsial'nogo razvitiia SSSR na 1986-1990 gody i zadachakh partiinykh organizatsii po ego realizatsii' [speech to the June 1986 Central Committee Plenum], *Izbrannye rechi i stat'i*, Volume 3, 444.

[27]Paul R. Gregory, *Restructuring the Soviet Economic Bureaucracy* (Cambridge: Cambridge University Press, 1990), 19, 2.

[28]*Argumenty i fakti* 11, 1988; *Pravda*, 21 January 1988, 2.

[29]Nikolai Shmelev, 'Ekonomika i zdravyi smysl', *Znamia* 7 (July 1988), 179-184, 182.

[30]V.I. Puginskii, 'Prava predpriiatiia: Zakon i praktika', *Sovetskoe gosudarstvo i pravo* 8 (August 1989), 28-35, 33.

balances - balance sheets of physical units or goods - in order to anticipate what would be needed in production in order to ensure needed inputs would be available.[31] Plan fulfilment was similarly judged on completion of quotas in physical terms. Though fluctuating over the years, an enterprise received some twenty indicators by which plan implementation was judged. In practice, these indicators became informally ranked, and enterprise directors would strive to meet the more important of them, of which the most important was *val* (*valovaia produktsiia*), which measured the total value of an enterprise's entire output, including unfinished goods and regardless of whether a buyer was found. Though *val* itself was replaced in 1965, inaugurating a series of efforts to judge performance by means other than final output, volume indicators in various iterations continued into the 1980s to be the primary means of evaluating performance.[32]

Strains in the System

The fact that gross production indicators persisted highlights a salient feature of the planning process: 'planning from the achieved level'.[33] Central planners had the continuing information problem of not knowing exactly what resources and production capabilities an enterprise had at its disposal. In

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[31]Michael Ellman, *Socialist Planning* (Cambridge: Cambridge University Press, 1989), 25.

[32]V. Kachanovskii, 'Ukazateli i ikh funktsii', *Voprosy ekonomiki*, (January 1986).

[33]Igor Birman, 'Planning from the Achieved Level', *Soviet Studies* 30:2 (Summer 1978), 153-172.

a cyclical pattern, central planners dealt with this ambiguity by erring on the side of overestimation, to which enterprise directors responded by skewing their pre-plan data downwards and hiding resources and production capabilities. The system evolved by the central planners was to take the current period's results as the basis for the next period's plan. From their point of view, in practice the state enterprise was little more than a 'black box'; inputs were provided, outputs were expected - what was important was the fulfilment of the plan, not how it was fulfilled.[34]

Where 'planning from the achieved level' encouraged enterprise directors not to exceed plan targets by too much or to meet them with apparent ease - lest even higher targets be set in the next plan - a countervailing force was provided by what Dyker has termed the 'Micawber principle'.[35] Employee bonuses, not least those of enterprise directors, were directly dependent on fulfilment of the plan. Meeting the plan guaranteed a significant bonus, to which overfulfilment would bring incremental additions; the slightest underfulfilment would mean no bonus and possibly dismissal for enterprise directors.

In meeting plan targets, an enterprise director could usually pursue production in the confident knowledge that if expenses over-ran, funds would reliably materialise from

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[34]V. Popov and N. Shmelev, 'Velikii planovyi eksperiment', in T.A. Notkina (ed.), *Pogruzhenie v triasinu* (Moscow: Progress, 1991), 101-135.

[35]David Dyker, *The Future of the Soviet Economic Planning System* (Armonk, NY: M.E. Sharpe, 1985), 25.

higher agencies to fill the gap. The main goal was to meet the plan; in practice that meant that the plan might also be amended by higher agencies on petition from enterprise directors in order that it be met after the fact, and data even falsified.[36] The 'soft budget constraint' encouraged enterprise directors to meet the major plan indicators at all costs without any effective financial constraint.[37] Fines, when they were imposed, were ineffectual sanctions; regardless of the order in which costs were incurred by the enterprise, the order of repayment was to the state budget, the wage fund, suppliers, banks, and lastly - if any funds still remained - fines.[38] According to Ryzhkov, 13 per cent of enterprises in industry made a loss in 1985; subsidising them came at a cost of 6 billion rubles.[39] Alternative calculations suggest the situation was even worse; according to Popov and Shmelev only 13 per cent of industrial enterprises made a profit in 1985, and subsidises for the rest amounted to 103 billion rubles - or 20 per cent of the national budget.[40]

What made an enterprise 'profitable' (defined as the ratio of profits to costs), was in any event a largely

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[36]For evidence of such managerial activities, see Susan J. Linz, 'Managerial Autonomy in Soviet Firms', *Soviet Studies* 40:2 (April 1988), 175-195, 183.

[37]Janos Kornai, *The Socialist System* (Princeton: Princeton University Press, 1992), 140.

[38]'Normy prava i praktika khoziaistvovaniia', *EKO* 1 (January 1988), 24-46, 37.

[39]*Pravda*, 19 June 1986, 5.

[40]Popov and Shmelev, 'Velikii planovyi eksperiment', 125.

arbitrary matter given the passive role of prices. The purpose of prices was to support the planning system, and served more or less as an accounting device for planners to aggregate information, not as any reflection of relative scarcity.[41] Efficiency was thus judged not with respect to the rest of the economy, but according to the complicated pricing system. There were in fact many different price systems, each serving various purposes within the planning process,[42] often with little relationship to one another. The state typically bought products from enterprises at one set of wholesale prices, and sold them at a quite different, and usually lower, set of retail prices. The annual cost of such subsidies within the economy as a whole amounted to 73 billion rubles, according to Gorbachev.[43] Prices themselves were infrequently changed, and when they were it was a time-consuming operation. For instance, two years were required to calculate the 1982 revision of wholesale prices (after an interval of fifteen years since the last wholesale price revision).[44]

Ellman identifies two feedback mechanisms which are needed to improve balance in a planned economy - and which

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[41]Hewett, *Reforming the Soviet Economy*, 130.

[42]See: Morris Bornstein, 'Price Policies and Comment on Shmelev', in Ed A. Hewett and Victor H. Winston (eds.), *Milestones in Glasnost and Perestroyka. The Economy* (Washington, DC: The Brookings Institution, 1991), 167-203.

[43]Gorbachev, 'O zadachakh partii po korrenoi perestroiki' [Speech to June 1987 Central Committee Plenum], *Izbrannye rechi i stat'i*, Volume 5, 171-172.

[44]A. Komin, 'Tsenoobrazovanie v usloviiakh planovoi ekonomiki', *Planovoe khoziaistvo* 5 (May 1986), 55-65, 65.

were lacking in the Soviet planned economy - flexible prices being one and flexible supplies the other.[45] One result of the taut Soviet supply system was the practice of storming, a rapid acceleration of activity to meet targets at the end of a planning period.[46] For monthly plans this meant that production was frequently overestimated and 'borrowed' from the next month. For five-year plans storming led to a tendency of beginning many major projects at the start of the period and of completing them at the end, with consequent disruptions radiating through the economy.[47] In 1986, near the beginning of a five-year period, there were 139 billion rubles' worth of unfinished construction projects.[48] As of 1987, there were 350,000 construction projects in the production sphere; with resources spread thinly there were on average 12 workers at each construction site.[49]

A comparable situation existed with technological innovation. Though there were dramatic achievements in scientific and technological progress in the immediate post-

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[45]Michael Ellman, *Socialist Planning* (Cambridge: Cambridge University Press, 1989), 40.

[46]Typically, an enterprise would produce at least half of its production for a given month in the last ten days. V.F. Opryshko, 'Gosudarstvennaia priemka produktsii: Organizatsionno-pravovye voprosy', *Sovetskoe gosudarstvo i pravo* 6 (June 1988), 69-77, 70.

[47]M.D. Nuti, 'Cycles in Socialist Economies', in John Eatwell, Murray Milgate, and Peter Newman (eds.), *Problems of the Planned Economy* (London: Macmillan, 1990), 80-84, 82.

[48]O. Latsis, 'Ves uskoreniia', *Kommunist* 17 (November 1989), 45-55, 49.

[49]Vasilii Seliunin in *Sotsialisticheskaia industriia*, 5 January 1988, 2.

war years, including the development of nuclear weapons and energy and the launching of *Sputnik*, the pace soon slowed considerably. In Kornai's assessment, of the 33 major technical advances made between 1957 (the year *Sputnik* was launched) and 1981, only two were in the Soviet Union: the laser in 1960 (simultaneously with the US), and the geostationary satellite in 1976; all others first appeared in the West.[50] The problem was not so much one of new ideas being developed - in quantitative terms, the Soviet Union was consistently the world leader in registered inventions from 1974[51] - but in the inability to assimilate new technologies.[52] Despite the introduction of numerous policies to effect more rapid integration of new technologies into industry, even assimilation of domestic technology was gradual at best, as was the implementation of those policies.[53] One of the results was seen in the pattern of foreign trade, where the percentage of manufactured goods the Soviet Union exported to Western Europe fell from 28 per cent in 1955 to 6 per cent in 1983, and was rapidly being overtaken by the newly industrialised countries.[54]

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[50]Kornai, *The Socialist System*, 298-300.

[51]*Pravda*, 7 January 1986, 2.

[52]Joseph S. Berliner, *The Innovation Decision in Soviet Industry* (Cambridge, Mass: The MIT Press, 1976).

[53]Julian Cooper, 'Innovation for Innovation in Soviet Industry', in Ronald Amann and Julian Cooper (eds.), *Industrial Innovation in the Soviet Union* (London: Yale University Press, 1982), 453-513, 503.

[54]Anders Åslund, *Gorbachev's Struggle for Economic Reform*, Revised Edition (Ithaca, NY: Cornell University Press, 1991)

The problem of quality proved similarly intractable. Shortages meant that there was usually a seller's market, in which a consumer (whether an individual or an enterprise) had the choice of taking what was available or nothing at all. Consequently enterprise management at the outset did not have much interest in quality control,[55] and focused on the more important indicator of gross output. The bureau for many years responsible for quality control, *Otdel tekhnicheskogo kontrolia*, was under constant pressure by plant managers and party officials to certify inferior goods as being of first-rank quality.[56] The result was that Soviet goods were consistently lower in quality than most found abroad. In 1986, Ryzhkov remarked that in the area of machine-building (a strength in the Soviet economy) only 29 per cent of series-produced machine building output was at world standards.[57]

Within industry, modernisation of capital equipment was infrequent, and liquidation of inefficient enterprises virtually non-existent. The result was that considerable resources were expended on keeping outdated machinery in operation. By some accounts, more workers were engaged in repairing machines than in building them,[58] even though

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[55]Robert Campbell, 'Management Spillovers from Soviet Space and Military Programmes', *Soviet Studies* 23:4 (April 1972), 586-607, 593.

[56]Nove, *The Soviet Economic System*, 192.

[57]*Pravda*, 19 June 1986, 2.

[58]Popov and Shmelev, 'Anatomiia defitsita', 163.

billions of rubles' worth of new equipment was left uninstalled.[59] Within a ministerial system inclined towards autarky, there was an extensive in-house spare part supply system: 25 per cent of workers were based in factory repair shops.[60]

The lack of flexible supplies in centrally planned countries led Kornai to term them 'shortage economies', marked by chronic, frequent and intensive shortages in all spheres of the economy.[61] If storming, the slow diffusion of new technologies, and poor quality were visible manifestations of a shortage economy, the 'shadow economy' was the most visible response, and increasingly so in the Soviet Union in the fifteen years before *perestroika*.[62]

Certain non-state economic activity had long been tolerated and integrated into everyday economic life,

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[59]*Sotsialisticheskaia industriia*, 5 January 1988, 2.

[60]Rutland, *The Politics of Economic Stagnation in the Soviet Union*, 21.

[61]Janos Kornai, *The Socialist System* (Princeton: Princeton University Press, 1992), 233.

[62]Definitions vary in the literature, but regardless of whether 'shadow economy' was synonymous with, or an umbrella term for 'informal economy', 'second economy', 'underground economy', 'parallel economy' and so forth, the unifying characteristic was that such activity was not reflected in the official statistics. I.Kh. Raig, 'Nelegal'naia ekonomicheskaia deiatel'nost'', in A.N. Zav'ialova, *Postizhenie* (Moscow: Progress, 1989), 203-213, 203. Nevertheless, the size of the shadow economy in the Soviet does not appear to have exceeded the magnitude found in Western economies. See, for instance, Oleg Bogomolov in 'Deputaty-ekonomisty o radikal'noi ekonomicheskoi reforme', *Voprosy ekonomiki* 9 (September 1989), 3-12, 11; and David Lane, *Soviet Economy and Society* (Oxford: Blackwell, 1985), 66.

contributing some 10 per cent to Soviet GNP.[63] The clearest example was in agriculture, which in the 1970s accounted for three fourths of the legal sector of individual and cooperative economic activity,[64] where goods from private plots and the surplus from collective farms were sold in open markets with prices negotiated directly between buyer and seller. The unsanctioned market in goods and services, however, had become a part of daily life by the 1980s; on average, some ten per cent of a worker's income appears to have come from somewhere other than the main place of employment.[65]. According to the official figures, quoted by Gorbachev, individuals provided 1.5 billion rubles' worth of illegal services each year.[66] Even assuming that the volume was probably higher, it was still far from the estimated volume of unsatisfied demand for consumer goods and services: 15 billion rubles in 1985, increasing to 25 billion rubles in 1987.[67] From 1965 to 1985, there was a steadily increasing gap between wage

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[63]Gregory Grossman, 'The "Second Economy" of the USSR', *Problems of Communism* 26:5 (September-October 1977), 25-40, 35.

[64]Grossman, 'The "Second Economy" of the USSR', 35.

[65]G. Ofer and A. Vinokur, *Family Budget Survey of Soviet Immigrants in the Soviet Union* (Jerusalem: Soviet and East European Research Center, Hebrew University, 1977).

[66]Gorbachev, 'O zadachakh partii po korrenoi perestroiki' [Speech to June 1987 Central Committee Plenum], *Izbrannye rechi i stat'i*, Volume 5, 151. Notably, Gorbachev cited this figure not to call for a clamp-down on such activity, but to demonstrate the shortcomings in the state sector to provide consumer goods and services.

[67]A. Shmarov and N. Kirichenko, 'Infliatsiia, reforma roznichnykh tsen i narodnoe blagosostoianie', *Voprosy ekonomiki* 8 (August 1989), 25-36, 31.

levels and the production of consumer goods.[68] Enforced savings of excess rubles in the economy gradually created a 'monetary overhang' which had reached 225 billion rubles by 1985, accounting for some 80 per cent of disposable household income.[69] According to the official figures, 50 per cent of total savings deposits were due to unsatisfied demand for consumer goods.[70]

Within the state sector, the shadow economy had become a way of life as well. Although stealing from the state sector for personal gain was certainly illegal (if increasingly frequent in the later Brezhnev years), unofficial economic activity among enterprises in order to fulfil the plan was generally tolerated if not condoned outright. One method of overcoming supply problems was hoarding materials, either for an enterprise's own production needs, or for barter trade with other enterprises. In 1985 the value of supplies held by industrial enterprises had reached 460 billion rubles, equal to eighty per cent of the national income for that year.[71] State enterprises often employed informal supply agents, or *tolkachi* ('pushers'), to act as go-betweens with other

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[68]Shmarov and Kirichenko, 'Infliatsiia, reforma roznichnykh tsen i narodnoe blagosostoianie', 33. Also see: Rumer, 'Structural Imbalance in the Soviet Economy', 25.

[69]Gur Ofer, 'Budget Deficit, Market Disequilibrium, and Economic Reforms', in Ed A. Hewett and Victor H. Winston (eds.), *Milestones in Glasnost and Perestroyka. The Economy* (Washington, DC: The Brookings Institution, 1991), 263-307, 293.

[70]Libor Roucek, 'Private Enterprise in Soviet Political Debates', *Soviet Studies* (January 1988), 46-63, 52.

[71]Popov and Shmelev, 'Anatomiia defitsita', 166-167.

enterprises, supply agencies, or just about anyone.[72] The informal bartering system was not restricted to just enterprises; exchanges also took place between ministries and with local party officials.[73] A market in the means of production existed in fact,[74] if not in ideology, but with an important qualification: the entrepreneurial spirit was in finding suppliers, not buyers.

The Soviet Union was not the only country undergoing economic problems in the early 1980s, and in terms of social welfare the Soviet Union boasted free education, full employment, a comprehensive pension system, a welfare net, and free health care, albeit of varying quality. But if the problems elucidated thus far demanded some sort of policy response, the long-term problems indicated that what was required was something far more substantial. Two long-term trends were particularly revealing: secular economic decline and the shifting patterns of investment to sustain what growth there was.

There are some problems with using economic growth as a general indicator of economic development, particularly in the Soviet Union. For one thing, the measure of growth Soviet officials used, net material output, did not include most services - transportation, administration, health care,

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[72]Nove, *The Soviet Economic System*, 95.

[73]Gregory, *Restructuring the Soviet Economic Bureaucracy*, 51.

[74]S. Golovnin and A. Shokhin, 'Tenevaia ekonomika: Za realizm otsenok', *Kommunist* 1 (January 1990), 51-57, 52.

education, and so forth - which were considered unproductive, and thus was a narrower measure of growth than the gross domestic product used in the West.[75] Also, it was not necessarily a reliable measure of living standards, particularly in centrally-planned economies where high investment rates, or 'investment hunger',[76] could consume much of the registered growth at the expense of consumption, but where consumers may have been far more frugal with their finances than the government.[77] Another difficulty, of course, is the reliability of information used to calculate the statistics; official figures were unreliable and sometimes difficult to obtain even for the planners. Even so, though the actual numbers may be suspect, the overall picture can be revealing, especially compared against figures from other sources. Reformers, for their part, regarded economic growth as a general indicator,[78] and it was arresting the decline in economic growth which Gorbachev identified as the key task of economic reform.

Officially, then, in the post-war period the Soviet economy was at its most robust in the 1950s. In the early 1960s there was a slight decline before picking up again at

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[75]Popov and Shmelev, 'Anatomiia defitsita', 167.

[76]Janos Kornai, *The Economics of Shortage* (New York: North Holland, 1980).

[77]Arne Jon Isachsen, Carl B. Hamilton, and Thorvaldur Gylfason, *Understanding the Market Economy* (Oxford: Oxford University Press, 1992), 54.

[78]See, for instance: Stanislav Shatalin in *Trud*, 5 November 1985.

the end of the decade to around eight per cent per annum. From that point on a gradual decline set in so that by the 1970s the figure was a far lower, though still comfortable, four percent, and by the 1980s, three percent.[79] CIA estimates shadow the same general decline at a few points lower.[80] In their own recalculation of growth figures which took into account hidden inflation, Vasili Seliunin and Grigorii Khanin are more pessimistic, showing an accelerated decline in the mid-1970s to virtually zero growth ten years later.[81] According to the official figures, during 1928-1985 as a whole the national income increased in size by 84 times; the alternative figure was a far more modest 6.6 times.[82] A separate recalculation by Dmitri Steinberg presents only a slightly less bleak picture than that of Seliunin and Khanin.[83] The data

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[79]*Narkhoz 1985*, 38, and *Narkhoz 1989*, 9.

[80]CIA, *Handbook of Economic Statistics, 1990* (Washington, DC: US Government Printing Office, 1990), 64. Notably, the chair of Goskomstat, M. Kovolev, cited the CIA figures in support of a rebuttal to the 'alternative estimates ... [which] seem unrealistically low'. *Pravda*, 31 January 1989, 2. By this time, of course, CIA methodology was itself being subjected to sharp criticism. For one such critique, see: Steven Rosefielde, 'The Illusion of Material Progress: The Analytics of Soviet Economic Growth Revisited', *Soviet Studies* 43:4 (1991), 597-611.

[81]Vasilii Seliunin and Grigorii Khanin, 'Lukavaia tsifra', *Novyi mir* 2 (1987), 181-201, 194-195. See also: G. Khanin, 'Ekonomicheskii rost: al'ternativnaia otsenka', *Kommunist* 17 (November 1988), 83-90. For a review of Khanin's recalculations of economic statistics, see Mark Harrison, 'Soviet Growth since 1928: The Alternative Statistics of G.I. Khanin', *Europe-Asia Studies* 45:1 (1993), 141-167.

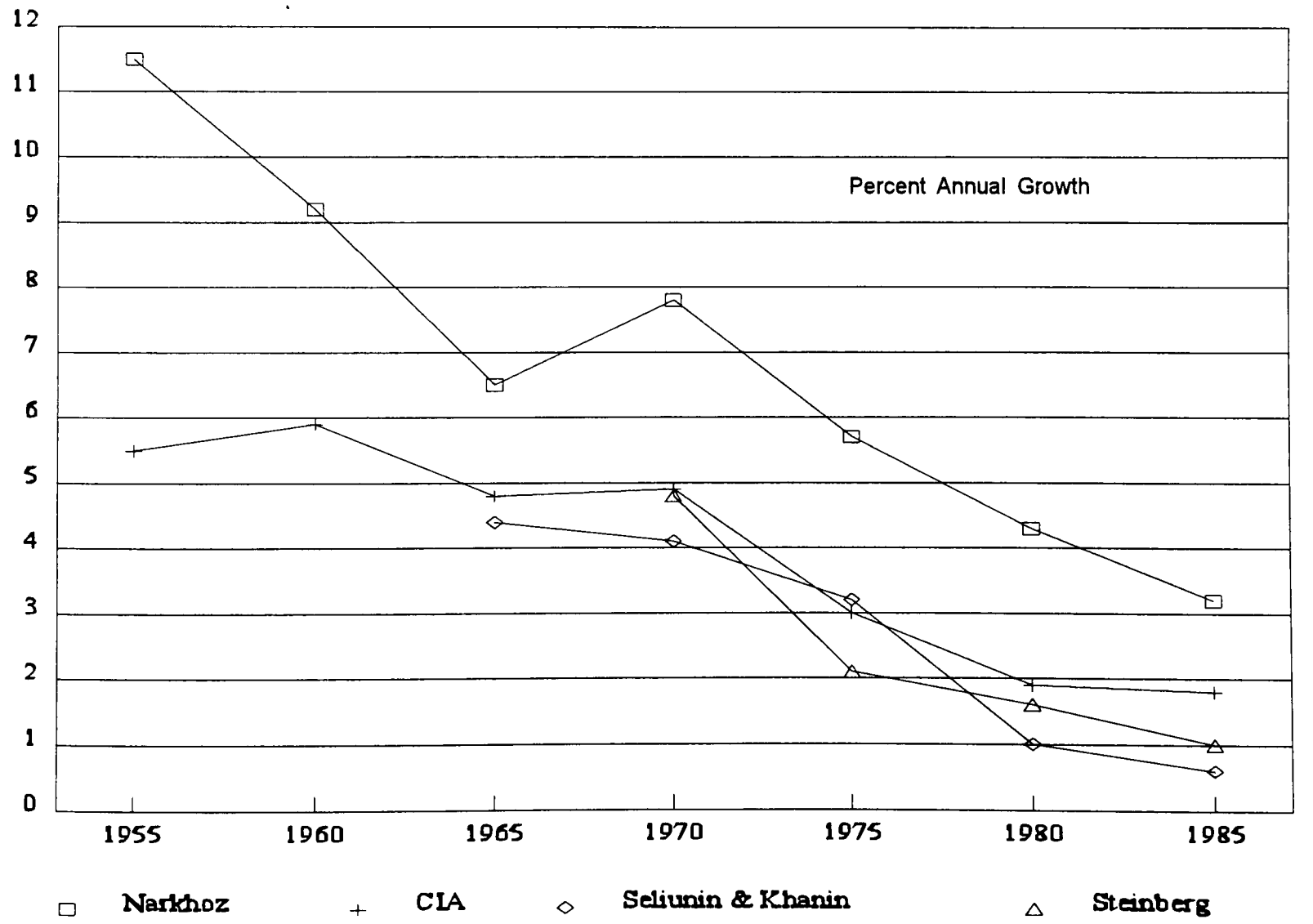
[82]Khanin, 'Ekonomicheskii rost', 84.

[83]Dmitri Steinberg, *The Soviet Economy, 1970-1990: A Statistical Analysis* (San Francisco: International Trade Press, 1990), 182.

from these four sources are illustrated in the graph; each point represents an average of the previous five years (ie, '1970' represents the period 1966-1970).

There are two major differences between the official figures and the alternative assessments. First, the official figures give considerably higher growth rates, and, second, the official figures show an upwards blip for the years 1965-70 which does not appear in the alternative calculations. That period was during the implementation of the 1965 reforms, and its cause was probably not due to the economic benefits of reform; if anything, a temporary decline should occur during

Soviet Post-War Economic Growth



the disruptions caused by the implementation of structural changes; a decline in growth rates during a reform might even be desirable.[84] The more likely explanation was either that if there were indeed any economic growth it was because of a Stakhanovite response in the system[85] (what is sometimes called the 'Hawthorne effect' in policy studies)[86] or, perhaps more likely, the figures themselves were massaged upwards. The alternative sources - particularly those of Seliunin and Khanin - show very little if any change to growth during that time.[87]

It was an open secret among reformers even before *perestroika* that the official statistics were suspect; what was unclear was by how much. At least some of what accurate

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[84]Egor Gaidar, 'Kursom ozdorovleniia', *Kommunist* 2 (January 1988), 41-50, 41; Vasilii Seliunin in *Sotsialisticheskaia industriia*, 5 January 1988, 2. In contrast, Gorbachev was categorical in rejecting the possibility of recession during the implementation of economic reforms. Gorbachev, 'O zadachakh partii po korrenoi perestroiki' [speech to June 1987 Central Committee Plenum], *Izbrannye rechi i stat'i*, 171.

[85]It is worth noting that in Czechoslovakia growth had stopped in 1962-63, then picked up again before the implementation of any reform.

[86]A study at the Hawthorne electric company in Chicago found that output increased as a result not of the nature of changes in factory practices but after any kind of change at all: such was the result when illumination of the shop floor was increased or decreased. See: Alice Rivlin, *Systematic Thinking for Social Action* (Washington, DC: Brookings, 1971), 89-90.

[87]Toumanoff has argued that the reintroduction of the ministries as part of the 1965 reform actually reduced labour productivity. Peter Toumanoff, 'Economic Reform and Industrial Performance in the Soviet Union, 1950-1984', in Susan J. Linz and William Moskoff (eds.), *Reorganization and Reform in the Soviet Economy* (Armonk, NY: M.E. Sharpe, 1988), 110-128, 120.

information there was had been hidden even from Gorbachev.[88] However, by 1987 the figures given by Gorbachev painted an even more alarming picture. Discounting sales of alcohol (which the anti-alcohol campaign had severely curtailed) and the sale of natural resources on the international market - particularly petroleum products (the prices for which had since dropped) - by 1980 there was essentially no growth in the economy.[89] The following year Gorbachev made a further revision: by 1980 the economy had in fact begun to contract.[90] With all the different sources, there may always be some confusion on just what sort of economic growth the Soviet Union had.[91] The important point was that once economic problems were openly acknowledged, the necessity for reform became much clearer - a necessity which was not obvious in 1965. One of the reasons for abandonment of reform at that

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[88]Nikolai Petrakov, *The Second Russian Revolution Transcripts*, Roll 41, Page 7.

[89]Gorbachev, 'O zadachakh partii po korrenoi perestroiki' [speech to June 1987 Central Committee Plenum], *Izbrannye rechi i stat'i*, Volume 5, 157-158. Also see Aganbegian, who in 1987 stated that economic growth had virtually ceased by 1978. A.G. Aganbegian, 'Programma korennoi perestroiki', *EKO* 11 (November 1987), 3-19, 7.

[90]Gorbachev, 'Revoliutsionnoi perestroike - ideologiiu obnovleniia' [speech to February 1988 Central Committee Plenum], *Izbrannye rechi i stat'i*, Volume 6, 77.

[91]For example, in his analysis of the Gorbachev years, Lane apparently continues to use the suspect official statistics that in 1987-88 growth was five percent. David Lane, *Soviet Society under Perestroika* (London: Routledge, 1992), 49.

time was that the official figures showed a rapid improvement.[92]

Alongside the secular economic decline of at least twenty years, there was over the course of Soviet economic history a clear and persistent shift in the pattern of industrial growth in favour of production for industry (Group A production) at the expense of consumer goods (Group B production). During leadership transitions, new leaders regularly directed new, but short-term attention to increasing consumption,[93] until systemic constraints came into fuller play to redirect the economy back towards accumulation.[94] Thus, where in 1928 the production of consumer goods accounted for 60.5 per cent of all industrial production, in 1940 the figure was 39 per cent, and by 1985 had dropped to 25 per cent;[95] spending levels on health and education were higher in 1940 than in 1985.[96] Even with all of the growth which was registered in the 1970s going

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[92]Åslund, *Gorbachev's Struggle for Economic Reform*, 12.

[93]Nuti, 'Cycles in Socialist Economies', 83.

[94]Valerie Bunce, 'The Political Consumption Cycle: A Comparative Analysis', *Soviet Studies* 32:2 (April 1980), 280-290.

[95]Aleksandr Iakovlev, *Gor'kaia chasha: Bol'shevizm i reformatsiia Rossii* (Yaroslavl': Verkh.-Volzh., 1994), 19. Iakovlev included these figures in a hitherto unpublished December 1985 document setting out his quite radical views on economic reform. These are the same figures Seliunin gives in his widely cited article in *Sotsialisticheskaia industriia*, 5 January 1988, 2.

[96]K. Kagalovskii, 'Ekonomicheskii krizis. Gde iskat' vykhod?', *Kommunist* 4 (March 1990), 60-67, 61.

to industry,[97] for each ruble of increase in the national income in the 1970s and 1980s over a ruble had to be invested (as against sixty kopeks in the 1960s).[98] In short, 'simple reproduction' in the economy was no longer happening.[99]

Lenin had defined communism as Bolshevik power plus electrification. The system which emerged had long since achieved electrification, but was becoming increasingly more complex and less amenable to the control and aspirations of Bolshevik power. As much as anything, the basic problem was the system's inability to keep up with the changes in society which it had promoted. The question was thus one not just of the reformability of the Soviet economic system, but of its sustainability.

The Policy Alternatives Stream

At the December 1984 All-Union Conference on ideology, Gorbachev reprimanded the social scientists for their timidity and lack of focus on concrete policy issues,[100] and again at the January 1987 Plenum upbraided the social sciences for having advanced little since the thirties and forties.[101] Such

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[97]Vasilii Seliunin, 'Eksperiment', *Novyi mir* 8 (August 1985), 173-194, 177.

[98]Popov and Shmelev, 'Anatomiia defitsita', 167.

[99]Otto Latsis, *The Second Russian Revolution Transcripts*, Roll 167, Page 7.

[100]Gorbachev, 'Zhivoe tvorchestvo naroda', *Izbrannye rechi i stat'i*, Volume 2, 79.

[101]Gorbachev, 'O perestroike i kadrovoi politike partii', *Izbrannye rechi i stat'i*, Volume 4, 302.

criticisms were echoed not only within the leadership but by social scientists themselves. Zaslavskaia, for example, writing as one of the foremost reformist academics, complained that social scientists were stuck in the 'rearguard' of society, and in order to advance the cause of reform needed to reform their own research agenda.[102] Soviet authorities in fact regularly expressed their dissatisfaction with the social sciences, voicing a far from unique complaint found among policy-makers that social scientists offer policy advice that is out of step with pressing, real problems in society.[103] But the call for new thinking which began tentatively with Andropov and became a slogan during *perestroika* was not only about the desire to enlist the support of solid social science research in the cause of reform: the call for new ideas was also a rejection of old policies. It was less the case that the social sciences had advanced little since the days of Stalin than that the economic system created under Stalin had emerged from forty years of development and several leadership successions virtually unchanged.

When given the opportunity, social scientists, for their part, frequently pointed out that their efforts had been ignored by decision-makers. Economists were bit players during

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[102]T. Zaslavskaia, 'Perestroika i obshchestvo', *Izvestiia*, 6 February 1986, 2-3.

[103]While not all specialists would agree that their advice is without use, Lindblom has been the most critical in this regard, claiming that 'I cannot identify a single social science finding that is undeniably indispensable to any social task or effort. Not even one.' Charles E. Lindblom, *Inquiry and Change* (New Haven, CT: Yale University Press, 1990), 136.

the last concerted effort at reform in the sixties.[104] During the Brezhnev era as a whole economic analyses, regardless of the degree of sophistication, played a 'secondary role' in policy decisions, being invoked in support of decisions already taken and ignored when in conflict with those preferences.[105] The combination of frustration and anticipation felt by reform-inclined social scientists has been expressed retrospectively by Zaslavskaia,

> In our better moments ... we did believe that there were, or would be, healthy forces in society capable of leading it on to the right path and we dreamed of taking part in the social renewal.[106]

The situation was quite different after 1985, with the role of social scientists in the policy process reaching unprecedented levels, and economists in particular became deeply involved in the formulation of reform policy.[107] While the wholesale

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[104]Nikolai Petrakov, 'Upravlenie ekonomikoi i ekonomicheskie interesy', *Novyi mir* 8 (July 1970), 167-186, 167.

[105]L.V. Kantorovich, 'Nauchno-tekhnicheskii progress - ekonomicheskie problemy', *EKO* 1 (January 1985), 3-26, 5. Also see: A.G. Aganbegian, 'Prakticheskie dela ekonomicheskoi nauki', *EKO* 9 (September 1989), 17-29, 18. Such complaints were of course not limited to Soviet social scientists. Western policy studies have similarly been marked by a frustration among specialists at a lack of clear impact on policy decisions. As one put it, 'as a general statement, we can vouchsafe that, at best, policy research has been used to confirm or oppose a position decided otherwise.' Peter deLeon 'Democracy and the Policy Sciences: Aspirations and Operations', *Policy Studies Journal* 22:2 (Summer 1994), 200-212, 202.

[106]Tatyana Zaslavskaya, *The Second Socialist Revolution* (Bloomington: Indiana University Press, 1990), 45.

[107]The involvement of social scientists in the decision process of the enterprise law will be analysed in a subsequent chapter, though it is worth noting that despite the unprecedented degree of involvement of social scientists, it

changes which were to come in the closing years of *perestroika* clearly made a complete break with anything that had been entertained in the social sciences of the pre-Gorbachev years, this was not the case with the initial measures of the *perestroika* era, including the enterprise law. The question of whether social scientists had prepared the ground sufficiently for the reforms of *perestroika* was much debated.[108] However, regardless of the degree of preparedness of social scientists, it was on the theoretical foundations which they provided that those reforms were formulated.[109]

Kingdon describes the policy alternatives process stream as a 'primeval soup' in which ideas evolve and mutate within 'policy communities' over time:

> Much as molecules floated around in what biologists call the 'primeval soup' before life came into being, so ideas float around in these communities... The 'soup' changes not only through the appearance of wholly new elements, but even more by the recombination of previously existing elements. While many ideas float around in this primal soup, the ones that last, as in the natural selection system, meet some criteria.[110]

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was for many seen to be insufficient, and that the confusion of reform policies was attributable to non-economists in the decision process. See, for instance, O. Bogomolov, 'Peremena Dekoratsii', *Ogoniok* 23 (1990), 1-2.

[108]This was one of the questions *Kommunist* set a number of prominent academics, whose wide range of responses were printed as a special series in four near-consecutive issues in 1987. 'Ekonomicheskaia teoriia i praktika perestroiki', *Kommunist* 5 (March 1987), 30-39; 6 (April 1987), 10-19; 7 (May 1987), 25-34; and 9 (June 1987), 50-58. Also see: 'Vybory v Akademiiu nauk SSSR' *Voprosy ekonomiki* 3 (March 1988), 61-73.

[109]Aganbegian, 'Prakticheskie dela ekonomicheskoi nauki', 19.

[110]Kingdon, *Agendas, Alternatives, and Public Policies*, 123.

The use of biological evolution as a metaphor for analysis of the policy process has often been invoked. Perhaps best known is Simon's cybernetic approach to decision theory in which the policy process is likened to the 'encoded blueprint' of DNA. Decisions made at the genetic level which produce a complex organism are similar to the sequence of operations undertaken by decision-makers in complex policy-making.[111] Decision-makers follow patterns, or 'recipes', to produce outcomes or situations without necessarily having a clear picture of what those patterns might be; sequences are completed, but the eventual results may be quite unintended.[112] Kingdon invokes a different aspect of neo-Darwinism to make a somewhat different point: New ideas which rapidly diffuse through the policy-making system are in fact frequently the latest permutation of ideas which had been undergoing extensive adaptation and revision, without necessarily taking place within the context of a specific policy measure. Where Simon is interested in the self-correcting certainties - albeit unforeseen - of DNA (or the maturation of a single organism), Kingdon is more interested in genetic mutation and adaptation (or the evolution of a species).[113] Ideas evolve over time, advancing

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[111]Herbert A. Simon, *The Sciences of the Artificial* (Cambridge, MA: MIT Press, 1968).

[112]Similarly, Kornai perceives a 'genetic blueprint' within communist systems which predisposes socialist systems to develop in particular, common ways. Janos Kornai, *The Socialist System* (Princeton: Princeton University Press, 1992).

[113]Kingdon borrows directly from the neo-Darwinist zoologist Dawkins, who has coined a term for the vehicles of cultural evolution, memes: 'Just as genes propagate themselves

and receding in accordance with the receptivity of the environment. Policies which ultimately develop out of these ideas can be far removed from what the progenitors originally had in mind. Typically, the process of issue evolution appears orderly only after the fact.[114]

In the case of the enterprise law, the specific issues underpinning the reform were far from new; to the degree that it represented innovation it was more in how those ideas had evolved and how they were combined. Commodity-monetary relations and workers' control of the factory (issues explored in the next chapter) were certainly not new. Even when such issues were officially proscribed, they were evolving out of view, awaiting more propitious times. This is an important point for a heavily censored polity such as Brezhnev's Soviet Union, demarcating temporal limits to the power of 'non-decision', or the prevention of certain issues from being discussed.[115] An issue kept off the agenda as a matter of policy may rise to the top of the agenda with a change in leadership. From a policy alternative stream point of view, what was significant was that theoretical approaches, which

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in the gene pool by leaping from body to body via sperms or eggs, so memes propagate themselves in the meme pool by leaping from brain to brain via a process which, in the broad sense, can be called imitation.' Richard Dawkins, *The Selfish Gene* (Oxford: Oxford University Press, 1990), 192.

[114]Edward G. Carmines and James A. Stimson, 'On the Evolution of Political Ideas', in William H. Riker (ed.), *Agenda Formation* (Ann Arbor: University of Michigan Press, 1993), 151-168, 161.

[115]Peter Bachrach and Morton S. Baratz, 'Decisions and Nondecisions', *American Political Science Review* 57:3 (September 1963), 632-642.

were developed during the Brezhnev years in the context of one set of solutions on how to organise a centrally planned economy, during *perestroika* came to be deployed in support of quite a different set of solutions. Moreover, that set of solutions included commodity-monetary relations and workers' control of industry, issues which in fact long predated the advent of those theoretical propositions. This was of course not simply a question of new wine into old bottles; selective Marxist-Leninist argumentation was, and had to be, invoked as well. Doing so placed these theories into the language of Soviet policy-making and, equally important, enabled reform advocates to claim legitimacy for their programmes of action and attempt to wrest control over interpreting the Soviet past;[116] the Lenin of the New Economic Policy offered a ready set of rhetoric and symbols for market-orientated reform within a Communist framework.[117] The combined result granted reform advocacy both ideological and empirical foundations.

When in 1953 new leaders were confronted with the task of defining a post-Stalin Soviet Union and looked for problems to solve, the economy which Stalin bequeathed provided a ready source. Arbitrary prices, disequilibria, inefficiency and a host of other issues had been at best distant considerations

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[116]Alfred G. Meyer, 'The Functions of Ideology in the Soviet Political System', *Soviet Studies* 17:3 (July 1966), 273-285.

[117]For a discussion of the different 'Lenins' and how those images were deployed in *perestroika*, see Christopher Smart, 'Gorbachev's Lenin: The Myth in Service to *Perestroika*', *Studies in Comparative Communism* 23:1 (Spring 1990), 5-22.

during the process of industrialisation, but these issues came to the fore as the new leaders searched for ways of making the industrial economy work better. While there were plenty of problems, there was a scarcity of available solutions. The theoretical approach to economics sanctioned by Stalin had been the 'political economy of socialism', and theory had been devoted more to the analysis of the proper role of certain objective economic 'laws' in a socialist society and providing justifications for decisions already taken than to providing guidance on making decisions in the first place. The law of priority growth of the production of the means of production (ie, favour investment in heavy industry over consumption) and the law that the prices of goods derive from the amount of labour required to produce them, to take two, had inspired a largely descriptive political economy of socialism which proved ill-suited to the prescriptive role decision-makers now gave to economists.

Out of the resurrection of old ideas which had been suppressed and the advent of new ideas, two broad reform alternatives began to emerge: limited marketisation and systems thinking. In principle, the two trends were not contradictory, and even overlapped. Elements from both could be seen in the 1965 reform and even more clearly in the enterprise law. Both of these trends held out the promise of enhanced conformity of the economy with centrally-set goals; and both shared the characteristic of seeking to devise methods of supplementing or replacing some of the functions of administrative agencies. Whether through limited but direct

market activities between production units or through mathematical modelling, the scope of decision-making for administrative agencies would be reduced.

By the early seventies any discussion about marketisation was proscribed, and it was systems thinking and associated theories which were most important as sources of alternative policies. To the degree that there was innovation in economic policy-making from the early seventies on, it was on the basis of these theoretical developments; their specifics and the influence they held in Brezhnev-era policies have been analysed in a number of studies.[118] Although for the most part both the theories and the policies which were derived from them focused on methods of enhancing performance on the basis of the existing institutional framework, or the 'further perfection of socialism', their importance for reform was not only that they could offer new ways of conceptualising the centrally planned economy as given and offering guidance on areas where it needed improvement, but also that they had the ability to provide the basis of conceptualising alternative visions of the centrally planned economy altogether. What

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[118]Relevant studies include: Jan Adam, *Planning and Market in Soviet and East European Thought, 1960s-1992* (London: Macmillan, 1993), chapters 2 and 9; Archie Brown, 'Political Science in the USSR', *International Political Science Review* 7:4 (October 1986), 443-481; Paul M. Cocks, 'Retooling the Directed Society: Administrative Modernization and Developed Socialism', in Jan Triska and Paul M. Cocks (eds.), *Political Development in Eastern Europe* (New York: Praeger, 1977), 53-92; William J. Conyngham, *The Modernization of Soviet Industrial Management* (Cambridge: Cambridge University Press, 1982), 255-310; Ronald J. Hill, *Soviet Politics, Political Science and Reform* (Oxford: Martin Robertson, 1980); and Pekka Sutela, *Economic Thought and Economic Reform in the Soviet Union* (Cambridge: Cambridge University Press, 1991).

follows is a brief examination of several of the key ideas which developed in mathematical economics, cybernetics, and systems thinking, and the implications they were to hold for reform as opposed to policy change. These are, of course, analytical categories; both in the theories and in practice, there was considerable overlap (mathematical economics was also known as economic cybernetics, the theories of information and control in cybernetics elided with systems thinking).

Soviet mathematical economics has its origins in a request by a plywood trust to the economist Kantorovich to devise methods of improving the rational organisation of its production given a predetermined product mix, existing technology, and the availability of inputs. Kantorovich saw the potential to apply the solution he came up with in the form of linear programming for one factory on an economy-wide scale, given the analogous constraints of planners' preferences, technological development and resource availability. After twenty years of suppression, this was one of the ideas to resurface after Stalin to become the central feature of the body of theory which went under the heading of the System of Optimally Functioning Socialist Economy, or SOFE. More of a general approach than an integrated body of theory, SOFE stood out as the only relatively consistent reform economics for more than twenty years, inspiring much of the content of early *perestroika* economic policies, including

the enterprise law.[119] Its rapid rise in the sixties was encouraged by Party leaders who were attracted to the ostensibly scientific tools SOFE offered to effect the optimal distribution of resources, leading to the creation of a number of institutes devoted to SOFE theories, particularly the Central Economic Mathematical Institute (TsEMI) in Moscow. The early establishment and durability of SOFE was also in no small measure a reflection of the skills of its leading proponents as policy entrepreneurs to overcome the resistance of their more orthodox colleagues, who rightly saw SOFE and its advocates as a challenge to the position of arbiter of scholarship they had enjoyed.[120]

The underlying philosophy of the wider systems movement of which SOFE was a part was essentially an Eastonian framework in a Communist context: the system consists of a variety of sub-systems, each generating its own goals. The separate goals of sub-systems, such as enterprises, could lead to sub-optimising decisions, although they could be nonetheless rational from the local point of view. In order to counteract that tendency and achieve overall optimisation in the economy, the goals which the system as a whole generated needed to provide the basis of decision-making at all levels.

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[119]Sutela, *Economic Thought and Economic Reform in the Soviet Union*, 38.

[120]For an account of these skirmishes in the mid-sixties and the limited success orthodox academics had attempting first to restrict and then to subordinate mathematical economics, see Michael Ellman, *Planning Problems in the USSR: The Contribution of Mathematical Economics and to their Solution, 1960-1971* (Cambridge: Cambridge University Press, 1971), 1-17.

Those who were uniquely placed to identify those goals were the central authorities, and thus it was the Party and other high officials who set the goals on which decision-making throughout the system would be based. While there was some retreat from the premise that all goals were aggregated through a hierarchical system characteristic of the early SOFE theories, this centralising impulse remained the core of most systems approaches. Most actual SOFE proposals accepted goals as given - by the central authorities - and focused on how to operationalise optimal planning theory and overcome the sub-optimising activities of sub-system units in the economy. Those efforts led to prolonged debate about which criteria of optimality were best, resulting by 1983 in over thirty competing models of optimisation.[121]

While mathematical economics was not the sole characteristic of SOFE theories, formal mathematical modelling was its central feature, and certainly part of the reason for SOFE's endurance was precisely its ability to formulate proposals without a role for direct market exchanges. Indeed, its promise of complete rational control seemed to make any notion of the market redundant, and in any event the debate within SOFE theories of the proper role of direct and freely negotiated exchange between production units was suspended.

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[121]N. Fedorenko, Iu. Ovseinko, and N. Petrakov, '*Vvedenie v teoriiu i metodologiiu sistemy optimal'nogo funktsionirovaniia ekonomiki* (Moscow: Ekonomika, 1983), 173. Many of the policy changes in the seventies dealt with introducing revised and new indicators to improve efficiency in enterprise production, most notably the July 1979 package of decrees.

However, issues otherwise associated with the market which confronted the planned economy could be investigated in a decidedly non-market framework. Such concepts as opportunity costs, equilibrium and other issues could be treated as variables in mathematical equations. When limited-marketisation did return to the agenda with *perestroika*, mathematical economists were relatively familiar with many of the implications of market economics, and it was indeed among their ranks that the most forceful advocates of the incorporation of market principles in economic reform were to be found.

The reason that any role for the market was argued in the early SOFE theories was not out of any intrinsic virtue of the market, but because of the practical limits of mathematical equations fully to capture the complexity of economic processes; the market had a secondary function of facilitating the minor adjustments which would be required to fill in the gaps. When marketisation fell out of favour, such concerns were also subsumed into rational theorising, most notably cybernetics, a field which SOFE easily embraced but to which it by no means held an exclusive claim. Part of this debate was on the role of prices as vehicles of information in the economic system, although - as will be seen in the next chapter which includes an examination of the price debate - proposals in this direction made little headway. Of much greater potential significance was the marriage of mathematical economics and technology in the form of computers, which offered the means of creating a direct link

between individual enterprises and the centre, thereby permitting uninhibited exchange of data about resource availability and production possibilities at the enterprise and plan instructions formulated by the centre. The 24th Congress of the CPSU made it a policy priority to introduce automated management systems (*avtomaticheskie sistemy upravleniia*), in which the calculations of mathematical economics could be formulated and implemented through the computerisation of the planning process. In the offing was an economy with a computer in every enterprise, linked together to the centre, in which instant communication and sophisticated analysis could obviate any need for prices even as bearers of information, let alone for the market. The results of these efforts included a bureaucratic culture (in enterprises and higher agencies) which resisted the automatization of their activities, mere grafting of computers on to the planning process rather than any change in methodology, the prevalence of misleading and spurious information which computers alone could not solve ('garbage in, garbage out'), a slow rate of development of software and hardware, and a gradual realisation that ultimately technology alone could not rectify the problems of information and control involved in planning.

Had automated management systems fulfilled their promise, they certainly would have represented the most far-reaching change to the planning system which was entertained in the seventies. The failure to tie enterprise decision-making directly with the centre, however, was not lamented by those

who argued against reducing decision-making to simple mathematical equations. Leading management theorists such as Mil'ner, Popov, and Vendelin allowed for a role for automation in management, but insisted that actual enterprise decision-making involved far more uncertainty than could be handled from the centre, regardless of the degree of technological advancement in information and control systems. Drawing openly from their Western counterparts - notably Cyert, March, and Simon - theorists typically distinguished three types of decisions based on the degree of certainty: standard well-structured problems (*standartnye, khorosho strukturizovannye problemy*), poorly structured problems (*slabo strukturizovannye problemy*), and unstructured problems (*nestrukturnye problemy*).[122] Of these problems, only well-structured problems - accounting, payrolls, and the like - which could be clearly quantified were amenable to standard operating procedures and mathematical methods. Most problems were poorly structured and unstructured, such as long-range planning, in which organisational effectiveness could not be pre-determined, with resolution relying far more on leadership qualities and instincts, *élan* within the enterprise, and other non-quantifiable factors.

Recommendations involved methods of improving rationality in these decisions - as opposed to the trial-and-error of incremental analysis - through systems analysis, business games, decision trees, probability theory, and even to some

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[122]B.Z. Mil'ner (ed.), *Organizatsionnye struktury upravleniia proizvodstvom* (Moscow: Ekonomika, 1975).

extent mathematical modelling, but given the importance of individual enterprise behaviour in resolving problems, these methods were best deployed from within the enterprise rather than through the centre. Delineating the different kinds of problems identified by management specialists would certainly have involved some degree of subjectivity, but the inability to implement adequate centralised information and control systems even in the sphere of 'well-structured problems' effectively left two options for management specialists to improve enterprise efficiency: recognise the *de facto* ministerial dominance and accept the resultant irrationalities or devolve essentially all decision-making powers over production issues to production units. Seeing value in economies of scale and the reduction of uncertainty accruing to integrated production complexes, management specialists focused particularly on establishing localised horizontal links within production associations and scientific productions associations and the enhancement of their decision-making powers, and, at higher levels, reorganising the administrative structure into inter-branch economic complexes and superministries.[123]

Where the management specialists saw clear advantages in devolving decision-making from the point of view of the enterprise or association by examining the subjective factors involved in local decision-making, other theorists had been

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[123]See Gavriil Kh. Popov, *Effektivnoe upravlenie* (Moscow: Ekonomika, 1985), and Dzherman M. Gvishiani and Boris Z. Mil'ner (eds.) *Organizatsiia upravleniia* (Moscow: Ekonomika, 1987).

examining the relevance of subjective factors in the economy as a whole. The arguments put forward can be seen as part of an effort to rescue the rather limited version of systems thinking that had become incorporated into policy and offer a more robust analysis of how the economy actually worked and provide revised theoretical foundations for reform of the economic system. The call for greater sophistication can be analysed in the role of feedback, and in how the system itself was viewed.

Systems thinking attaches great importance to the role of feedback in decision-making. One of the leading theorists, Viktor Afanas'ev (later to become editor of *Pravda*), early on identified four major feedback channels: sociological studies, statistics, social experimentation, and direct contact between leaders and the people.[124] Policy in the seventies focused nearly exclusively on the second and fourth of these channels: improving the aggregation (though not so much the quality) of statistical information and improving upward and downward flows of information and control. The rather dismal results of those efforts led post-Brezhnev policy-makers to make greater use of the information coming from the other two channels. There were many economic experiments begun in the Brezhnev years, though their influence on policy was rather slight; those experiences gained in importance together with the many new experiments begun after Brezhnev - particularly the 'large-scale experiment' inaugurated under Andropov - and

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[124]V.G. Afanas'ev, *Nauchnoe upravlenie obshchestvom* (Moscow: Politizdat, 1968), 246.

their not inconsequential influence on the enterprise law will be discussed in subsequent chapters. Of greater importance in terms of the later revisions in the direction of reform were sociological findings.

As Rein has noted, reform advocacy claims legitimacy not on the basis of political favour, but upon dispassionate facts and rigorous analysis,[125] and the picture sociologists gave of the Soviet economic system was one widely out of touch with the changes in society which had occurred over the years. The preeminent sociologist Tat'iana Zaslavskaia summarised the findings of an intensive collaborative study in the 'Novosibirsk Report' in 1983, a document notable for being highly critical of the system and for being widely circulated among decision-makers as well as other academics - and for eventually finding its way into publication abroad, and becoming the subject of considerable public controversy.[126] Equally important, the report came immediately after Andropov came to power, and outlined a possible direction for post-Brezhnev economic policy.

There were three principal arguments. First, the economic system as it was originally designed relied on a relatively passive labour force. Since that time the population had become far more urbanised and educated, and further economic development depended precisely on the skills and initiative

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[125]Martin Rein, 'Social Planning: The Search for Legitimacy', *Journal of the American Institute of Planners* 35:4 (July 1969), 233-244, 238.

[126]Tatyana Zaslavskaia, 'The Novosibirsk Report', *Survey* 28:1 (Spring 1984), 88-108.

that the population already possessed; the economic system, however, had not kept up with either the new demands or people's abilities. Secondly, the economic system not only passively hindered development, its structure actively discouraged initiative. On the basis of sociological research, Zaslavskaia was able to point out that society was not homogeneous, but possessed a variety of often conflicting interests pursued by different groups; these interests could not necessarily be harmonised, a problem the existing system was unable to deal with.[127] Instead, continual revisions and additions of rules and regulations had created an 'economic labyrinth' which ended up unfairly favouring some groups over others. Thirdly, reform would involve a redistribution of rights and responsibilities. Therefore opposition to reform was concentrated among the major beneficiaries of the unreformed system in the intermediate administrative levels, the ministries and departments, whose parochial interests and privileges would be eroded by reform. Support was to be found in the highest levels such as Gosplan, which represented general state interests, and among the workers and directors of enterprises and associations, the groups actually involved in production. Successful reform would require mobilising those at the top and bottom of the economic system against the middle.

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[127]The empirical findings cited by Zaslavskaia that groups in Soviet society could be in conflict supported an idea already firmly established in the literature, though not the ideology. See, for instance, Hill, *Soviet Politics, Political Science and Reform*.

The metaphor Zaslavskaia used for the economic system was a watch. Like a watch, the economic system consisted of many interlinking, relatively independent components which both operated in their own closed system of links and required direct contact with other components in order to work. In essence, this constituted a dismissal of the Lenin-Kautsky image of the economic system as a single factory, based on well-ordered hierarchical relationships in which decision-making functions were smoothly distributed throughout a unified pyramidal economic administrative structure. This image provided both a descriptive reference as to how the economic system was structured, and a prescriptive guide as to how adaptations to the system should be approached. Post-Stalin reforms and policy changes can be largely interpreted as efforts to bridge the gap between how the system should operate according to that image and how it actually operated. It lay at the centre of Soviet economic thought,[128] being retained in all of the post-Stalin reforms. Zaslavskaia was not the first to suggest that the single factory image was fallacious; in the wake of the 1965 reform the economist (and later Gorbachev advisor) Nikolai Petrakov had argued that socialism is not just a machine, but consisted of many people with different interests which they pursued - including the central planners.[129]

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[128]Sutela, *Economic Thought and Economic Reform in the Soviet Union*, 130.

[129]Nikolai Petrakov, 'Upravlenie ekonomikoi i ekonomicheskie interesy', *Novyi mir* 8 (August 1970), 167-186.

The implication of this more robust vision of the system was that economic administrators were not neutral bureaucrats and that an alternative mechanism was required for coordinating activities among relatively autonomous sub-systems in the economy which would not be subject to the parochial interests of those administrators, ie, through the market. Both subjects were then made taboo. This was how the new orthodoxy was presented in a 1973 book on the administration of the economy, whose basic purpose was to debunk marketisation and other 'juridical nihilism':

> [there are those who propose the adoption of] strictly economic administration, as opposed to political administration through the administrative apparat of the socialist state. What such positions on the administration of a socialist economy can really lead to is testified to by the sad memory of the 'experience' from the implementation of the so-called Czechoslovak 'model of a socialist society'. As is known, this was based on a rejection of the necessity of interference by state power [in its political and therefore legal form] in the area of the economy [of a socialist society].[130]

Bureaucratic 'interference', far from constituting a problem, was set as an essential value.

Although trained as an economist (sociology did not exist when Zaslavskaia was a student), Zaslavskaia was a sociologist. Reform was to be about more than economics. Empirical studies of society as well as of the economy and specialists from many disciplines were to be involved. Indeed, shortly after the Novosibirsk Report, these issues were

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[130]Iu.M. Kozlov, 'Osnovnye problemy gosudarstvennogo upravleniia narodnym khoziaistvom SSSR v sovremennykh usloviiakh', in Iu.M. Kozlov (ed.), *Khoziaistvennaia reforma, upravlenie i pravo* (Moscow: Izdatel'stvo moskovskogo universiteta, 1973), 8-143, 23-24.

further developed and put into a prescriptive format by another non-economist, the academic lawyer and cybernetics theorist on public administration Mikhail Piskotin. Piskotin, who perhaps more accurately still would be described as a political scientist, noted in a widely-cited book published the year before Gorbachev became general secretary that over the course of fifteen years 'quantitative and qualitative indicators' had fallen, and that state administration had seen its influence in the economy erode for some time.[131] Piskotin then identified two approaches to the role of the socialist state in the economy: 1) the single factory variant in which the 'socialist economy is one organism with an economic centre, that role being filled by the state', and 2) the *khozraschet* variant in which the state's role is 'to connect the various elements within the diverse socialist economy, including enterprises and associations' on the basis of commodity-monetary relations (short-hand for the market).[132] Piskotin argued that the single factory variant worked well for extensive development, but that the economy did not match that image and - invoking the example of the aborted NEP - that intensive development required a shift to the second variant, and echoed Zaslavskaia in warning that ministerial officials both benefitted from the existing, obsolescent

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[131]M.I. Piskotin, *Sotsializm i gosudarstvennoe upravlenie* (Moscow: Nauka, 1984), 8, 145.

[132]Piskotin, *Sotsializm i gosudarstvennoe upravlenie*, 117, 201.

system and would resist any changes to it.[133] Successful economic reform depended on successful politics.

Not all reformers explicitly rejected the single factory image, although those who did were certainly among the most radical.[134] Nor did all reformers frame their arguments in systems thinking, but it is striking the degree to which this was done. There is in fact some degree of continuity in the theoretical foundations of Brezhnevian policy and the reforms of *perestroika*. During the seventies the goal of optimality was pursued through the adoption of alternatives based on a truncated version of systems thinking involving limited policy changes to the existing system. In the eighties optimality remained the goal, to be achieved by reform to the system itself on the basis of an alternative conception derived from a more robust interpretation of systems thinking.

The Politics Stream

Of the three process streams, it is the politics stream in the Soviet Union which most strikingly differs from the American political system on which Kingdon bases his approach. Access to power was tightly circumscribed, a single party claimed a monopoly on political expression, that party permeated the

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[133]Piskotin, *Sotsializm i gosudarstvennoe upravlenie*, 130, 149.

[134]The usual short-hand was distinguishing between 'war communism' and NEP, with the former being re-imposed by Stalin to create the economic system which confronted *perestroika*. See, notably, the *Pravda*-commissioned analysis, 'Towards a Modern Concept of Socialism', by a number of leading reformist academics in the social sciences section of the Academy of Sciences. *Pravda*, 14 July 1989, 2.

whole of society and was highly institutionalised within the policy-making arena, to mention only a few of the more salient contrasts. Though the structure of politics differed, political change within the Soviet Union nonetheless may be viewed as a stream which ran alongside the problem and policy alternatives streams, more or less independently, until a window of opportunity opened and the streams converged.

Studies on Soviet leadership successions have noted an important interplay between change and continuity in leaders and policy. On the one hand, a new general secretary both was able to push new policies through the window of opportunity created by the departure of a previous general secretary and was even expected to pursue policy innovation.[135] On this point, Kingdon's observation about the importance of leadership succession and the direction of policy change in American politics is equally applicable to Soviet politics: 'At the time of a change of administration, people all over town [ie, Washington, DC] hold their breath in anticipation, waiting to see what the new administration's priorities will be, what its policy agendas will look like.'[136] In contrast, however, the constraints on the pace and direction of policy innovation in American politics imposed by organised opposition was in Soviet politics far more direct and tangible. A new general secretary would be named within an

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[135]Valerie Bunce, *Do New Leaders Make a Difference?* (Princeton: Princeton University Press, 1981).

[136]Kingdon, *Agendas, Alternatives, and Public Policies*, 161.

existing, 'inherited', Politburo;[137] there was a change of ranking within the ruling hierarchy and not, at least immediately, a change in membership.

Similarly, a new leadership also inherited an economic administrative system staffed with officials owing their appointment to the *ancien régime*. On this point, at least, the Soviet system, where all appointments were virtually by definition political, may have held an advantage over the American system, where most federal bureaucrats are insulated from election results and where state and other local officials, elected and appointed, are outside of the federal system altogether. Leaving open the question of the efficacy of patronage, the power of appointment, at any rate, was a political tool much in evidence after Brezhnev - although it was a power which Gorbachev, even as general secretary, did not wield on his own. The leadership turnover has been well-documented,[138] and where such appointments figured in the

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[137]Archie Brown, 'Leadership Succession and Policy Innovation', in Archie Brown and Michael Kaser (eds.), *Soviet Policy for the 1980s* (London: Macmillan Press, 1982), 223-253, 231.

[138]See: Seweryn Bialer, 'Gorbachev's Program of Change: Sources, Significance, Prospects', in Seweryn Bialer and Michael Mandelbaum (eds.), *Gorbachev's Russia and American Foreign Policy* (Boulder, CO: Westview, 1988), 231-299; Archie Brown, 'Power and Policy in a Time of Leadership Transition, 1982-1988', in Archie Brown (ed.), *Political Leadership in the Soviet Union* (London: Macmillan Press, 1989), 163-217; Timothy J. Colton, 'Gorbachev and the Politics of System Renewal', in Seweryn Bialer and Michael Mandelbaum (eds.), *Gorbachev's Russia and American Foreign Policy* (Boulder, CO: Westview, 1988), 151-186; Thane Gustafson and Dawn Mann, 'Gorbachev's First Year: Building Power and Authority', *Problems of Communism* 35:3 (May-June 1986), 1-19; Gordon Smith, 'Gorbachev and the Council of Ministers: Leadership Consolidation and its Policy Implications', *Soviet Union/Union Soviétique* 14:3

decision process of the enterprise law will be discussed in Chapter Four.

The important point for present purposes is the relationship between political *change* and economic *reform*. Reform necessarily requires redistributing power and authority, both by the definition adopted in this dissertation and - more importantly - according to the reformers; this was a central argument from the 'Novosibirsk Report' on. However, while there was rapid turnover in both Party and state structures, at the time of the adoption of the enterprise law there had yet to be much change to those structures themselves, the sole notable exception being the creation of Gosagroprom. That particular experiment proved disappointing, and no more 'super-ministries' were created; it was not until 1988, after the enterprise law was already in implementation, that substantial reform of higher agencies began.

Thus the enterprise law was largely written, adopted, and implemented by a variety of institutions whose power was to be eroded by the reform - a situation which came under much criticism, especially by the academic specialists, as will be seen in Chapter Five. The qualifier 'largely', however, was an important one. The strategy of reform which emerged was to mobilise the existing system towards reform, on the one hand, and expand the scope of participation, on the other hand: these were functions which were served by *uskorenie* and *samoupravlenie*. These concepts will be detailed in subsequent

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(1987), 343-363, 351.

chapters; in the balance of this section what is examined is how these concepts could serve strategic functions of linking political change with economic reform.

If the Novosibirsk Report set out the argument that the ministries constituted the major obstacle to economic reform, it also outlined a strategy to overcome that resistance by creating an alliance of central planners at the top and workers and enterprise directors at the bottom of the economic system against the officials in the agencies and ministries in the middle. Though contradictory, the direction outlined by the enterprise law sought to redistribute power and authority to the enterprise level; the centre would manipulate economic levers, and not indicators, in order to influence decision-situations at the enterprise level, reserving the prerogative of exercising the power of resource distribution for key production. The scope of actual central control over the economy would be increased compared to what actually had existed, but this would involve a reduction in the degree and a change in the type of control that had been claimed.

The argument can be restated in terms of organisational theory. Organisational rules can create different kinds of decision structures, of which there are three major types: hierarchical, in which important decisions are made by high-ranking decision-makers, but who themselves, however, may participate in any decision; specialised, in which decision-makers deal with specific decisions; and unsegmented, in which any decision-maker can participate in the making of any

decision.[139] Nominally, decision-making in the unreformed economic system was specialised, with central planners making certain decisions, ministries making others, and enterprises making yet others; each level was supposed to follow the complex set of rules defining which kinds of decisions belonged at which level. However, to the degree that enterprises were treated not as constituting a discrete level of decision-making and instead as part of the ministerial system, the structure of ministerial decision-making was hierarchical - officials frequently interfered with enterprise decisions and activities through petty tutelage. The reformed economic system was also specialised, but the ministries would no longer have access to enterprises through a hierarchial decision structure; enterprises would assume nearly all production decisions dealing with their own activities. Where a different decision-making structure would exist within a particular level would in fact be the state enterprise: through *samoupravlenie* all enterprise employees would be entitled to participate in almost all enterprise decisions, including the selection of the director, in an unsegmented access structure. The central planners, while seeing a reduction in the scope and type of decisions they were entitled to make, would benefit from the greater quality of those decisions and greater assurance that they would be binding.

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[139]James G. March and Johan P. Olsen (eds.), *Ambiguity and Choice in Organizations* (Bergen: Universitetsforlaget, 1979), 27-29.

In the process of Gorbachev's consolidation of power as the general secretary, he needed both to consolidate his position within the top Party bodies and to broaden the base of political involvement which would be required in any economic reform which included the devolution of decision-making. In this process, *samoupravlenie* had a critical role to play; transferring enterprise decision-making powers from higher agencies to the enterprise employees was identified by Kurashvili as early as 1982 as a prerequisite for successful economic reform.[140] The strategic problem (setting aside for a later chapter the question of how well the strategy worked), of course, was not only to enlist popular support for reform, it was also to neutralise those who stood to lose from reform. A useful way of examining the situation is provided by Lowi's 'arenas of power'.[141]

The essential thrust of Lowi's influential theory is that public policy is coercive, that there is a relatively limited number of kinds of coercion, and that each kind of coercion is associated with distinguishable types of public policy. In the original formulation, Lowi identified three basic 'arenas of power': the distributive, the regulatory, and the redistributive.[142] Distributive policies are highly

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[140]B.P. Kurashvili, 'Gosudarstvennoe upravlenie narodnym khoziaistvom: perspektivy razvitiia', *Sovetskoe gosudarstvo i pravo* 6 (June 1982), 38-48, 45.

[141]Theodore J. Lowi, 'American Business, Public Policy, Case Studies and Political Theory', *World Politics* 16:4 (July 1964), 677-715., 691.

[142]Lowi, 'American Business, Public Policy, Case Studies and Political Theory', 713. Lowi subsequently added a fourth

individualised and discretionary in which there is no clear connection between who gains and who loses. With examples including subsidies and tariffs - and probably most familiar as pork-barrel projects - distributive policies are marked by mutual indifference and log-rolling among decision-makers. Regulatory policies, such as environmental, labour, and monopoly policies, are formulated as general rules but in their application there are clear winners and losers. Finally, with redistributive policies, the process of deciding the general rules itself produces clear winners and losers, such as with taxation and welfare policy.

Since first appearing, Lowi's classification has come under considerable criticism - especially for treating issues as static[143] - as well as further refinements both by Lowi himself and others.[144] The influence of Lowi's theory in Soviet

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'arena', the 'constituent'; the original three categories, however, suffice for the purposes of this discussion. Theodore Lowi, 'Decision Making vs. Policy Making: Toward an Antidote for Technocracy' *Public Administration Review* 30:3 (May-June 1970), 314-325, 321.

[143]See, in particular: H. Hugh Heclo, 'Review Article: Policy Analysis', *British Journal of Political Science* 2:1 (January 1972), 83-108, 105-106.

[144]In recent reformulations - in different directions - Lowi adds a 'moral dimension'; Heckathorn and Maser combine the arenas of power with transaction costs analysis and game theory; and Miller combines the arenas of power with Weber's social action typology. Theodore J. Lowi, 'New Dimensions in Policy and Politics', forward to Raymond Tatalovich and Byron W. Daynes, *Social Regulatory Policy: Moral Controversies in American Politics* (Boulder, CO: Westview Press, 1988), x-xxi; Douglas D. Heckathorn and Steven M. Maser, 'The Contractual Architecture of Public Policy: A Critical Reconstruction of Lowi's Typology', *Journal of Politics* 52:4 (November 1990), 1101-1123; and Hugh Miller, 'Weber's Action Theory and Lowi's Policy Types in Formulation, Enactment, and Implementation', *Policy Studies Journal* 18:4 (Summer 1990), 887-905.

studies has been less pronounced than in American political science; Zimmerman has applied it to foreign policy decision-making and Kelley has used a different methodology (derived primarily from organisational theory) to develop a similar classification for Soviet decision-making in general.[145] The criticisms and reformulations aside, as a classificatory schema Lowi's typology focuses attention on the importance of problem definition. Reform, while intrinsically a redistributive issue, can be defined in other ways within the policy process.

In simplified terms, the way the economy operated relied to an extraordinary degree on the problem-solving authority of officials throughout the system and on their power to affect choices within the economy through the control of resource distribution and appointment. The many attempts to manipulate decision situations from the centre through changes in indicators and the like in order to effect smoother, more regular outcomes had limited impact. Petty tutelage, arbitrary plan revisions and so on continued; in short, despite many redefinitions and exhortations about what the roles of officials should be, the activation of those commitments was, one way or another, insufficient to improve central control over economic processes.

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[145]Donald R. Kelley, 'Toward a Model of Soviet Decision Making: A Research Note', *American Political Science Review* 68:2 (June 1974), 701-706; William Zimmerman, 'Issue Area and Foreign-Policy Process: A Research Note in Search of a General Theory', *American Political Science Review* 67:4 (December 1973), 1204-1212.

Thus, the regulatory province of administrative agencies could be defined instead as conforming to the kinds of dynamics associated with distributive policies, or, not incidentally - as Lowi subsequently relabelled them - 'patronage' policies.[146] That the ministries were regularly targeted for their interference and arbitrary behaviour made them part of the discipline and corruption problem; reform would reduce their ability to act in the economy, making successful reform one of the conditions necessary for the problems of corruption and discipline to be tackled. Eliminating the corruption, waste and duplication engendered by the arbitrary actions of administrative agencies would release economic resources to arrest economic decline; reversing decline was dependent on the release of those resources and reducing the role of administrative agencies in day-to-day economic activity. The equation was, in other words, policy change plus reform equals doubling the size of the economy in fifteen years. Establishing this equation under the rubric of *uskorenie* and its influence on the agenda-setting process will be detailed in Chapter Three; the function of *uskorenie* in mobilising the political system towards reform will be analysed in Chapter Four.

The Patterns of Reform

In the preceding three sections of this chapter the problems, alternative policies and political factors on the eve of the

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[146]Lowi, 'Foreword: New Dimensions in Policy and Politics', xi.

beginning of the enterprise law's formulation were examined. In this section these threads will be drawn together in the context of the history of economic reform in the Soviet Union. While the enterprise law may have been in its specifics a contradictory and confusing 'rewrite' of the 1965 decree introducing little that was new,[147] the design of the enterprise law and more importantly the environment in which it was formulated left it sharing fewer of the characteristics which the previous reforms together held in common. Certainly the implementation and post-implementation phases of the enterprise law were very different from those followed by the previous reforms. The issues which are raised through a comparison and contrast of the enterprise law with the previous reforms can draw attention to the factors which produced them in the analysis of the policy process of the enterprise law. Following a brief overview of the reforms preceding the enterprise law, two areas will be analysed: the design of reforms and the implementation and non-implementation of reforms.

Post-Stalin Reforms

The political leadership after the death of Stalin was never content with the performance of the economy. Typically, it would instruct the planners to change methods of calculating

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[147]Gertrude Schroeder, 'Organizations and Hierarchies: The Perennial Search for Solutions', in Susan J. Linz and William Moskoff (eds.), *Reorganization and Reform in the Soviet Economy* (Armonk, NY: M.E. Sharpe, 1988), 3-22, 14.

bonuses here and the enterprise performance indicator there. Policy changes occurred almost constantly. Every ten years or so, corresponding particularly with leadership changes, these efforts at making adjustments on the margins gave way to reform of the architecture of the economy itself. These reforms were very similar in that there was never a question about the fundamental role of the plan or the ultimate centralised control over the economy, but within these limits the character of each reform varied. In part the reforms represented efforts to come to grips with the growing complexity of administering a planned economy, and the differences in each reform mirrored both the increased complexity of the problems and an evolution in thinking about achieving optimal efficiency in such an economic system. However, the failure of these reform cycles of portentous introduction, fitful implementation and eventual abandonment also illustrated the inability of the authorities to reform a system which was predicated on the assumption that they controlled it.

With reform understood as a change to the economic model - as defined in the previous chapter - there were four waves of economic reform in the Soviet Union after Stalin: Khrushchev's *sovnarkhozy* of 1957; the reforms of 1965, generally referred to as the 'Kosygin reforms'; Brezhnev's inauguration of the *ob"edineniia*, or associations in 1973; and the Law on the State Enterprise and *perestroika* under Gorbachev.

The institution of the *sovnarkhozy* was at the centre of the first reform wave. Two basic problems had emerged by the time of Stalin's death: the loss of economies of scale in a system of more or less autarkic ministerial fiefdoms and the fact that the growth in the volume of the economy had outstripped the ability of the ministries to supervise closely their enterprises, leading to what Berliner calls a 'creeping decentralization'.[148] The solutions which were invoked after Stalin's death prefigure those attempted under Gorbachev: there was an abortive attempt to amalgamate the ministries in 1953, which was relatively soon followed by their dismemberment in 1957. The first move might have constituted an additional reform wave were it not for its brief existence - within six months the number of ministries began to increase. Notably, this particular attempt was sponsored largely by Malenkov as part of his attempt to establish a predominant position within the leadership. His failure to do so and the consequent failure of his reform effort demonstrate the close association between leaders and the reforms which they sponsored.

In a foreshadowing of the technique he used the following month against the 'anti-Party group',[149] Khrushchev overcame an evident majority opposition on the Presidium by appealing directly to the Central Committee to secure the abolition of

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[148]Berliner, *The Innovation Decision in Soviet Industry*, 18.

[149]Jerry Hough and Merle Fainsod, *How the Soviet Union is Governed* (Cambridge, MA: Harvard University Press, 1979), 217.

the central ministries and their replacement with some one hundred regional economic councils, or *sovnarkhozy*, in May 1957.[150] Political factors played a prominent role as Khrushchev sought to weaken his opponents in the ministries and secure the support of regional Party officials who stood to gain from administering the new structure. The rapid passage and implementation of the *sovnarkhoz* reforms was a mark both of Khrushchev's growing power and of his personal commitment to the economic reform, a commitment by a general secretary which was unmatched until Gorbachev and *perestroika*.

The reform did not include any enhancement of decision-making powers of the enterprise; if anything, the closer geographic proximity of supervisory bodies reduced the scope of independent action on the part of state enterprises. From an administrative point of view, the model remained that of direct bureaucratic control: while there was a change in the bureaucratic structure, there was not a change in the bureaucratic role. Part of what was intended by the reform - in addition to destroying the power base of Khrushchev's rivals - was to rationalise the use of local resources, countering departmentalism and reducing long-distant haulage in the production process. Administratively, the system remained highly concentrated, with *sovnarkhozy* overseeing the

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[150]The reform was announced in principle in March, and formally adopted following six weeks of national discussion. *Pravda* 30 March 1957, 1; *Pravda* 11 May 1957, 1-2. For the text see: 'Zakon "O dal'neishem sovershenstvovanii organizatsii upravleniia promyshlennost'iu i stroitel'stvom"', *Resheniia partii i pravitel'stva po khoziaistvennym voprosam (1917-1967)*, Volume 5 (Moscow: Politizdat, 1968), 343-347.

implementation of plans which were, as before, formulated by the centre, and overall little was done organisationally about the supply problems which had prompted the reform in the first place. Even as the reform was being implemented, *sovnarkhozy* were ordering enterprises under their supervision which were lagging in production to meet local orders first.[151] The autarky of *sovnarkhozy* localism soon exceeded that of ministerial departmentalism.[152] By the early 1960s refinements of the *sovnarkhoz* system were regularly adopted, while Khrushchev came under increasing political assault, in part due to the problems of the *sovnarkhozy*. After Khrushchev's ouster in 1964 a firmer break was not long in coming.

The mid-1960s was also a time when policy-makers were taking stock of the economy and preparing a programme of economic development for the Soviet Union's second half-century. According to Sergei Freidzon, who worked for some ten years in various state and Party research institutes before emigrating to the United States in 1975, sharp disagreements emerged between various departments of the Party over the basic question of the relative emphasis in resource distribution to be given to productive, non-productive and military industries. Brezhnev evidently stayed out of these debates for some time before intervening to effect a

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[151]Michael Kaser, 'The Reorganization of Soviet Industry and its Effects on Decision Making', in Gregory Grossman (ed.), *Value and Plan* (Berkeley: University of California Press, 1960), 213-244, 223.

[152]David A. Dyker, *Restructuring the Soviet Economy* (London: Routledge, 1992), 45.

compromise in 1967.[153] With this fundamental question as yet unsettled, it is not surprising that lower level conceptual issues were equally ambiguous, as reflected in the 1965 decrees.

Following the September 1965 plenum, a law restoring the ministries was adopted together with a number of decrees on economic management which included the shift of enterprises and the ministries to *khozraschet;* a reduction in the number of indicators to eight in order to enhance the decision-making powers of the enterprise; and an eventual transfer to wholesale trade.[154] Reform of the industrial sector initially was to be completed by 1968, but the problems and delays which developed caused the date to be revised and the reform was not was not expected to be fully in place until 1979.[155] Changes in industrial prices were instituted in 1967-68 - the first since 1955 - but there was no change in the pricing mechanism; prices continued to be administrative decisions and wholesale trading failed to materialise, with a concomitant lack of development in enterprise independence. Without these changes, enterprise *khozraschet* amounted to little more than an

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[153]Sergei Freidzon, 'Top-Level Administration of the Soviet Economy: A Partial View', *Rand Paper* P-7178 (Santa Monica, CA: Rand Corporation, 1986), 13.

[154]*Pravda*, 10 October 1965, 1. For the text of the specific decree on the state enterprise, see: 'Polozhenie o sotsialisticheskom gosudarstvennom predpriiatii', *Resheniia partii i pravitel'stva*, Volume 5, 691-716.

[155]Gertrude E. Schroeder, 'Soviet Economic "Reforms": A Study in Contradictions', *Soviet Studies* 20:1 (July 1968), 1-21, 3.

accounting device.[156] Of all the provisions in the reform, only the return of the ministries was a success. Over time the reform's provisions for wholesale trade and self-financing of ministries and their departments were continually delayed and ultimately rejected by the economic system, while the number of enterprise indicators began to increase.

The reform suffered from two important environmental handicaps which affected its implementation. The first was that it was sponsored principally (alone among post-Stalin reforms) not by the general secretary, but by the chairman of the council of ministers, imparting to the reform far less momentum than it might have had if the general secretary had thrown his weight behind it.[157] It was Khrushchev's departure which had made reform possible, and Brezhnev's gradual consolidation of leadership took place in part at the expense of Kosygin and the reforms with which he had been the most closely associated individual. Equally crucial was the Prague Spring, whose aftermath made the political atmosphere in eastern Europe and the Soviet Union quite hostile to further reform. Within a few years the marketising principles of the 1965 reforms had fallen from favour, making it among the shortest-lived of reforms - as well as making it into something of a martyr for later reformers; the marketising

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[156]The one possible area where enterprises managers increased their discretion was over the wage fund and labour utilisation. M. Rubin, 'Self-Interest and the Kosygin Reforms', *Journal of Comparative Economics* 14:3 (1990).

[157]Archie Brown, 'Soviet Political Developments and Prospects', *World Policy Journal* 4:1 (Winter 1986-87), 55-87, 66-67.

principles never had the opportunity to prove themselves in implementation.

As the limited marketisation envisaged in the 1965 reform disappeared from the agenda, the perennial problems of 'petty tutelage', bottlenecks and so forth which limited marketisation was intended to solve still remained. The 'treadmill of reforms', in Schroeder's phrase,[158] repeatedly invoked solutions which were again firmly within the model of direct bureaucratic control: changing indicators, adding and subtracting bureaucratic levels, tightening discipline in enterprise management and the like; in none of these measures was a clear architecture for administration of the economy laid out. They were, rather, subtractions from the blueprint established in 1965. For the period of nearly two decades between the placing in abeyance of the 1965 reform and the advent of *perestroika*, it is difficult to find a single measure which may be identified as marking off a new direction for reform, let alone the beginning of a reform wave - direct bureaucratic control was reasserted more through default than by design.[159]

In 1973, however, one such measure represented a proactive diminution of enterprise autonomy. The decree 'On certain measures for the further improvement of industrial

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[158]Gertrude Schroeder, 'The Soviet Economy on a Treadmill of "Reforms"', *Joint Economic Committee: Soviet Economy in a Time of Change*, Volume I (Washington, DC: US Government Printing Office, 1979), 312-340.

[159]On policies of the early seventies constituting a 'counter-reform', see B.P. Kurashvili, 'Aspekty perestroiki', *Sovetskoe gosudarstvo i pravo* 12 (December 1987), 3-12, 12.

management' essentially removed the vestiges of enterprise independence in decision-making which remained from the Kosygin reform in favour of the new associations.[160] Ministries were instructed to group enterprises into production associations to effect specialisation and into scientific production associations with an attached research institute to accelerate the incorporation of new technology into industry. As noted earlier, in implementation the measure served to reinforce administrative control over state enterprises within the hierarchical ministerial system. This measure, as Cocks has observed generally about economic policy in the seventies, was designed to 'bring into closer scrutiny and effective control' the administrative system which implemented central policies.[161]

Organisational Design and the Post-Stalin Reforms

To the degree that an economic system can be analysed in terms of its decision-making hierarchy, information system and incentive system,[162] it is the administrative system which is of interest here. There are two variables to be examined: the structure of decision-making within the economic administrative system and the degree of decision-making powers

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[160]*Pravda*, 3 April 1973, 1-2.

[161]Paul Cocks, 'The Policy Process and Bureaucratic Politics', in Paul Cocks, Robert V. Daniels, and Nancy Whittier Heer (eds.), *The Dynamics of Soviet Politics* (Cambridge, MA: Harvard University Press, 1976), 158-178, 168.

[162]Hewett, *Reforming the Soviet Economy*, 98.

placed at the level of the state enterprise vis-à-vis the centre.

As Schwartz has noted, it is usually more correct to speak of deconcentration rather than decentralisation[163] when referring to reform of the administration of the Soviet economy. According to Schwartz, both devices are used to diffuse decision-making from an overloaded centre in order to increase efficiency; however, it is also possible that considerations of efficiency are not always paramount and where they are they may play an instrumental role in a policy decision shaped by other factors. In any event, the difference between the two alternatives is important:

> Decentralization is a *political* device used to shift decisionmaking to a lower level by assigning it to relatively autonomous and often elected sets of political bodies such as states, provinces, or municipalities... Deconcentration is an *administrative* device in a hierarchical system which involves the shifting of decision-making from an overloaded center to lower levels of the hierarchy.[164]

At first glance, this formulation suggests (as Schwartz and others argue) that the creation of the *sovnarkhozy* was a deconcentration of power. However, this was not the case - at least from the point of view of state enterprises. It is

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[163]The term 'decentralisation' has, like 'policy', 'reform', and many other terms in the literature become subject to a wide variety, and sometimes conflicting, definitions. For a review, see: Martin Landau and Eva Eagle, *On the Concept of Decentralization* (Berkeley, CA: University of California, 1981).

[164]Donald V. Schwartz, 'Decisionmaking, Administrative Decentralization and Feedback Mechanisms: Comparisons of Soviet and Western Models', *Studies in Comparative Communism* 7:1&2 (Spring-Summer 1974), 146-183, 154. Emphasis in original.

important to distinguish between a deconcentration of a decision-making system and how that decision-making system is itself configured. In the case of the *sovnarkhozy*, these bodies essentially replaced the role of the ministries in the administrative system (and 'localism' replaced 'ministerialism'), occupying the middle tier between central planners and enterprises. With the shift from the branch principle to the territorial principle in the administration of the economy, the administrative system went from a hierarchical to an 'areal' structure.[165] While the Soviet economy was never wholly organised exclusively within areal or hierarchical administrative structures, the vast majority of industrial output was at any given point in time organised one way or the other.

Focusing strictly on the organisational structure, there are two variables to consider: hierarchical versus areal administration structure, and concentration versus deconcentration within the administrative structure. The major post-Stalin reforms reflect the different permutations of these two variables. In 1957, the creation of the *sovnarkhozy* placed state enterprises within an areal administrative structure which nonetheless remained highly concentrated, and indeed became more so over time. In 1965, the reinstitution of the ministries marked a return to a hierarchical

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[165]On 'areal' administrative structures, see: Jerry Hough, 'The Prerequisites of Areal Deconcentration: The Soviet Experience', in J.J. Heaphey (ed.), *Spatial Dimensions of Development Administration* (Durham, NJ: Duke University Press, 1971), 132-175.

administrative structure, but within which deconcentrated decision-making powers, particularly over short-range goal definition and implementation, were granted to the state enterprise. The deconcentrating elements of the reform were effectively stripped away in 1973 with the advent of the associations. Though the measure itself was a deconcentration of decision-making prerogatives which were held *de facto* by the ministries and vigorously resisted by them,[166] it was one of reconcentration with respect to the *de jure* position of the state enterprise. The result was effectively a return to pre-*sovnarkhozy* patterns of governing the economy.[167] Thus the two variables are combined in different ways in each reform, as shown in the table below.

There was one combination which was not tried, the deconcentrated areal administrative structure, though there were two instances at which events came close to filling the fourth box. The first was in the last several years of Khrushchev's tenure. The marketising elements in the 1965 reform which deconcentrated decision-making had their roots in these years, and in fact were formulated with the *sovnarkhozy* in mind.[168] Had Khrushchev stayed in office, a deconcentrated areal administrative structure could have been expected; the

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[166]Berliner, *The Innovation Decision in Soviet Industry*, 144.

[167]Toumanoff, 'Economic Reform and Industrial Performance in the Soviet Union, 1950-1984', 115.

[168]See, for instance, the watershed article by Liberman which began public discussion of profit in enterprise management. *Pravda*, 9 September 1962, 3.

change in leadership was instead predicated, *inter alia*, on the abolition of the *sovnarkhozy* and the resurrection of the ministries, and it was a deconcentrated hierarchical structure which was designed in the reform which was adopted. The second instance was just prior to *perestroika*. After Andropov became general secretary, Gorbachev was given over-all responsibility in the Central Committee for economic affairs, which included supervision of the new Economics Department headed by Ryzhkov. Two major proposals emerged from the Economics Department: strengthening enterprise independence and transferring much operational supervision from the centre to the non-Russian republics and to new large economic regions of the Russian republic - not entirely dissimilar to what the *sovnarkhozy* system might have become if combined with Liberman's suggestions. However, while the former proposal became adopted

Post-Stalin Reforms and Administrative Types and Structures

		Administrative Structure	
		Concentrated	Deconcentrated
Administrative Type	Hierarchical	1973 (Associations)	1965 (Kosygin Reforms)
	Areal	1957 (Sovnarkhozy)	

as the Large-Scale Economic Experiment (discussed below), the latter idea was categorically rejected.[169]

The contradictory nature of the enterprise law contained elements which suggest that it was a more vigorous effort of the 1965 reform towards deconcentrating decision-making, with an assured if ambiguous role of the central ministries in enterprise management. However, the matrix does not satisfactorily provide a category for the enterprise law. There were also elements which went far towards separating the enterprise from the administrative structure, most notably in the provisions for the election of the director by enterprise employees. To the extent that enterprise activities were made independent from higher administrative bodies, the enterprise law constituted decentralisation rather than deconcentration of decision-making, the first post-Stalin economic reform effort to do so.

The 1965 reform did have the unique characteristic among these reforms of not only reforming the decision-making system towards deconcentration, but also changing the administrative structure itself from areal to hierarchical. *Perestroika* era reformers looking for the lessons to be drawn from the failure of the 1965 reform pointed to that characteristic as something to be avoided; the dual task of marketisation and the restoration of the ministries in implementation dwelled far more on the administrative changes than on the creation of an enterprise wholesale trading network. While the demise of the

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[169]Nikolai Ryzhkov, *Perestroika: Istoriia predatel'stv* (Moscow: Novosti, 1992), 69.

sovnarkhozy was not exactly lamented, there was more than a hint that marketisation and deconcentration of decision-making might have been more successful if they had remained in place. The return of the ministries was a 'design flaw' which meant not only that there was no shift by the central planners to economic methods, but that administrative methods were in fact strengthened.[170] The hierarchical nature of branch management was the 'reason for the downfall' of the reform, because administrative interests always superseded economic interests whenever there was conflict, as happened in the implementation of the 1965 reform.[171] The point was not so much that there should be an areal deconcentrated administrative system which included the recreation of something like the *sovnarkhozy*, but that focusing on the administrative changes required for marketisation inexorably drew energy away from the marketising elements themselves; a market-orientated reform should concentrate on the economic issues involved as directly and exclusively as possible. Notably, economic reforms typically were predicated on some sort of change to the administrative system, and all other changes, such as marketisation or enterprise decision-making, were added onto that framework. In this *perestroika* was entirely different: the state enterprise

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[170]G.Kh. Popov, 'Perestroika upravleniia ekonomikoi', in Iu. Afanas'ev (ed.), *Inogo ne dano* (Moscow: Progress, 1988), 621-631, 623.

[171]V. Rapoport, 'Printsipy i napravleniia perestroiki organizatsii otraslevogo upravleniia', *Voprosy ekonomiki* 10 (October 1989), 14-25, 16.

was instead placed at the centre, and it was to reform of the enterprise that the rest of the system was to be adapted.

Reform and Retrenchment

Central to all of the economic reforms, including the enterprise law, was a quest for the ideal organisational structure which would effect optimal production utilisation. However, during implementation of the reforms not only was there no allowance made for an adjustment period during which the planning process was temporarily relaxed; if anything the already taut nature of the planning process was strengthened. But if the plan itself was taut, the bureaucracy behind it was not, in view of its size, its prodigious output of instructions, the overlapping of responsibilities of its component parts, and the extended time-frame in which it operated. Between periods of reform the inconsistencies and functional overlap of the bureaucracy provided much-needed flexibility to work around the supply problems within the economic system. During reform, these supply problems were to be solved, and the operations of the administrative system were tightened.

The double role of state economic administrative bodies as enforcer of central rules and implementor of central goals produced continual tension between the two mandates, in which the pressure to meet the goals required regular infringements of the rules. This process, characteristic of the planning process, was even more vivid in the case of the implementation of reforms, and especially so for the enterprise law. However,

unlike the previous reforms, the uneven implementation of the enterprise law did not end up with a retrenchment of the system.

The verb which was used most frequently to describe the relationship between the central authorities and the economy was *upravliat'*, which may be variously translated as govern, manage, administer, and, perhaps most accurately, regulate. The variety of meanings for 'to regulate' best illustrate the schizophrenic mechanism which, to one degree or another, is present in all administrative agencies.

> To regulate has at least three definitions. One is tough and unilateral: 'to govern or direct according to rule'. Another refers to compromise and smoothing over: 'to reduce to order ... to regularize'. And another is superficial, perhaps empty: 'to make regulation'.[172]

Soviet economic administrative agencies shared all three of these general functions of 'to regulate'. Of these, the third was probably the most relevant to much of Soviet regulation but it is the tension between the first and second which characterised the failure fully to implement reforms. As problems arose during implementation, combined with the imperative to meet production goals, the fine-tuning which ensued was marked by the imperative to make the system work rather than work to rule.[173] Whether bureaucrats, confronted

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[172]W.G. Shepard and C. Wilcox, *Public Policies towards Business* (Homewood, IL: Richard D. Irwin, 1979).

[173]Gorbachev made a specific warning on this point: 'We will not permit the new Law [on the state enterprise] to be encircled by a barrier of innumerable instructions which might emasculate its essence, as has often happened in the past...' Gorbachev, 'O zadachakh partii po korrenoi perestroike upravleniia ekonomikoi' [speech to June 1987 Central Committee Plenum], *Izbrannye rechi i stat'i*, Volume 5, 169.

with bewildering and contradictory legislation, were 'correct' to resist the more damaging elements in a reform,[174] or whether administrators successfully converted each serious reform effort into 'a run of the mill capital repair of the system',[175] the result was retrenchment, except in the case of the enterprise law. The reasons for this are partly attributable to the key differences between the enterprise law and the previous reforms.

Each reform consisted broadly of three elements: (1) an organisational change which would (2) eliminate problems in administration of the economy which would (3) effect greater economic growth. The success of a reform can thus be judged at each of three levels: whether organisational changes took place; whether operational problems such as storming, bottlenecks and the like were overcome; and whether the economy did better as a result.

By the first of these criteria, all of the pre-1987 reforms fared rather well. The *sovnarkhozy* were instituted with remarkable speed; the ministries were reestablished in 1965 virtually instantaneously. Even in the case of the associations, though they were slower to be organised, they did appear at a constant pace to occupy half of productive industry after ten years. All of the other organisational changes in the administrative system have been likewise

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[174]Vladimir Kontorovich, 'Lessons of the 1965 Soviet Economic Reform', *Soviet Studies* 40:2 (April 1988), 308-316, 311.

[175]Popov, 'Perestroika upravleniia ekonomikoi', 627.

successful in this sense, the creation of Gosplan, Gossnab and Gostekhnika being notable examples. While frequent organisational changes reflected the authorities' belief in, and quest for, an optimal organisational structure,[176] the relative ease with which they were undertaken is striking. That observation of course does not hold true for the enterprise law; one of the central features of the reform was that it did not include the creation of new higher administrative bodies, with the result that in implementation there was no opportunity for quick and visible results in organisational changes of the administrative system as part of the reform.

By the second of the criteria of success, the post-Stalin reforms were more ambiguous: that the same themes kept reappearing at the announcement of each reform effort (and time and again between reform efforts) showed that the problems of inefficiency, storming and so forth were not successfully eradicated; after a possible brief alleviation following the adoption of a reform, these problems would soon reappear with at least as much intensity. But if short-term policy goals such as these ebbed and flowed, the long-term goal of increasing economic growth remained essentially unaffected. As shown earlier in the graph on economic growth since Stalin, the steady decline continued unabated, with little lasting impact from any of the reforms.

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[176]Schroeder, 'Organizations and Hierarchies: The Perennial Search for Solutions', 3.

In view of the chronic resurgence of short-term problems and the lacklustre impact of successive reforms on long-term economic growth, increasingly vigorous reform efforts might have been expected. Prior to 1987 what happened was quite the reverse. Indeed, there seems to have been an inverse relationship between the depth of reforms and economic performance. In 1957, when officially the economy was growing annually at around 10% and there was considerable room for experimentation, the introduction of the *sovnarkhozy* was the most far-reaching attempt at economic reform until *perestroika*. At the time of the less ambitious 1965 reform, growth rates had slipped to 7%. By 1973, growth had declined to 6%, but the response was the most limited effort of all the reforms. Again, this was not the case with the enterprise law, the most radical measure undertaken at a time when official growth had dropped to 4%; and not only did it fail to arrest declining growth rates, it ended up contributing to an even more rapid deterioration.

The most significant difference between the enterprise law and the previous reforms, of course, was that it was not followed by retrenchment; reform efforts instead were strengthened. The previous efforts conformed to what could be called a reform attention cycle. Typically each reform wave would be marked by a set of legislation outlining the contours of the new administrative system in greater or lesser detail. For the short period of time in which this legislation was adopted and implemented, attention to systemic reform would be relatively high, then quickly dissipate as attention shifted

from implementing the new institutional arrangements to making them work. Subsequent legislative acts were variations and revisions of the established theme.

The emergence and recession of policy issues is a central feature of what Baumgartner and Jones refer to in American politics as punctuated equilibrium. Their thesis is that major political decisions frequently result from a mobilising wave of enthusiasm for some new policy - without necessarily encountering much opposition at the time. New institutions are created to pursue that policy, establishing a new equilibrium to some degree dependent on those structures. Incremental changes then are the norm from the new general principle of policy action until a new wave sweeps through.[177] In the Soviet context the condition of relatively little opposition to a new policy direction is not always appropriate; there was, after all, considerable and widespread opposition to the *sovnarkhozy*. It is also questionable how much equilibrium the *sovnarkhoz* reform created within the Soviet system. The point to be made is that with the creation of new institutions following a reform, subsequent alterations are made on the basis of refining the operations of those institutions, not replacing them. To this degree there was an equilibrium following the creation of the *sovnarkhozy* in 1957. The incomplete implementation of the 1965 reform established a *de facto* equilibrium which was made *de jure* in 1973.

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[177]Frank R. Baumgartner, and Bryan D. Jones, *Agendas and Instability in American Politics* (Chicago: Chicago University Press, 1993).

A new equilibrium was not, however, established in 1987 with the enterprise law. Reform attention did not conform to the attention cycle followed previously by fixing on one particular new reference point; already by the time the problems of implementation were arising, the reform agenda was rapidly expanding to include far more radical issues of both economic and political reform. Despite the rhetoric which surrounded its adoption, the Law on the State Enterprise was by no means the defining moment of *perestroika* within economic reform, let alone political reform (though the enterprise was certainly one defining moment among many). The fact that there was no core piece or set of legislation around which new institutional arrangements could coalesce not only made *perestroika* a moving object, but made it effectively impossible to establish a new 'policy monopoly' to oversee the integrated implementation of individual reform measures as they were adopted.

Chapter Three

Agenda-Setting

Gorbachev gave what amounted to a campaign speech for the leadership of the Communist Party at the December 1984 all-union conference on ideology. The decline in growth rates, Gorbachev argued, was not due merely to 'the conjunction of a number of inauspicious factors, but also to the failure to change certain aspects of production relations in good time'.[1] As a result, Gorbachev told his audience, 'One of the main issues on the agenda today is the *perestroika* of the forms and methods of economic administration.'[2]

In the course of this speech Gorbachev used most of the words which were to become the vocabulary both of the reform agenda general - *perestroika*, *glasnost'*, and *uskorenie* - and of economic reform in particular - *samoupravlenie*, the 'human factor', 'commodity-monetary relations', and 'economic levers'. While Gorbachev placed the issue of *perestroika* - together with *uskorenie*, *glasnost'*, and the others - on the agenda, their significance was to become clear only later. As Otto Latsis later recalled, in 1984 'they were just words, not political symbols as yet.'[3] Indeed, none of these terms was new to the Soviet political lexicon, and their meaning was far

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[1]Mikhail Gorbachev, 'Zhivoe tvorchestvo naroda', *Izbrannye rechi i stat'i*, Volume 2 (Moscow: Politizdat, 1987), 75-108, 80-81.

[2]Gorbachev, 'Zhivoe tvorchestvo naroda', 92.

[3]Otto Latsis, *The Second Russian Revolution Transcripts*, Roll A 67, Page 2.

from fixed. For instance, '*perestroika*' was how Khrushchev had described the introduction of the *sovnarkhozy* in 1957.[4] Where Khrushchev was emphasising reform, Brezhnev used the word for very different purposes, defining developed socialism precisely as 'that stage of a new society when a restructuring [*perestroika*] of all the components of social relationships ... is being completed'.[5] Under Gorbachev, however, *perestroika* was redefined from being a description of the imminent achievement of 'developed socialism' into the key term around which the entire economy was to be thoroughly recast. One of the features of the policy-making of the enterprise law was the redefinition of existing terminology, a tendency which draws attention to an important aspect of the relationship between economic problems and policy solutions in the agenda-setting process of the enterprise law.

Problem definition has in recent years attracted much interest within policy studies for, as Weiss has noted, a successful new problem definition legitimates some policy solutions and makes others irrelevant; thus 'much policymaking, in fact, is preoccupied with whose [problem] definitions shall prevail'.[6] In the case of the enterprise law,

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[4]See, for example, *Pravda*, 11 May 1957, 3.

[5]L. Brezhnev, *Leninskim kursom: rechi i stat'i*, Volume 6 (Moscow: Politizdat, 1978), 536.

[6]Janet A. Weiss, 'The Powers of Problems Definition: The Case of Government Paperwork', *Policy Sciences* 22:2 (May 1989), 97-121, 98. For other recent contributions on problem definition, see: Garry D. Brewer and Peter deLeon, *The Foundations of Policy Analysis* (Homewood, IL: Dorsey, 1983), 35-60; John W. Kingdon, *Agendas, Alternatives, and Public Policies* (Boston: Little, Brown, 1984), 115-119; David A. Rochefort and Roger W. Cobb, 'Problem Definition, Agenda

the situation would be more accurately described as one of whose definitions of the solutions prevailed; or, more accurately still, the definition of the 'solution' defined the 'problem'. As terms, in 1984 both *khozraschet* and *samoupravlenie* already had long and complex pedigrees, with assorted definitions reflecting contrasting visions of the way the economy should function. The enterprise law itself did not wholly reconcile these competing definitions - a far from infrequent characteristic of the policy-making process which, as Weiss has also noted, may come 'to haunt the implementation process'[7] - but there was a clear reformist conceptualisation.

The analysis begins with an examination of the overarching strategy of reform in the context of *uskorenie*. On that foundation the sources of the key issues of enterprise reform will be analysed. The ideas which went into the enterprise law had dimensions both internal and external to the actual operations of the state enterprise, and it is therefore useful to analyse those issues in terms of how an enterprise was to be operated and in terms of the relationship enterprises were to have with the economy as a whole. A second categorisation is between the economic and organisational (or, perhaps more accurately, the political) issues.

While this categorisation somewhat artificially separates what should have been the interlocking issues of the enterprise law, it in fact highlights one of the fundamental

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Access, and Policy Choice', *Policy Studies Journal* 21:1 (Spring 1993), 56-71.

[7]Weiss, 'The Powers of Problems Definition', 98.

features of the reform: its adoption in isolation. On the one hand, the theories which underpinned full *khozraschet* had been largely developed with little attention to organisational changes within the state enterprise, on to which the ideas of *samoupravlenie* were later grafted. On the other hand, changes in the pricing mechanism, a central component in some form in most of the proposals on full *khozraschet*, were set aside in the formulation of the enterprise law. In an important sense, the enterprise law represented the limited adoption of several policies rather than the adoption of a single, if limited, policy.

Uskorenie

The concept of *uskorenie*, or acceleration, was an optimistic vision of the economic potential which could be unleashed in a simultaneous process of increased growth, increased efficiency, increased quality, and reform of the economic system. If Gorbachev had set *perestroika* as one of the main issues on the agenda in his December 1984 speech, he also identified *uskorenie* as 'the most important task of our time'.[8] As the label for the Gorbachev era, *perestroika* had, at least for the first few years, a strong rival in *uskorenie*. In his inaugural speech as general secretary the following April Gorbachev reaffirmed the centrality of *uskorenie*: 'The main question now is how and with what resources will the country

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[8]Gorbachev, 'Zhivoe tvorchestvo naroda', *Izbrannye rechi i stat'i*, Volume 2, 77.

be able to achieve an *uskorenie* of economic development.'[9] At the 27th Congress, *uskorenie* was adopted as the basic principle of domestic policy which, Gorbachev noted in his concluding remarks, was to become 'the law of life for the Party and every one of its organisations, and the guide for action for Communists and all working people'.[10] The chief architect of *uskorenie* and Gorbachev's advisor, Abel Aganbegian, called *uskorenie* 'the most important word of our economic strategy' and of greater importance than either '*perestroika*' or '*glasnost*''.[11] The editor-in-chief of *Pravda*, V.G. Afanas'ev, in 1986 went so far as to say that *uskorenie*, embracing 'all spheres of life', was the new central ideological tenet: 'Everything of value in the idea of developed socialism, the concept of developed socialism, has been taken and assimilated in the concept of *uskorenie*.'[12]

Uskorenie - unlike the open-ended dynamic processes of *perestroika*, *glasnost'*, and *demokratizatsiia* - had specific, identifiable goals: doubling the size of the economy in twenty-five years, achieving this growth purely through the intensification of production, and raising quality to 'world

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[9]Gorbachev, 'O sozyve ocherednogo XXVII s"ezda KPSS', *Izbrannye rechi i stat'i*, Volume 2, 155.

[10]Gorbachev, 'Rech' pri zakrytii XXVII s"ezda kommunisticheskoi partii sovetskogo soiuza', *Izbrannye rechi i stat'i*, Volume 3, 282.

[11]Abel Aganbegyan, 'Acceleration and Perestroika', in Abel Aganbegyan and Timor Timofeyev, *The New Stages of Perestroika* (New York: Institute for East-West Security Studies, 1988), 25-43, 27.

[12]V.G. Afanas'ev on Soviet television, *BBC Summary of World Broadcasts* (18 June 1986), SU/8288/B/1-5.

levels' for 80-95% of production.[13] That it was the deterioration of the economy which accelerated instead made *uskorenie* among the first and most dramatic policy failures of the Gorbachev era, a failure which was becoming evident during the final drafting of the enterprise law (and encumbering the enterprise law in implementation with a far more critical economic situation than had been anticipated).

The importance of *uskorenie* for the enterprise law was therefore primarily in shaping the environment for the agenda-setting process. Behind the Panglossian world-view, *uskorenie* served three principal functions for the agenda of enterprise reform. *Uskorenie* was a signal of reform intent and set the tone for reform debate in which the problem of economic decline was defined in systemic terms; it was a principal vehicle for a steady expansion of what reform would encompass; and it specified economic goals which could be achievable only through reform.

The first function of *uskorenie* was fostering an atmosphere for economic reform; how it did so can be understood with three concepts deriving from organisational theory: agency costs, satisficing, and slack. There had been a constant conundrum to Soviet economic reforms which was shared by *perestroika*: reform to the system was undertaken simultaneously with the imposition of greater expectations of the performance of the system. Part of the explanation for this tendency is that the purpose of Soviet economic reforms

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[13]Gorbachev, *Izbrannye rechi i stat'i*, Volume 3, 203, 11, 437.

was less to improve economic performance (although economic growth certainly retained an important legitimising role) than to improve central control over the economy.[14] Moore persuasively argues this point using agency-costs theory.[15] Agency costs arise at the disjunction between the interests of principal and agent: each party seeks to maximise its welfare, but the actions undertaken by the agent to maximise its interests may not serve to maximise the welfare of the principal. (The idea thus far, as seen in the previous chapter, had analogues in Soviet administrative theory.) The cost to the principal, which in the Soviet context refers primarily to the political leadership, of monitoring and controlling the activities of its subordinates plus the residual loss to the principal that cannot be overcome constitute agency costs. The point Moore puts forward is that many Soviet economic reforms may be seen as attempts to reduce agency costs to the centre.[16] To the degree that doing so was the prime motivation in reform efforts, the primary purpose was increasing the effectiveness of monitoring and control;

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[14]On this point see: Eugène Zaleski, *Planning Reforms in the Soviet Union. 1963 - 1966* (Chapel Hill: University of North Carolina Press, 1967); and Stephen Whitefield, *Industrial Power and the Soviet State* (Oxford: Clarendon Press, 1993).

[15]John H. Moore, 'Agency Costs, Technological Change, and Soviet Central Planning', *The Journal of Law and Economics* 24:2 (October 1981), 189-214. For an analysis specifically of the reforms of *perestroika* using agency-costs theory see: Paul B. Stephan III, 'Soviet Economic Law: the Paradox of Perestroyka', *Carl Beck Papers* No 805 (Pittsburgh: University of Pittsburgh Center for Russian and East European Studies, 1990).

[16]Moore, 'Agency Costs, Technological Change, and Soviet Central Planning', 203.

any relaxation on the demands placed on the agents within the system would be counterproductive.

This line of reasoning may be extended with the related concept of satisficing:[17] decision-makers act to meet a set of goals to minimal levels, not to maximise those goals. Decision-makers usually have some set of expectations, and will adopt the first option which meets or exceeds those expectations, ruling out later options which may well serve them better. For most of the time, provided that those expectations are low enough, the satisficing decisions of both principal and agent are sufficiently congruous to meet or exceed the minimal expectations of both principal and agent. It was during periods of reform that the expectations of the principal - the Politburo leadership - were raised and the satisficing choices made by agents further down the hierarchy were no longer acceptable.

Within the complex hierarchy that was the Soviet economic system, there were a multitude of principal-agent relationships, of which three were most important: that between the centre and the enterprises, between the centre and the ministries, and between the ministries and the enterprises. If it were argued, as it was in the Novosibirsk Report, that the centre and the enterprises broadly shared many interests (growth, innovation, viability) to which the interests of the ministries were inimical, then the logical place to reduce agency costs would be in decisions involving

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[17]On the concept of 'satisficing', discussed in Chapter One, see: Herbert A. Simon, *Administrative Behaviour*, Third Edition (New York: Fine Press, 1976), 157.

the ministries, which effectively acted as a monkey wrench in the economy. The satisficing decisions of the centre and of the enterprises were, *ceteris paribus*, congruent. Removing the power of the ministries to act on their parochial interests would be the key to any reform.

Uskorenie, however, was about more than satisficing. Part of the explanation why expectations were raised geometrically is explicable by the kind and extent of slack identified in the Soviet economic system. Slack represents the resources and efforts that do not actively contribute to the achievement of organisational goals (at whatever level of the organisation). Within the Soviet economy, while the plan itself was taut, the bureaucracy implementing the plan was not, in view of its size, its prodigious output of instructions, the overlapping of responsibilities of its component parts, and the extended time-frame in which it operated. Between periods of reform the inconsistencies and functional overlap of the bureaucracy arguably provided much needed flexibility, for instance, to work around the supply problems within the economic system. During reform, these supply problems were to be solved, and the operations of the administrative system were tightened. March and Olsen have made a comment worth quoting in full:

> In organizations with a great amount of slack, we expect few attempts to define general organizational values and beliefs in operational terms. We expect fairly frequent use of inconsistent premises for decisions in other parts of the organization. The inconsistencies are, in effect, buffered from one another by the slack. We would suggest that decisions made under a high degree of slack will not significantly change the 'models' of the world which are governing organizational choices. On the other hand, we expect that organizations experiencing reduced slack will start processes designed to reduce inconsistency, and to clarify values and beliefs. The process increases the

> possibility that conceptions of the organization and its environment will change.[18]

The apparent inefficiency of duplicate responsibilities, complicated planning processes and complex resource allocation may have been in part an organisational response to the policy of taut economic planning. Conflict over scarce resources was ameliorated by the cumbersome structure which decided their use. Such slack represented part of the agency costs to the centre. Taking up this slack could reduce the agency costs to the centre without the need for changes beyond tinkering with the economic administrative structure. Identifying slack within a bloated, hoarding bureaucracy and reducing that slack could offer quick results. Thus the search for 'hidden reserves'.

The key question is what was the cause of reduced slack in the economic administrative apparatus, what prompted reform? The driving force for this in all of the pre-*perestroika* reforms and in the numerous economic campaigns in between was political: leaders would signal their intention to tighten the operations of the economic system, whether it was through increasing the discipline within the economic administrative structures or reforming those structures themselves. A point which follows is that the periodic economic campaigns and the 'treadmill of reforms', in this context, were exercises in part to 'clarify values and beliefs'. Gorbachev made the point succinctly at the 27th Congress:

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[18]James G. March and Johan P. Olsen, *Ambiguity and Choice in Organizations* (Bergen: Universitetsforlaget, 1979), 87-8.

> ... every readjustment (*perestroika*) of the economic mechanism begins, as you know, with a readjustment of thinking, with a rejection of old stereotypes of thought and actions, with a clear understanding of the new tasks. This refers primarily to the activity of our economic personnel, to the functionaries of the central links of administration.[19]

Acknowledging implicitly the pattern of past readjustments of a strictly temporary tightening of administrative discipline, Gorbachev then proclaimed that 'we have to part company with those who hope everything will settle down and return to the old ways', and insisted that 'this will not happen.'[20]

While continuing the tradition of searching for hidden reserves, Gorbachev went on to define the need for reform in far broader economic terms. There are many kinds of slack, and bureaucrats are one form; economic resources are another. To the degree that a reform was about reducing agency costs, it was about reducing the slack in the bureaucracy; in a certain sense, the initiation of reform was internal to the system. To the degree that the need for a reform derived from the diminishing availability of new resources to tap, reform was about responding to a reduction in the slack supplied by those resources; the cause of reform was external to the system.

The origin of the problem of economic decline, in other words, lay in the system itself. Rochefort and Cobb, in their 'anatomy of problem description', note that there is an important distinction between individual and impersonal causes

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[19]Gorbachev, 'Politicheskii doklad tsentral'nogo komiteta KPSS XXVII s"ezdu kommunisticheskoi partii sovetskogo soiuza', *Izbrannye rechi i stat'i*, Volume 3, 217.

[20]Gorbachev, 'Politicheskii doklad tsentral'nogo komiteta KPSS XXVII s"ezdu kommunisticheskoi partii sovetskogo soiuza', *Izbrannye rechi i stat'i*, Volume 3, 217.

in defining the origin of a problem.[21] During the 'treadmill of reforms' of the Brezhnev era, the origin was generally identified as the incorrect behaviour on the part of individual officials throughout the economic system; policy measures were therefore focused on altering that behaviour through changes to the rules by which official were to act. To that extent the discipline campaign of the Andropov interregnum continued in this tradition, albeit adding a greater emphasis on ensuring compliance to the rules, and not merely changing them. Under the rubric of *uskorenie*, however, the actions or inactions of officials merely confounded the problem of an economic decline whose origins lay principally with the insufficient capacities of the system itself to respond to changing economic conditions. By defining the need for reform in economic terms, reform in the Gorbachev era would therefore be about more than reducing agency costs and the immediate pay-offs such action provided.

There was a marked diminution of what the intensity of reform should be between Gorbachev's December 1984 speech and the rhetoric in the first year of his general secretaryship, but not on the need, and reason, for reform itself. At the December 1984 Central Committee ideological conference Gorbachev had phrased the need for reform in terms of the further perfection of socialism:

> Ahead lies the implementation of thorough transformations in the economy and the whole system of social relations

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[21]Rochefort and Cobb, 'Problem Definition, Agenda Access, and Policy Choice', 63.

> to ensure qualitatively higher living standards of the Soviet people.[22]

As general secretary a few months later, Gorbachev identified the problem in starker terms. At the April 1985 plenary meeting of the Central Committee, Gorbachev noted that 'unfavourable trends' had arisen in economic development, that the 'objective conditions of economic development' had changed, and that the concomitant changes which were required in the system of economic management had not been considered 'in good time'.[23] The implications of a failure to act were clear. One of the characteristics of leadership successions was a discrediting of the previous general secretary, whether it was Stalin's 'excesses', Khrushchev's 'hare-brained schemes', or Brezhnev's 'era of stagnation', but this was about more than the deformations of socialism which took place on the previous general secretary's watch, and the atmosphere of crisis was maintained with the passage of time. In June 1985: 'The current "spendthrift" road of economic development dooms the country to stagnation.'[24] At the 27th Congress in February 1986: '[T]he situation today is such that we cannot limit ourselves to partial improvements - radical reform is

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[22]Gorbachev, 'Zhivoe tvorchestvo naroda', *Izbrannye rechi i stat'i*, Volume 2, 76-77.

[23]Gorbachev, 'O sozyve ocherednogo XXVII s"ezda KPSS' [speech to the April 1985 Central Committee Plenum], *Izbrannye rechi i stat'i*, Volume 2, 154.

[24]Gorbachev, 'Korrenoi vopros ekonomicheskoi politiki partii' [speech to June 1985 Central Committee conference on scientific and technological development], *Izbrannye rechi i stat'i*, Volume 2, 254.

required'.[25] In June 1986: 'Putting it bluntly, we have reached a point beyond which such mismanagement [of the economy] is not just intolerable; we simply cannot afford it.'[26] In January 1987: 'the future of our people, the fate of socialism' depended on reform.[27]

A second function of *uskorenie* was an expansion of just what was to be 'accelerated', thereby widening the focus of reform. At the centre of *uskorenie* was the idea of increasing the efficient use of existing plant, one of the perennial themes in economic policy. It was a problem identified by Stalin during another policy of accelerated growth: In 1931 Stalin noted that the reconstruction of existing plant had been completed, and the task was one of creating new industries, which required the infusion of new capital, which in turn could only be obtained through more cost-effective production in existing industry.[28] Fifty years later the situation was reversed: the reliance on new plant to generate economic growth was rapidly being exhausted, and what was needed was a reconstruction of existing industry. In both

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[25]Gorbachev, 'Politicheskii doklad tsentral'nogo komiteta KPSS XXVII s"ezdu', *Izbrannye rechi i stat'i*, Volume 3, 212.

[26]Gorbachev, 'O piatiletnem plane' [speech to the June 1986 Central Committee Plenum], *Izbrannye rechi i stat'i*, Volume 3, 441.

[27]Gorbachev, 'O perestroike i kadrovoi politike partii' [speech to the January 1987 Central Committee Plenum], *Izbrannye rechi i stat'i*, Volume 4, 300.

[28]I. Stalin, 'Novaia obstanovka - novye zadachi khoziaistvennogo stroitel'stva. Rech' na soveshchanii khoziaistvennikov 23 iiul'ia 1931 g.', in I. Stalin, *Voprosy Leninizma* (Moscow: Politizdat, 1945), 331-349, 345-346.

situations, however, the solution which was attempted was intensification of production to effect accelerated economic growth.

Where Stalin defined what would be called intensive development as a complement to extensive development, in the post-Stalin era extensive and intensive development became increasingly counterpoised. The basic theme of intensification had dwelled on many of the issues discussed in the section on the problem stream: the Soviet Union produced more steel than any other country, yet there was a steel shortage; the Soviet Union produced more shoes per capita than any other country, yet there was a shortage of shoes. The solution under Brezhnev to the former problem had been repeated attempts at changing production indicators which would effect more rational use of steel, at increasing the quality of production, and at increasing the rate of introducing technological innovation into the production process - all within the existing framework of economic administration.

It was within this framework that the term *uskorenie* found its original policy formulation as an adjunct to the wider notion of intensification. Specifically, there was to be an 'acceleration of scientific and technical progress' - as promulgated in a 1983 decree.[29] In this version, *uskorenie* referred to the improved use of technological developments to support economic growth at current levels - not to accelerate economic growth. In his speeches just prior to becoming general secretary and immediately afterwards, Gorbachev first

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[29]*Izvestiia*, 28 August 1983, 1-2.

transformed the role of *uskorenie* within economic policy. The facts as Gorbachev presented them described an economy in decline, and the acceleration of scientific and technological development, as originally conceived, itself needed to be intensified in order to reverse the situation and accelerate economic growth. *Uskorenie* of the economy, and not merely of scientific and technological development, was then translated into programmes of action in the 12th Five Year Plan.

The drafting process of the five year plan was already well under way by the time Gorbachev became general secretary (although he was undoubtedly already involved by virtue of his Party position; as second secretary during Chernenko's general secretary, unlike his immediate predecessors Gorbachev supervised the economy as well as ideology and Party cadres). Making changes to the draft in line with the goals of *uskorenie* encountered considerable resistance; the draft was reportedly remanded to Gosplan three times for further revisions.[30] At the same time, Gorbachev used the platform provided by his position as general secretary to expand the scope of *uskorenie*. The economic theory of *uskorenie* as outlined by its major proponent, Abel Aganbegian, was that declining growth was the result of bottlenecks in the system; with the exhaustion of new resources to exploit, the solution was to increase investment in key sectors which would relieve those bottlenecks and permit the rest of the economy to increase its productivity. This idea was confirmed as policy

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[30]Anders Åslund, *Gorbachev's Struggle for Economic Reform*, Revised Edition (Ithaca, NY: Cornell University Press, 1991), 73.

at the June 1985 Conference devoted to *uskorenie*, and the key sector was identified as the machine-building industry.[31] In a meeting with the workers of the Dnepropetrovsk metallurgical factory shortly afterwards, however, Gorbachev gave a much longer list of 'strategic' sectors:

> Measures are projected for the improvement of the structure of capital investment, in order to give the go-ahead for the development of strategically important branches of the national economy which support scientific and technical progress. This concerns most of all machine-building, electronics, electrical engineering, biotechnology, and also branches connected with metallurgy and chemical engineering.[32]

This extensive list of critical sectors evidently came as a surprise even to some of Gorbachev's allies. For Ryzhkov, then heading the Central Committee's Economic Department but soon to become Chair of the Council of Ministers, it came 'like an earthquake'.[33] By the time of the final draft of the five-year plan, *uskorenie* was laden with many more specific policy goals, with virtually every sector undergoing acceleration. While it is unlikely that the plan in its final form came with Gorbachev's full imprimatur, the targets which were set certainly gave something for everyone.[34] Regardless of the validity of the economic theory behind it, *uskorenie* provided

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[31]Gorbachev, 'Korrenoi vopros ekonomicheskoi politiki partii', *Izbrannye rechi i stat'i*, Volume 2, 251-262.

[32]Gorbachev, 'Aktivno deistvovat', ne teriat' vremeni' [speech to Dnepropetrovsk workers of June 1985], *Izbrannye rechi i stat'i*, Volume 2, 285.

[33]N.R. Ryzhkov, *Perestroika: Istoriia predatel'stv* (Moscow: Novosti, 1992), 92.

[34]For details, see Ryzhkov's speech on the 12th Five-Year Plan, *Pravda*, 19 June 1986, 1-5; and Ed A. Hewett, *Reforming the Soviet Economy* (Washington, DC: The Brookings Institution, 1988), 306-309.

everyone with a stake in its success. All hinged on the high economic growth targets. *Uskorenie* of scientific and technical progress, of social and economic development, and all the other permutations rested on the *uskorenie* of the economy.

The third function of *uskorenie* for the agenda of enterprise reform was the specification of what was required in order to achieve high growth rates. That specification included the identification of the Brezhnev-era policy approach as part of the problem. Economic performance, as Gorbachev noted repeatedly, could not be improved sufficiently on the basis of existing structures. As Moltz remarks, decision theory and organisational theory expect increased search behaviour with the onset of a crisis;[35] the Soviet economy, however ailing, was not exactly in crisis (whereas the economy Yeltsin inherited, in contrast, certainly was). What Gorbachev did was to use the rhetoric of crisis for political purposes. As Dror has observed, when important policy areas are deteriorating, there is a tendency in the policy process to create critical choice opportunities, up to the point of crisis instigation, in order to introduce corrective measures.[36] To arrest the secular decline in the economy, this is precisely what Gorbachev did from the April 1985 Plenum on.

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[35]James Clay Moltz, 'Divergent Learning and the Failed Politics of Soviet Economic Reform', *World Politics* 45 (January 1993), 301-325, 301.

[36]Yehezkel Dror, 'Basic Concepts in Advanced Policy Sciences', in Stuart S. Nagel (ed.), *Encyclopedia of Policy Studies* (New York: Marcel Dekker, 1994), 1-30, 11.

High growth rates were to be achieved in the present through greater discipline and taking up the slack within the system, releasing the hidden reserves. Those high growth rates could be sustained only through reform to the economic structures and the relationships which governed them. This was to be a 'new quality of growth' on which everything depended:

> In short, comrades, *uskorenie* of the country's socio-economic development is the key to all our problems: immediate and long-term, economic and social, political and ideological, domestic and foreign.[37]

This passage from Gorbachev's speech to the 27th Congress summarises the most important, political function of *uskorenie*. This was about more than a win-win situation in which everyone came out ahead; *uskorenie* promised to exceed even the highest of initial expectations. *Uskorenie* was a 'super-optimum solution'.

According to Nagel, an optimum solution is the best of the available alternatives in achieving one set of goals. A super-optimum solution is the best alternative available simultaneously for several sets of goals.[38] While both of these are intrinsically efforts at compromise, an optimum solution gives a little bit to everybody - a super-optimum solution gives everybody more than they had initially hoped for. As an example, the enterprise law presents an excellent counterpoint

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[37]Gorbachev, 'Politicheskii doklad tsentral'nogo komiteta KPSS XXVII s"ezdu', *Izbrannye rechi i stat'i*, Volume 3, 201.

[38]Stuart S. Nagel, 'Decision-Aiding Software and Super-Optimum Solutions', in Stuart S. Nagel (ed.), *Encyclopedia of Policy Studies* (New York: Marcel Dekker, 1994), 49-68, 53. For more on super-optimum solutions, also see Stuart Nagel, 'Super-Optimizing Analysis in Policy Studies', *Policy Studies Journal* 8 (1990), 507-513.

to *uskorenie*. The compromise in the enterprise law was, in the most liberal assessment, the best that could be had under the political circumstances at the time; in this sense it was an optimum solution in which everyone came out ahead, at least in principle - although in fact, of course, the result was that no one was satisfied.

Nagel suggests a number of methods by which a super-optimum solution may be derived, of which two were clearly intrinsic to *uskorenie*. The first of these is to combine alternatives that are not mutually exclusive.[39] There were many potential goals circulating in the Soviet polity in 1985: reasserting Party power, rooting out corruption, and overcoming social malaise; halting economic decline, reforming the economy, and uncovering hidden reserves; increasing quality, improving productivity, and increasing the supply of consumer goods and services. *Uskorenie* was the means by which these disparate goals could be combined, met, and exceeded. On the question of the economy specifically, there were to be the most radical reforms undertaken in post-war history as well as a massive increase in the rate of growth in the economy. That was a dual goal which few, in principle, could argue with.

As a super-optimum solution, *uskorenie* also was the strategy by which these goals could be combined into a programme in which the centre of gravity steadily shifted in favour of reform. This is a second method of deriving super-optimum solutions suggested by Nagel: setting 'realistically'

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[39]Nagel, 'Decision-Aiding Software', 55.

higher goals than had previously been considered the best.[40] Achieving swift results in the present required one set of policy changes - discipline, uncovering hidden reserves, and so forth - which could only be sustained with changes to the economic system - *perestroika*. Thus according to Gorbachev while it was 'possible to obtain relatively quick results if we put to work organisational-economic and social reserves...',[41] at the same time *uskorenie* was not about 'just an increase in growth rates', it was about a 'new quality of growth' through *perestroika* of the economy.[42] Thus, as the official statistics began to show improvement in the economic situation in 1986, Gorbachev noted that while performance may have improved,

> [T]his has been achieved primarily by drawing on reserves which were, so to speak, readily to hand. To ensure long-term success we must undertake more fundamental measures.[43]

Among those measures were the issues of the enterprise law.

While the issues of enterprise reform were usually placed within the framework of *perestroika*, advocates also identified each of the key issues as the single most crucial variable for *uskorenie*. On the 'human factor':

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[40]Nagel, 'Decision-Aiding Software', 55.

[41]Gorbachev, 'O sozyve ocherednogo XXVII s"ezda KPSS' [speech to April 1985 Central Committee Plenum], *Izbrannye rechi i stat'i*, Volume 2, 155.

[42]Gorbachev, 'Korrenoi vopros ekonomicheskoi politiki partii' [speech to June 1985 Conference on science and technology], *Izbrannye rechi i stat'i*, Volume 2, 252.

[43]Gorbachev, 'O piatiletnom plane' [speech to June 1986 Central Committee Plenum], *Izbrannye rechi i stat'i*, Volume 3, 427.

> The human factor, in short, is today the decisive factor for *uskorenie*.[44]

The same role was claimed for *samoupravlenie*:

> Increasing the role of labour collectives is the most important factor for the implementation of all the tasks put forward at the 27th Congress for the *uskorenie* of socio-economic development.[45]

Likewise with *khozraschet*:

> The successful achievement of the *uskorenie* of social and economic development of our country requires the thorough improvement of *khozraschet* relations.[46]

As a super-optimum solution, *uskorenie* depended on the successful implementation of all of these policies. As Abalkin noted, *uskorenie* was the means by which many goals were to be achieved, and therefore as an issue was multi-faceted and could not 'be treated one-sidedly'.[47]

That *uskorenie* could actually achieve these goals was another matter. Anchishkin and Iaremenko had warned as long ago as 1967 that growth rates should not be used as a measure of success for reform.[48] Abalkin had seen the primary problem in the economy as one of disequilibria and noted that balanced

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[44]K. Turysov, 'Reshaiushchii faktor uskoreniia', *Trud*, 30 September 1986.

[45]V.V. Kolan'kov, 'Samoupravlenie i povyshenie roli trudovykh kollektivov v uskorenii soltsial'no-ekonomicheskogo razvitiia', in S.V. Rogachev (ed.), *Samoupravlenie i uskorenie* (Moscow: Ekonomika, 1987), 120-144, 121.

[46]V. Radaev, 'Sovershenstvovanie khozraschetnykh otnoshenii i uskorenie soltsial'no-ekonomicheskogo razvitiia', *Planovoe khoziaistvo* 10 (October 1986), 56-66, 66.

[47]L. Abalkin, 'Uskorenie sostial'no-ekonomicheskogo razvitiia: sushchnost' i istochniki', *Planovoe khoziaistvo* 3 (March 1986), 9-16, 9.

[48]A.I. Anchishkin and Iu.V. Iaremenko, *Tempy i proportsii ekonomicheskogo razvitiia* (Moscow: Ekonomika, 1967).

development was the solution;[49] a strategy of accelerated growth would only add to the problem. Such concerns were overruled in the first two years of perestroika, and even Abalkin lent support, if in muted terms: 'The *uskorenie* of social progress and low growth rates are incompatible.'[50]

By the time of the enterprise law's adoption, however, the condition of the economy was clearly deteriorating, and severe criticisms of *uskorenie* began to appear more frequently. Abalkin labelled growth rates a 'sacred cow' and Shmelev attacked the 'religion of growth rates'.[51] Seliunin questioned the relationship between growth rates and living standards, noting that with accelerated development average wages would increase little more than one ruble a month.[52] The choice, according to Seliunin was between reform and growth, an argument which Abalkin supported in his controversial appearance at the 19th Party Conference, observing that 'in the last two years growth has been at lower rates than in the years of stagnation of the eleventh five-year plan'.[53] While there was general agreement that *uskorenie* was a failure by the summer of 1988, there was disagreement over the consequences. On the one hand some, such as Seliunin and

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[49]L.I. Abalkin, *Dialektika sotsialisticheskoi ekonomiki* (Moscow: Mysl', 1981).

[50]Abalkin, 'Uskorenie sotsial'no-ekonomicheskogo razvitiia: sushchnost' i istochniki', 9.

[51]*Pravda*, 13 June 1987, 1-2; Nikolai Shmelev, 'Ekonomika i zdravyi smysl', *Znamia* 7 (July 1988), 179-184, 180.

[52]*Sotsialisticheskaia industriia*, 5 January 1988, 2.

[53]*Pravda*, 30 June 1988, 3-4, 3.

Shmelev, claimed that the effect of *uskorenie* was to strengthen the bureaucrats at the cost of economic reform; on the other hand, Ryzhkov saw the problem of overloading *uskorenie* with too many social policies: political *uskorenie* 'killed' economic *uskorenie*.[54]

As a super-optimum solution, *uskorenie* was virtually an unmitigated disaster.[55] That is was adopted as strategy points to the importance of powerful ideas being available at the right time. The balanced growth option, while it may have made more economic sense, could have run the risk of the political momentum for reform becoming dissipated; 'balanced growth' makes for a less emotive slogan than 'accelerated growth'. The point of *uskorenie* for reform was to obtain a quick burst of growth which could only be sustained through economic reforms. While it is certainly doubtful that there was a planned incapacity to succeed in accelerating economic growth, the

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[54]Nikolai Ryzhkov, *Perestroika: Istoriia predatel'stv* (Moscow: Novosti, 1992), 72.

[55]The major proponent of super-optimum solutions in fact offers a surprising example of one such solution for Communist systems, simultaneously demonstrating the pitfalls that may accompany such attempts. Stuart Nagel suggests that in the transitional reform of centrally-planned economies the separate goals of productivity (for the 'conservatives') and of sharing wealth and equity (for the 'liberal') can be combined in a compromise solution of mixed ownership and operation. A super-optimum solution could be achieved on the basis of 100% private operation and 100% state-ownership - through leasing. That, of course, was part of what was attempted in the second half of the *perestroika* era and, like *uskorenie* before, proved to be unviable. Stuart S. Nagel, 'Introduction', in Stuart S. Nagel and Vladimir Rukavishnikov (eds.), *Eastern European Development and Public Policy* (London: Macmillan, 1994).

political effect of *uskorenie*'s failure remained the same: attention was redirected to flaws in the economic system.[56]

The Issues of Enterprise Reform

Within the decision process, problems are linked to solutions. At the April 1985 Plenum, Gorbachev had established this linkage for the issues of enterprise reform. As Gorbachev put it, 'whatever question we consider, and from whatever point of view we approach the economy, everything finally comes down to the need for a substantial improvement of *upravlenie* of the economic mechanism as a whole'. In the next passage of his speech, Gorbachev noted the availability of the solution to this problem:

> Today we have a clearer idea of the *perestroika* of the economic mechanism... [I]t is necessary to move forward more boldly along the path of broadening the rights of enterprises, their independence, of introducing *khoziaistvennyi raschet*, and on that basis increase the responsibility and interest of work collectives in the end results of their work.[57]

Over the course of the next two years, this linkage remained, and as economic problems were identified as being increasingly acute under the rubric of *uskorenie*, the definition of the solutions become more radical. The radical position on the issues of enterprise reform became mainstream.

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[56]Vadim Medvedev, *V komande Gorbacheva* (Moscow: Bylina, 1994), 29.

[57]Gorbachev, 'O sozyve ocherednogo XXVII s"ezda KPSS', *Izbrannye rechi i stat'i*, Volume 2, 157-158.

Full *Khozraschet* and *Samofinansirovanie*

The most enduring principle of enterprise management was *khozraschet*; fiscal discipline at the enterprise was also one of the most enduring problems of enterprise management, and it is interesting that the policy solution always came under the same heading of *khozraschet*. Indeed, *khozraschet* was repeatedly affirmed as a key component of the economic system, regardless of the structure of the economic system itself.

The first experiments with *'khoziaistvennyi raschet'* were undertaken immediately after the nationalisation of industry in spring 1918 and, after a brief interruption during War Communism, *khozraschet* became the cornerstone of enterprise management in 1921 with the inception of the New Economic Policy; Lenin called for *khozraschet* to become the 'predominant if not exclusive' method of enterprise activity.[58] When the Five Year Plans were introduced and the industrialisation drive was begun, Stalin declared that 'we must put an end to inefficiency, mobilise the internal resources of industry, introduce and reinforce *khozraschet* in all our enterprises ...'.[59] *Khozraschet* figured prominently in the 1965 reforms, and was, with the added qualifier 'full', the centrepiece of the 1987 Law on the State Enterprise.[60]

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[58]V.I. Lenin, *Polnoe sobranie sochinenii* (Moscow: Politizdat, 1965), Volume 2, 342-343.

[59]I. Stalin, 'Novaia obstanovka - novye zadachi khoziaistvennogo stroitel'stva. Rech' na soveshchanii khoziaistvennikov 23 iiul'ia 1931 g.', in I. Stalin, *Voprosy Leninizma* (Moscow: Politizdat, 1945), 331-349, 347.

[60]In the 1980s the added adjective 'full' in front of *khozraschet* was explicitly to distinguish the term from its previous use as basically an accounting device. Reformers were

However, while the word remained the same for over seventy years, the meaning of *khozraschet* was continually changing in line not only with the current views on fiscal discipline at the enterprise but also in relation to economic policies on pricing, investment, wages, and the role (if any) of the market. *Khozraschet* was perhaps the most revised term in the entire Soviet economic lexicon.

The debate over *khozraschet* during the formulation of the enterprise law was thus not whether it was a good thing - which was never an issue - but what it meant. This section on the agenda-setting of the economic issues of enterprise reform analyses the process whereby 'full *khozraschet*' of the enterprise law emerged, and the relationship of that issue with the internal finances of the state enterprise on *'samofinansirovanie'*; the following section examines the relationship of 'full *khozraschet*' with the rest of the economy through 'commodity-monetary relations' and 'economic levers'.

Under the *khozraschet* of the New Economic Policy, the touchstone for the radical reformers during the formulation of the enterprise law, enterprises were responsible for wage

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quite clear in their views that in fact this earlier version was in no way *khozraschet*. As Bunich later remarked, 'There is no such thing as "full *khozraschet*". It is either full, or it is not *khozraschet*. The term "full *khozraschet*" was required in order to underline that this was not about the self-contradicting *khozraschet* of the past, but about something different, full, and in order to counterpose the new against the old version.' P. Bunich, 'Khozraschet i tsentralizovannoe upravlenie', *Voprosy ekonomiki* 8 (August 1988), 53-65, 54. Elsewhere, Bunich phrased it more colourfully: '*khozraschet* without *samofinansirovanie* is like a person without a brain'. P.G. Bunich, *Khozmekhanizm: idei i real'nost'* (Moscow: Politizdat, 1988), 41.

payments, funding for most investment, and securing both suppliers and buyers in the production process in a market-orientated economy. The central purpose of *khozraschet* during the New Economic Policy was, according to Lenin, 'the solvency and profitability of each state enterprise'.[61]

The New Economic Policy, although in trouble, was not actually ended with the inauguration of the five-year plans in 1928; however, while statements affirming its continuation were made even into 1931,[62] trade independent of the state was being prohibited, with a consequent reformulation of *khozraschet*. In that same year, a new decree was issued which defined the post-NEP *khozraschet* that more or less remained at the core of nearly all subsequent economic policy; enterprises produced according to binding plans and were judged according to their ability to fulfil plan targets. In the words of Voznesenskii, at the time a university lecturer but soon to become head of Gosplan, *khozraschet* had a 'colossal role' to play because 'control [*kontrol'*] and accountability [*uchet*] is the paramount issue of a socialist revolution the day after the seizure and consolidation of power';[63] the tactical accommodation of market forces during the New Economic Policy could be abandoned with the consolidation of power. Thus the

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[61]V.I. Lenin, 'Proekt tezisov o roli i zadachakh profsoiuzov v usloviiakh novoi ekonomicheskoi politiki', *Polnoe sobranie sochinenii*, Volume 44, 343.

[62]Alec Nove, *An Economic History of the USSR*, Second Edition (London: Penguin, 1989), 126.

[63]N.A. Voznesenskii, 'Khozraschet i planirovanie na sovremennom etape', in N.A. Voznesenskii, *Izbrannye proizvedeniia* (Moscow: Politizdat, 1979), 14-49, 14-15.

'strengthening' of *khozraschet* principles, in contrast to the enterprise law, entailed the priority of vertical relationships over horizontal ties.

What is more interesting is the reason Voznesenskii presented for the change in policy. In the course of a lengthy discussion over the differences in the *khozraschet* of 1921 and that of 1931 Voznesenskii observed:

> [T]he contractual relations which are developing in 1931 on the basis of a growing *planned* economy are a powerful means for the coordination of factories. This was not possible in 1921 with its undeveloped network of contracts between state organs.[64]

This was basically an instrumental argument; the state took direct control over the economy because, quite simply, it could. It was with similar instrumental rhetoric that later reformers were to argue the reverse, namely that it was not possible for the state to exercise direct control over the economy.

It was in the relationship the enterprise was to have with the rest of the economy that the core meaning of *khozraschet* in economic policy at any given point in time could be found. There were three principal dimensions of *khozraschet*: the vertical relationships of (1) the centre with the enterprise; (2) the enterprise with the centre; and the horizontal relationship of (3) the enterprise with other units in the economy. The vertical relationships derived from the relative predominance of administrative versus economic levers; the horizontal relationship hinged first on whether

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[64]Voznesenskii, 'Khozraschet i planirovanie', 27. Emphasis in original.

contractual obligations among production units were centrally imposed or freely negotiated, and secondly, if they were freely negotiated, whether that was on the basis of market-driven or centrally-fixed prices. By these criteria, the *khozraschet* for most of Soviet history was concerned primarily with the vertical dimension based on administrative commands, and specifically that of centre-enterprise. Within the boundaries of these criteria the reformist alternative in the enterprise law was a diametrically opposed *khozraschet* which encompassed all three relationship forms based on economic criteria, through economic levers vertically and direct trade horizontally. In fact, that reformist alternative emerged at the time of the 1965 reform; setting the agenda for *khozraschet* in the 1980s was essentially a process in which it was those ideas which returned to define and redefine the issue.

The economic debate of the 1960s has been well-documented; what will be examined here is the major themes developed in the programmatic writings of three individuals, Liberman, Nemchinov, and Novozhilov, in order to explore how economic criteria could be applied to the three forms of relationships defined above. While these individuals had much to unite them as contributors to a reformist body of literature, there was a subtle difference in relative emphasis.

The debate on economic reform which culminated in the 1965 reform was in fact begun before Khrushchev's removal from office. In June 1960 Liberman outlined his views to a Central

Committee department conference on economic reform and soon thereafter to Khrushchev personally,[65] and subsequently published his ideas on new planning methods in an influential article in *Pravda* in 1962.[66] Liberman directed his attention to the perennial problem of evaluating enterprise compliance with the plan - the word *khozraschet* does not appear in his *Pravda* article, although his argument was precisely about fiscal affairs at the enterprise.

What Liberman proposed was that the multitude of performance indicators be reduced to one, profitability. In the reforms envisaged by Liberman, enterprises would continue to receive binding plans specifying output levels, product mix, and delivery schedules; how these targets were met would be left to the enterprise. No bonuses would be paid if these specific targets were not met; the level of the bonuses themselves, however, would be determined by how efficiently the targets had been reached. In this way enterprises would have a direct interest in the full utilisation of their productive capacity according to the principle, 'what is profitable for society must be profitable for each enterprise'. Thus prices had the important role of signalling to enterprises which activities to undertake in their pursuit of profitability; the prices themselves, however, together with other financial policy, remained under firm central control, as did the distribution of production between

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[65]Sergei Freidzon, 'Top-Level Administration of the Soviet Economy: A Partial View', *Rand Paper* P-7178 (Santa Monica, CA: Rand Corporation 1986), 112-113.

[66]*Pravda*, 9 September 1962, 3.

enterprises. As for the three dimensions of *khozraschet*, Liberman's proposal dealt specifically and exclusively with that between centre and enterprise: economic criteria would be used to judge an enterprise's compliance with the plan; the plan itself remained directive (if reduced to three major target categories).

Of far greater importance for the theoretical development of *perestroika* was Nemchinov who structured his reform proposals explicitly around the concept of a '*khozraschetnaia sistema planirovaniia*' [*khozraschet* system of planning]. Of his writings the most important for the course of events twenty years later was the 1964 article in *Kommunist*.[67] The full *khozraschet* of the enterprise law was clearly inspired by Nemchinov's ideas, and this article was singled out for praise by Gorbachev at the time of the enterprise law's adoption in June 1987.[68] Explicitly building on the optimal planning framework of Kantorovich, Nemchinov emphasised long-term contractual relationships within the economy based on limited enterprise independence. As with Liberman's proposal,[69] enterprise indicators would be reduced dramatically; within the limits established by those indicators enterprises themselves would choose the best way to meet plan targets.

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[67]V.S. Nemchinov, 'Sotsialisticheskoe khoziaistvovanie i planirovanie proizvodstva', *Kommunist* 5 (March 1964), 74-87.

[68]Gorbachev, 'O zadachakh partii po korennoi perestroiki upravleniia ekonomikoi' [speech to June 1987 Central Committee Plenum]], *Izbrannye rechi i stat'i*, Volume 5, 161.

[69]Soon after they were published, Liberman's proposals were given prominent support by Academician Nemchinov in *Pravda*. *Pravda*, 21 September 1962.

Instead of directive plans, the centre would issue plan orders for which enterprises would bid competitively - this idea re-emerged during the formulation of the enterprise law as *goszakazy*. In addition to negotiating contracts with the centre for plan orders, enterprises would obtain their inputs by contract through wholesale trade directly with other enterprises - the means of production were to carry a cost. Enterprises were free to sell any product after meeting their contractual obligations with the centre; prices would be negotiated within limits established by centrally-determined formulas. Such a dual-track planning system based on contracts with the centre and on contracts with other enterprises was part of the enterprise law. Thus beyond Liberman's advocacy of economic criteria in reforming the relationship between centre and enterprise, Nemchinov's *khozraschet* system of planning included economic criteria in the relationship among enterprises.

Lastly, Novozhilov shared and endorsed Nemchinov's ideas on economic reform, but emphasised an additional role for the pricing system in an economy based on *khozraschet*. Like Nemchinov, Novozhilov proposed that economic links with the economy be based on long-term normatives; however, the calculation of those normatives should take into account the balance of supply and demand within the economy - optimal planning required coordinating the mutual interests of enterprise and centre. To that degree, the relationship between the enterprise and centre must also be based on

economic criteria. To make that point, Novozhilov explicitly linked his ideas with the *khozraschet* of NEP, calling for:

> a planned utilisation of the law of value as an automatic regulator, that is as a regulator with feedback. Such a system of management was basically created at the very beginning of NEP, consisting of the plan and economic calculation.[70]

This was a *khozraschet* in which the centre and the enterprise worked jointly on both defining and solving economic problems, and to that degree *khozraschet* should be as much a political as it was an economic term.

There are three points to be made about these reform proposals. The first is that while it was clearly Nemchinov's proposals which were most influential in establishing the basis of the 1987 reforms, Novozhilov's reinvention of opportunity costs was part of the *khozraschet* of the enterprise law. Moreover, Novozhilov's concern with supply and demand became a central plank in the mathematical methods of the optimal planning school, a concern which was also expressed by non-SOFEists including, among others, Abalkin, as noted above. During the era of *uskorenie*, balancing the economy was not the goal; supply and demand were not part of the *khozraschet* of the enterprise law. It was precisely the increased disequilibrium in the economy, however, which became a central economic problem after the adoption of the enterprise law.

The second point has to do with role of the market in the three dimensions of *khozraschet* outlined above. For neither

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[70]V.V. Novozhilov, *Problems of Cost-Benefit Analysis in Optimal Planning* (While Plains: International Arts and Sciences Press, 1970), 26-27.

Liberman nor Nemchinov was there a role for free pricing; for Novozhilov there was a supplementary role, but the central pricing mechanism remained the central planners, and what free pricing was to be allowed - production remaining after plan orders had been fulfilled - was within tightly circumscribed limits. What Nemchinov and Novozhilov were talking about was 'commodity-monetary relations', by which they meant merely that commodities in trade and production should carry a price; the price itself, however, should be determined by the centre in accordance with the goals of the plan. Others had different ideas about commodity-monetary relations and the market both in the 1960s and during the formulation of the enterprise law, which will be examined in the next section. The important point to be made is that *khozraschet* and the market were basically independent variables in reform proposals, regardless of the degree to which *khozraschet* relations should be based on economic criteria. Three graduated forms of *khozraschet* can be defined. For *khozraschet* #1, the role of prices was not to allocate resources within the economy, but to convey information between centre and enterprise; with *khozraschet* #2 the purpose was extended to include a feedback function between enterprise and centre; and for *khozraschet* #3 pricing was included as a component of the direct contracting of goods and services from enterprise to enterprise.

Where Nemchinov and Novozhilov were agreed with more market-orientated reformers was that the relations between an enterprise on *khozraschet* and the centre should be primarily via economic levers, regardless of how those economic levers

were defined. The third point is that little of this aspect of *khozraschet* remained in the 1965 reform. (However, the importance of these and other ideas associated with optimal planning developed by these individuals was recognised with the awarding of the Lenin Prize in 1965 jointly to Kantorovich, Nemchinov and Novozhilov.) Administrative levers retained priority over economic levers, and *khozraschet*, instead being the organising principle in enterprise activities, was merely one method among many of regulating state enterprises in the economy; *khozraschet* was part of the monitoring system.[71]

The most important aspect of the *khozraschet* of the 1965 reform for the course of policy in the 1970s was the inclusion of profit as an indicator of enterprise performance. However, this limited version of *khozraschet* failed to dislodge gross production as the paramount indicator of enterprise plan compliance. Over the next fifteen years much effort was devoted towards introducing additional indicators which would counter the problems of bottlenecks, inefficiency, storming and so forth which were not addressed by the simple measure of gross production. The culmination of these efforts was the July 1979 decree which introduced 'normative net output' as the main indicator of plan fulfilment; this indicator derived not from gross production, but on the value added to production by an enterprise.[72] Bonuses were based on how

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[71]Moore, 'Agency Costs, Technological Change, and Soviet Central Planning', 203.

[72]'Ob uluchshenii planirovaniia i usilenii vozdeistviia khoziaistvennogo mekhanizma na povyshenie effektivnosti

efficient an enterprise was in producing a particular item as compared to the average in its industry.

The Large-Scale Economic Experiment began in July 1983 shortly after Andropov became general secretary and represented one last attempt to find suitable administrative indicators.[73] This experiment basically constituted a more vigorous attempt at implementing the provisions of the 1979 decree, and to that extent it did not introduce much that was new. However, it was out of the experience of this experiment that the agenda-setting process of a reform-orientated *khozraschet* began, and indeed the specification of the *khozraschet* of the enterprise law was closely associated with the introduction of incrementally more significant experiments. That specification entailed a progressive widening of which relationships should be based on economic criteria. Thus, in his wide-ranging critique of this experiment, Seliunin concluded in 1985 that there was only one indicator on which enterprise activity could and should be based: profit.[74]

Indeed, another experiment approved in early 1984 had already gone far in that direction. In order to improve consumer services and quality, the Service Experiment set four

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proizvodstva i kachestva raboty', *Ekonomicheskaia gazeta* 32 (August 1979).

[73]'O dopolnitel'nykh merakh po rasshireniiu prav proizvodstvennykh ob"edinenii (predpriiatii) promyshlenosti v planirovanii i khoziaistvennoi deiatel'nosti i po usileniiu ikh otvetstvennosti za rezul'taty raboty', *Ekonomicheskaia gazeta* 31 (July 1983).

[74]Vasilii Seliunin, 'Eksperiment', *Novyi mir* 8 (August 1985), 173-194, 192.

basic indicators. Gross production remained the first, but that was followed by profit, quality and service. Enterprises were entitled to retain remaining profits after a fixed share had been paid to the state, and wage funds were made directly dependent upon fulfilling these indicators. The experiment, while approved by Andropov, was begun under his successor, Chernenko. However, it undoubtedly enjoyed the support of Gorbachev, who made the principles of this experiment a matter of economic policy after becoming general secretary. The experiment began on a small scale in July 1984 in eight Russian provinces, was expanded in 1985 to the Baltic Republics, and in 1986 was extended to half the economy with the other half set to follow in 1987. The approach was certainly reminiscent of Liberman, and like Liberman's proposal was not explicitly a redefinition of *khozraschet*. Nonetheless, this was about establishing a clearly economic relationship between the centre and the enterprise, and thus represented the first step in the specification of *khozraschet*.

The experiments thus far were directed at reducing indicators by which to judge enterprise performance, and to this extent were solidly within the framework of economic policy changes of the 1970s. The next round of experiments was directed towards establishing a direct connection between an enterprise's investment requirements and its profit from production. These were the two experiments in *samofinansirovanie* at the Frunze production association at Sumy and at the AvtoVAZ production association in Togliatti.

That the experiments took place at two modern factories known for their efficiency suggests that the goal was not so much to try out a new method of running an enterprise, but rather to establish the viability of the principle of *samofinansirovanie*.

In fact, although both the experiments at Sumy and AvtoVAZ were undertaken under the label '*samofinansirovanie*', it was only at Sumy that *samofinansirovanie* was practised. As the economist and deputy director of the Sumy production association, Moskalenko, pointed out on many occasions, *samofinansirovanie* was often conflated with *samookupaemost'*.[75] In the case of *samookupaemost'*, an enterprise was required to generate sufficient income to cover its expenses; the source of that funding in the first place, however, came from outside agencies. Indeed, nominally at least, enterprises already functioned according to *samookupaemost'*. Under *samookupaemost'*, profits did not remain at the disposition of the enterprise in order fund subsequent production, and this, according to Moskalenko was the case at AvtoVAZ. At Sumy, in contrast, all capital investments had to come out of the production association's own profits. This distinction between *samookupaemost'* and *samofinansirovanie* was echoed many times, making the Sumy model the basis of *samofinansirovanie*. Accordingly, the prominent economic reformer, and member of the commission overseeing the *samofinansirovanie* experiments,

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[75]See, for instance, V. Moskalenko, 'Samofinansirovanie razvitiia predpriiatii', *Voprosy ekonomiki* 11 (November 1987), 52-61.

Pavel Bunich argued that *samofinansirovanie* was the next logical step for *khozraschet* after *samookupaemost'*.[76]

As with the Large-Scale Economic Experiment, the principles of *samofinansirovanie* soon diffused throughout the economy. In January 1987 the enterprises and associations of five ministries plus an additional thirty-seven associations of seventeen other ministries were placed on *samofinansirovanie*. The following year the practice was to be extended throughout the economy.

The Large-Scale Economic Experiment, the Service Experiment, and *samofinansirovanie* represented the fundamentals of the 'new methods of economic administration', and the fact that these methods were to be adopted throughout the economy meant that one important aspect of full *khozraschet* was already established when work began on the draft enterprise law. In June 1987 Gorbachev went so far as to say that 'in principle, the transfer to the new methods of economic administration has already begun ... enterprises and associations in several branches have gone over to full *khozraschet* and *samofinansirovanie*'.[77] The economic basis of the relationship between centre and enterprise was already defined: economic criteria, specifically the profit motive, determined the basis of the relationship between centre and

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[76]P. Bunich, 'Samofinansirovanie: Sushchnost', opyt, problemy', *Ekonomicheskaia gazeta* 48 (November 1986), 20. See also I. Lukinov, 'Samookupaemost' i samofinansirovanie v sovremennom khozmekhanizme', *Voprosy ekonomiki* 6 (June 1987), 3-13, 4.

[77]Gorbachev, 'O zadachakh partii po korennoi perestroike upravleniia ekonomikoi' [speech to June 1987 Central Committee Plenum], *Izbrannye rechi i stat'i*, Volume 5, 169.

enterprise. Those criteria, however, thus far applied only to the way an enterprise fulfilled a plan and the basis on which it was evaluated. *Samofinansirovanie* only said that an enterprise was required to pay for its own inputs, not how those inputs were obtained in the first place. For many reformers, more needed to be included; Popov, for instance, had stated bluntly (contrary to what Gorbachev was to claim) that whatever it was that many enterprises in the economy transferred to in January 1987, it was most assuredly not 'full *khozraschet*'.[78]

Full *Khozraschet* and Commodity-Monetary Relations

The enterprise law said little about the role of commodity-monetary relations and the role of a wholesale market in inter-enterprise trade; a kind interpretation of this neglect would be that the law was about the state enterprise, not the entire economy. However, for the full *khozraschet* of the enterprise law to amount to anything more than the principle of *samofinansirovanie* which had already been made policy relied precisely on this dimension. This was an instance in which the reformers may be said to have won the battle but not the war: the enterprise law itself required enterprises to pay for their own investment needs and the supplementary legislation which accompanied the enterprise law did indeed call for wholesale trade in production inputs; however, that supplementary legislation was very vague. Price reform was effectively put on hold. A compromise had been effected in the

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[78] *Pravda*, 20 January 1987, 2.

form of *goszakazy*: the state would issue orders, on a competitive basis, for priority production. The lack of reform in the economy as a whole resulting from the inconsistent implementation of the limited supplementary legislation was viewed by reformers (as will be seen in a subsequent chapter) as the proximate cause for the failure of the enterprise law: in practice *goszakazy* typically accounted for all of an enterprise's production.

Commodity-monetary relations, as noted earlier, did not necessarily imply market-driven pricing. Nemchinov's proposal was that inter-enterprise trade should be primarily on the basis of centrally-fixed normatives; enterprises should set prices according to these equations. Nemchinov was indeed categorical in his opposition to free pricing; planned prices served a regulatory function in the economy.[79] Novozhilov's version of indirect centralisation called for some degree of negotiated pricing at the wholesale level, but even here that was a strictly supplementary role. There were those who recommended a more market-orientated pricing policy. Most radical perhaps was Lisichkin, an economist at the Institute of Economics of the World Socialist System, who cautioned against any attempt to find some middle-ground in commodity-monetary relations between real markets and pricing by normatives; one method would inevitably come to dominate the other. Lisichkin's own preference was for market pricing.[80]

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[79]Nemchinov, 'Sotsialisticheskoe khoziaistvovanie i planirovanie proizvodstva', 80.

[80]G.S. Lisichkin, *Plan i rynok* (Moscow: Ekonomika, 1966). For more discussion on the 1960s market debate see Sutela,

Only slightly less radical but more important for the subsequent course of events was a student of Novozhilov, Petrakov, a deputy director of the Central Mathematical Economics Institute. In his reformulation of Nemchinov's dual-track system, Petrakov proposed that only the most important production should be subject to plan orders; all other production should be according to equilibrium pricing as determined by consumer preferences - in other words the market.[81] Petrakov's proposal was rejected as 'market socialism' even by other SOFEists[82] and in 1973 Petrakov was forced to issue a disavowal of his proposal.[83]

During the 1970s, to the degree that such issues were permitted to be discussed, fixed-price commodity-monetary relations were presented as having a strictly supplementary role which would gradually lose importance. In the case of Petrakov and his 1973 self-criticism, this meant conceding that most prices should be centrally-set.[84] For Abalkin, the role of commodity-monetary relations derived from the fact

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'Rationalizing the Centrally Managed Economy', 77-84, and Jan Adam, *Planning and Market in Soviet and East European Thought, 1960s-1992* (London: Macmillan, 1993), 35-40.

[81]N. Petrakov, 'Upravlenie ekonomikoi i ekonomicheskie interesy', *Novyi mir* 8 (August 1970), 167-186.

[82]E. Gorbunov and Iu. Ovsienko, 'Preodolet' psikhologicheskii barer', *Novyi mir* 2 (February 1971), 147-158, 147.

[83]N. Petrakov, 'Mify rynochnogo sotsializma i ekonomicheskaia realnost'', *Problemy mira i sotsializma* 2 (February 1973), 33-37. These events are described in Pekka Sutela, *Economic Thought and Economic Reform in the Soviet Union* (Cambridge: Cambridge University Press, 1991), 80-81

[84]Petrakov, 'Mify rynochnogo sotsializma', 36.

that perfect centralisation was simply not possible, and there would always be some gaps that central planners could not fill.[85] Vadim Medvedev, then rector of the Academy of Social Sciences of the Central Committee, acknowledged that commodity-monetary relations existed, but would gradually disappear.[86]

The conservative position was that there should be no commodity-monetary relations at all. Even after the disappointing results of the repeated efforts in the 1970s at achieving central control over enterprise behaviour, notably the lacklustre effects of computerisation, resistance to commodity-monetary relations remained strong. Iakushev's stance was typical: in planning for the needs of the economy as a whole, the state needed to retain the ability to 'depart from the cost of production'.[87] Indeed, there was at least one defection to the conservative ranks. Valovoi, who had previously been a defender of commodity-monetary relations,[88] by 1986 had concluded that any reliance on profit distorted the normal functioning of the economy.[89]

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[85]L.I. Abalkin, *Khoziaistvennyi mekhanizm razvitogo sotsializma* (Moscow: Mysl', 1973), 254.

[86]V.A. Medvedev, *Teoreticheskie problemy razvitogo sotsializma* (Moscow: Mysl', 1980), 37.

[87]V. Iakushev, Demokraticheskii tsentralizm v upravlenii narodnym khoziaistvom', *Sotsiologicheskie issledovaniia* 2 (February 1984), 55.

[88]Victor Zaslavsky, 'Soviet Reforms in the 1980s: Current Debate', in R.F. Miller, J.H. Miller, and T.H. Rigby (eds.), *Gorbachev at the Helm: A New Era in Soviet Politics?* (London: Croom Helm, 1987), 136-160, 148.

[89]D. Valovoi in *Pravda*, 7 July 1986, 2.

The centralising impulse of 1970s economic policy, and the consequent absence of a role for commodity-monetary relations, was solidly within the framework of the Kautsky-Lenin single factory image. It was exactly on a rejection of that image that in 1984 Piskotin argued that there was no reason for the neglect of commodity-monetary relations, and that on the contrary 'all obstacles to their better use should be removed'.[90] After all, Piskotin argued by quoting Aristotle, money predated even the advent of law and derived from the natural process of exchanging goods; commodity-monetary relations had an important role to play until the distant achievement of communism.[91] That same year Gorbachev put commodity-monetary relations on the agenda for decision on exactly this basis in his December 1984 speech:

> ... it has been proposed that an increase in the rates of economic development and a growth in efficiency is subject to the development of commodity-monetary relations. What can be said about this? Yes, commodity-monetary relations are inherent in socialism. Their instruments are widely applied in a socialist economy. And it is important to learn how to use these instruments even more effectively ...[92]

The following June, Gorbachev concluded that four steps were required to 'guarantee advantages to labour collectives which are successful in accelerating scientific and technical progress': wholesale trade, price reform, full *khozraschet*,

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[90]M.I. Piskotin, *Sotsializm i gosudarstvennoe upravlenie* (Moscow: Nauka, 1984), 207.

[91]Piskotin, *Sotsializm i gosudarstvennoe upravlenie*, 104, 207.

[92]Gorbachev, 'Zhivoe tvorchestvo naroda', *Izbrannye rechi i stat'i*, Volume 2, 81-82.

and wage reform.[93] At the 27th Congress, Gorbachev was more categorical, calling for 'wholesale trade in the means of production' and, at the end of the passage on new economic methods, declared:

> It is high time to overcome prejudices regarding commodity-monetary relations. Refusal to recognise that they have a direct influence on people's motivation and on production efficiency leads to a weakening of the principle of *khozraschet* ...[94]

For reformers, full *khozraschet* depended exactly on the use of commodity-monetary relations, and price reform in particular.

Petrakov dismissed the limited price revisions which had taken place since 1982[95] and returned to his line of argument which had been interrupted in the early 1970s: that prices should reflect final-use properties, 'the extent to which output volumes match public consumption' - in other words, according to supply and demand.[96] In an extended article on the subject of full *khozraschet* Abalkin echoed that argument, albeit more cautiously: 'the active engagement of cost-cutting levers requires that prices be changed, setting them not according to individual outlays but on the basis of socially

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[93]Gorbachev, 'Korennoi vopros ekonomicheskoi politiki partii', *Izbrannye rechi i stat'i*, Volume 2, 273-274.

[94]Gorbachev, 'Politicheskii doklad tsentral'nogo komiteta KPSS XXVII s"ezdu kommunisticheskoi partii sovetskogo soiuza', *Izbrannye rechi i stat'i*, Volume 3, 220.

[95]For details of these price revisions see Morris Bornstein, 'Price Policies and Comment on Shmelev', in Ed A. Hewett and Victor H. Winston (eds.), *Milestones in Glasnost and Perestroyka. The Economy* (Washington, DC: The Brookings Institution, 1991), 167-203.

[96]N. Petrakov, 'Tsena, rychag upravleniia', *Ekonomicheskaia gazeta* 16 (1986), 10.

necessary costs'.[97] The system being called for was Nemchinov's dual-track pricing system, with the clear majority of prices to be negotiated by enterprises, and price controls, where needed, applied via centrally-determined normatives. There was a prescient warning about this approach, however, which was all the more remarkable for coming from a Gosplan economist. Stetstiura stated bluntly that 'the battle for easy plans will be replaced with the battle for easy norms.'[98]

Another problem was that on the basis of the current price levels, national economic goals were likely to become compromised if enterprises were to be given any independence in production decisions. In 1986 Borozdin warned that existing prices were good only for accounting purposes, and brought out the important point that any central revision of prices would be out of date by the time they were introduced: the 1982 revision of wholesale prices was based on the situation in 1980.[99] In a special series of question and answers in *Kommunist* in early 1987, the clear consensus among the prominent reformers participating, including Abalkin, Anchishkin, Bunich, and Fedorenko, was that 'full *khozraschet*' required price reform.[100] In contrast, the conservative

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[97]L. Abalkin, 'Polnii khozraschet', *Pravda*, 12 December 1986, 3.

[98]V. Stetsiura, 'K voprosu o planirovanii', *Planovoe khoziaistvo* 9 (September 1986), 95-100, 97.

[99]Iu. Borozdin in *Ekonomicheskaia gazeta* 23 (June 1986), 7.

[100]'Ekonomicheskaia teoriia i praktika perestroiki', *Kommunist* 5 (March 1987), 30-39; 6 (April 1987), 10-19; 7 (May 1987), 25-34; and 9 (June 1987), 50-58.

position was that price revisions would not be necessary until the next five-year plan (a position which was to prevail, as examined in the following chapter).[101]

Indeed, reformist efforts to link price reform and full *khozraschet* offer one textbook example of attempted issue expansion.[102] The plan to divert Siberian and Northern rivers aroused considerable opposition, in which members of the Russian Writers' Union were among the most vocal. Sergei Zalygin sparked a running debate in *Literaturnaia gazeta*:

> ... the Ministry of Water Economy has worked out grandiose water projects, but what can be their economic significance and foundation if they do not take account of the price of water?[103]

Minster of Water Economy Vasil'ev responded by noting that industry did pay for its water (a small charge had been introduced in 1982), but payments by kolkhozes had long since ceased, and that the best way to conserve water was through careful planning and the introduction of 'progressive technical solutions'.[104] Vasil'ev avoided the topic of the

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[101]See: A. Komin, 'Tsenoobrazovanie v usloviiakh planovoi ekonomiki', *Planovoe khoziaistvo* 5 (May 1986), 55-65, 65. Gosplan's non-radical reform alternatives, which have not been discussed in this chapter, are summarised by Twigg, who observes that had they been adopted would have centralised 'the administration of both production and consumption to a degree unthought of even in Stalin's time'. Judyth Twigg, 'The Anti-Expenditure Principle: Gosplan's Proposals for Soviet Economic Reform', *Soviet Studies* 43:5 (1991), 837-857, 837.

[102]On issue expansion, see Roger Cobb, Jennie-Keith Ross, and Marc Howard Ross, 'Agenda Building as a Comparative Political Process', *American Political Science Review* 70:1 (March 1976), 126-138, 127.

[103]Sergei Zalygin, 'Vodnoe khoziaistvo bez stoimosti ... vody?', *Literaturnaia gazeta* 40 (October 1985), 12.

[104]N. Vasil'ev, 'Tsena vody', *Literaturnaia gazeta* 51 (December 1985), 13.

river diversion project itself as well as the issue of incorporating cost-benefit analysis in designing projects which entailed the use of water.

At this point the reformist economist Otto Latsis stepped into the debate by first linking cost-accounting with the pricing of water, then expanding the linkage to all natural resources:

> The argument about the price of water gives the opportunity to have a clear and graphic living 'model' to examine this complex and social problem: payment for resources and *khozraschet*.[105]

In a 'P.S.' to his article, Latsis recalled that at the 23rd Congress in 1966, Vasil'ev himself as an obkom first secretary spoke with 'great interest and conviction' on the virtues of *khozraschet* in kolkhozes.[106] The reason that the Ministry of Water Economy would not be likely to evince interest in the disciplines of *khozraschet* was simple: recovery of capital costs in the ministry's water projects was typically to require eight years, but by its own figures the time-frame was closer to twenty-five years, and in reality was in the region of one hundred years.[107]

An alliance of convenience among environmentalists, cultural leaders, and reformists did succeed in stopping the costly Siberian river diversion projects - 'probably the first

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[105]O. Latsis, 'Shchedrost' ... no za chei schet?', *Literaturnaia gazeta* 3 (January 1986), 11.

[106]The calls to set prices on natural resources production continued after the 27th Congress. See, for instance, Iu. Borozdin, 'Planovoe tsenoobrazovanie v novoi sisteme khoziaistvovaniia', *Kommunist* 16 (November 1986), 26-37, 28.

[107]Otto Latsis, 'Ugroza perestroike', *Znamia* 7 (July 1988), 175-179, 177.

major victory over the bureaucracy' in Petrakov's view.[108] A more enduring coalition on economic reform, however, did not materialise. In fact, quite the opposite occurred: In 1988, the keynote speaker at the Russian Republic Writers' Union, A. Salutsky, first attacked the concept of 'commodity-monetary relations' and then denounced a number of reformist academics (including Otto Latsis) and singled out Aganbegian in particular for allegedly supporting the river diversion project.[109] Aganbegian had in fact been a co-signatory to an open letter in *Pravda* against the diversion project[110] (a point which several reformist economists made in their rebuttal to Salutsky[111]).

For the most part reformers were engaged in a struggle to prevent issue expansion of *khozraschet*. First, there were proposals that brigades should be the place where *khozraschet* was introduced. For instance, according to Bachurin *khozraschet* was not 'full' if it did not include subdivisions and he quoted the director of the Kaluga factory that *khozraschet* 'must begin with brigade khozraschet. If success is not achieved at [that] lower level it is not worth thinking about for the level of the factory.'[112] This proposal was

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[108]Nikolai Petrakov, *The Second Russian Revolution Transcripts*, Roll 21, Page 6.

[109]*Literaturnaia rossiia*, 23 December 1988, 2-4.

[110]*Pravda*, 12 February 1986, 3.

[111]*Sovetskaia kul'tura*, 14 February 1989, 2. Among the signatories were Bogomolov, Shatalin, Petrakov and Bunich.

[112]A. Bachurin, 'Khozraschet v sisteme upravleniia ekonomikoi', *Planovoe khoziaistvo* 12 (December 1985), 31-42, 35.

readily assimilated into full *khozraschet* as 'internal production [*vnutrizavodskii*] *khozraschet*'.[113] In fact, a separate decree was adopted in 1986 on 'Internal production *khoziaistvennyi raschet* of production associations (enterprises).[114] The enterprise law was silent on this kind of *khozraschet*.

Secondly, and more serious to the full *khozraschet* envisaged by reformers, were efforts to include ministries. Ministries had been placed on *khozraschet* after the 1965 reform in the version that was basically a book-keeping device; reformers were after a far more significant version. One interesting effort to expand the issue to include ministries came from Shkabardnia, the minister of Minpribor. That ministry was placed on *khozraschet* and *samofinansirovanie* in 1970, according to Shkabardnia, but it did not work because enterprises were not included.[115] Any idea of putting ministries on full *khozraschet*, however, was anathema to most reformers, for whom full *khozraschet* meant precisely devolving decision-making powers from ministries to enterprises. Piskotin had stated that 'so-called *khozraschet* of ministries

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[113]See, for instance, V. Moskalenko, 'Samofinansirovanie: Printsipy, dal'neishee razvitie', *Voprosy ekonomiki* 2 (February 1987), 50-58, 58.

[114]In a foreshadowing of problems that the enterprise law would have, the editors of *Ekonomicheskaia gazeta* claimed that they had been deluged with queries about this decree because it had not been sent to many enterprises and associations; the editors therefore decided to publish it in their paper. *Ekonomicheskaia gazeta* 38 (September 1986), 14-16, and 39 (September 1986), 16-17.

[115]M. Shkabardnia, 'Strategiia otrasli v usloviiakh perestroiki', *Planovoe khoziaistvo* 4 (April 1987), 3-22, 4.

can occur only at expense of the *khozraschet* of enterprises'.[116] Also, it was the enterprise that was engaged in the production of commodities; proposals to place ministries on *khozraschet* were based on a misunderstanding of the role of the ministry as purely administrative [*upravlencheskogo*] organ;[117] any idea of *khozraschet* of industrial ministries was 'economic nonsense',[118] and would do more harm than good.[119] According to Latsis, any notion of putting ministries on *khozraschet* was to 'misunderstand the key word of reform.'[120] Abalkin noted that expecting an efficient economic system merely by 'adopting a few more decrees transferring ministries and agencies to full *khozraschet* and *samofinansirovanie*' was a 'serious delusion'.[121]

Although ministry *khozraschet* was indeed eventually made policy, there was high-level support for defining full *khozraschet* without reference to ministries. At the 27th Congress, Gorbachev called specifically for the transfer of enterprises to 'genuine *khozraschet*, *samookupaemost'*, and

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[116]Piskotin, *Sotsializm i gosudarstvennoe upravlenie*, 150.

[117]S.S. Shatalin, 'Effektivnoe ispol'zovanie resursov: interesy i stimuly', *EKO* 12 (December 1986), 3-22, 17.

[118]'Ekonomicheskaia teoriia i praktika perestroiki', *Kommunist* 9 (June 1987), 50-58, 58.

[119]V. Bogachev, 'Polnyi khozraschet i tsentralizovannoe khoziaistvennoe upravlenie', *Voprosy ekonomiki* 5 (May 1988), 3-15, 8.

[120]Latsis, 'Ugroza perestroike', 177.

[121]L. Abalkin, 'Perestroika sistemy i metodov planovogo upravleniia', *Planovoe khoziaistvo* 5 (May 1987), 10-16, 16.

samofinansirovanie'.[122] Indeed, Gorbachev went even further when he declared that

> In the final analysis, everything we are doing to improve management and planning and to readjust organisational structures is aimed at creating the conditions for *the effective work of the basic link of the economic system: the association or enterprise*.[123]

The following June the drafting of the 'Law on the socialist enterprise' was announced.

Samoupravlenie

Of all the provisions in the enterprise law, *samoupravlenie* was the most innovative and arguably the most important. The rights spelled out in the enterprise law transformed workers' control of industry (at least on paper) from an ideological abstraction invoked by Party leaders into an active and, in most instances, decisive participation of employees in enterprise decision-making, from production issues to the election of the director. The sole notable instance of a further radicalisation in the provisions of the enterprise law between its draft and final versions was in *samoupravlenie*; in the draft law employees were only to be consulted on the selection of the director. The advent of an elected workers' council as a permanent body acting on behalf of enterprise employees between the regular conferences of all employees represented the single organisational innovation of the

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[122]Gorbachev, 'Politicheskii doklad tsentral'nogo komiteta KPSS XXVII s"ezdu kommunisticheskoi partii sovetskogo soiuza', *Izbrannye rechi i stat'i*, Volume 3, 214.

[123]Gorbachev, 'Politicheskii doklad tsentral'nogo komiteta KPSS XXVII s"ezdu kommunisticheskoi partii sovetskogo soiuza', *Izbrannye rechi i stat'i*, Volume 3, 214. Emphasis in original.

enterprise law. Although *samoupravlenie* in practice quickly became riddled with problems and was abandoned within two years, it was an important step in the process of political reform. There had been several experiments in democratisation at regional levels as well as in industry, but it was with the enterprise law that such practices were taken out of the laboratory and applied throughout the country. The process of democratisation in the Soviet Union began at the state enterprise.

The *samoupravlenie* provisions in the enterprise law constituted the apogee in a long tradition of devising fora of employee participation in enterprise decision-making, the operative word being 'participate'. By the early 1980s a typical enterprise had some forty such bodies,[124] including trade union committees, assorted voluntary organisations, control committees, competition committees, Komsomol organisations, and so forth. The remit of most of these bodies was the discussion of social, welfare and other issues not directly concerned with enterprise production, but even discounting these there were a number of bodies which were more or less concerned with production issues.[125]

At the most general level were periodic general workers' meetings; in principle all issues relating to production were

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[124]*Trudovye kollektivy v sisteme sovetskoi sotsialisticheskoi demokratii* (Moscow: 1978), 146, cited in Darrell Slider, 'Worker Participation in Socialist Systems: The Soviet Case', *Comparative Politics* 18:4 (July 1986), 401-418, 405.

[125]For further discussion, see Slider, 'Worker Participation in Socialist Systems', 405-410.

open for discussion, and it was at these meetings that the enterprise collective agreement was adopted in which wages, hours, and other rules were specified. With somewhat more structure were the permanent production conferences, which in terms of organisational structure were the closest forerunners to what became the organs of *samoupravlenie*. Production conferences to discuss technical problems had been held in enterprises since the 1920s, but in 1958 were made permanent with a standing presidium, with a membership consisting of representatives of the various bodies in the enterprise, including the administration, union, Party and other bodies, with meetings organised by the unions. The unions also provided a more direct and regular forum with the union committees. Finally, there were the brigades, the basic work units. In the 1970s, a number of experiments involving contract brigades operating on principles of *samofinansirovanie* demonstrated some success in improving productivity; further experiments with the brigade system were undertaken in industry in the 1980s,[126] and the idea was promoted by Gorbachev for agriculture in particular.[127] At their best, with the exception of the brigade experiments, the role which was provided for workers was participation without power.

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[126]See Darrell Slider, 'The Brigade System in Soviet Industry: An Effort to Restructure the Labour Force', *Soviet Studies* 39:3 (July 1987), 388-405.

[127]See V.P. Gagnon, Jr, 'Gorbachev and the Collective Contract Brigade', *Soviet Studies* 39:1 (January 1987), 1-23.

According to Lenin, 'Under socialism ... the people will achieve independent participation not only in voting and elections, but also in day-to-day *upravlenie*.'[128] However, with the defeat of the Workers' Opposition and their attempt to institute a version of work-place democracy, it was one-man management (*edinonachalie*) which became the fundamental principle in enterprise management, a role which remained at the core of legislation on the state enterprise until *perestroika*. For most of the post-Stalin years, the theoretical discussion of *samoupravlenie*, and of the issue of worker participation more generally, had been largely descriptive, tending to focus on how existing institutions embodied the principles of *samoupravlenie* - particularly at the level of the political system, such as the Party and the soviets.[129] With occasional exceptions, prescriptive policy advocacy for *samoupravlenie* at the level of the enterprise began to reemerge as a reformist literature from the mid-seventies, and particularly after the adoption of the 1977 Constitution. This reformist body of literature was all the more remarkable for having its origins in the closing years of Brezhnev's era of stagnation; nonetheless, as Bova has pointed out, there were parameters established by ideology: any notion of a conflict of interests in society was denied, and the

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[128]V.I. Lenin, 'Gosudarstvo i revoliutsiia', *Polnoe sobranie sochinenii*, Volume 33, 116.

[129]For a discussion of that literature, see I.P. Il'inskii, *Sotsialisticheskoe samoupravlenie naroda* (Moscow: Mysl', 1987), 39-44.

development of *samoupravlenie* could not signify any withering away of the state.[130]

In Article 6 of the new Constitution the organising principle of the Soviet polity, democratic centralism, was codified, with an explicit statement that lower bodies were to 'observe the decisions of higher ones'. That same article, however, stated with equal clarity that 'all bodies of state authority from the highest to the lowest' were elective; part of the argument of proponents of *samoupravlenie* consequently was that state enterprises were 'state bodies' and therefore should be elective. Of more direct import for *samoupravlenie* was another otherwise minor modification of the 1936 Constitution. Article 8, which reestablished the rights and responsibilities of labour collectives, stated in part that

> Labour collectives participate in discussing and deciding state and public affairs, in planning and social development, in training and placing personnel, and in discussing and deciding matters pertaining to the management of enterprises...

That particular formulation opened up many questions, not the least of which was the meaning and practical application of the operative phrase, 'participate in discussing and deciding'. In late 1977, the Council of Ministers instructed the Institute of State and Law to draft a law on labour collectives based on these constitutional provisions.[131] There then ensued an extended debate about labour collectives in a

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[130]Russell Bova, 'On *Perestroyka*: The Role of Workplace Participation', *Problems of Communism* July-August 1987, 76-86, 77.

[131]Joel C. Moses, 'Worker Self-Management and the Reformist Alternative in Soviet Labour Policy, 1979-85', *Soviet Studies* 39:2 (April 1987), 205-228, 205-206.

series of articles, most of which were printed in the Institute's house journal, *Sovetskoe gosudarstvo i pravo*. After the belated adoption of a relatively weak draft of the Law on Labour Collectives,[132] this debate continued with the new reference point of implementing the new legislation; notably, sights were set much lower in these later articles, demonstrating the dampening effect the adoption of legislation can have on policy advocacy when attention shifts from formulation to implementation.[133] The advocates of *samoupravlenie*, however, did not accept the law on collectives as the final word on that matter; when enterprise *samoupravlenie* did return to the agenda during *perestroika*, their central themes reemerged largely intact. The specification of *samoupravlenie* took place in two key areas: the organisational form which worker participation should assume and in what kinds of decisions workers should be entitled to participate.

With the return of legal status for the labour collective in the new constitution after an absence of over fifty years, an entire new area of debate was opened up. *Edinonachalie* notwithstanding, enterprise management had long been recognised as a responsibility shared out, on a somewhat *ad*

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[132]The law was originally slated for adoption in February 1980 but was delayed until April 1983.

[133]For instance, compare the two articles of V.A. Maslennikov of 1980 and 1983 (just prior to the law's adoption). 'Sovershenstvovanie khoziaistvennogo mekhanizma i razvitie initsiativy trudovykh kollektivov', *Sovetskoe gosudarstvo i pravo* 1 (January 1980), 131-139; 'Trudovoi kollektiv i sovetskaia politicheskaia sistema', *Sovetskoe gosudarstvo i pravo* 1 (January 1983), 115-123.

hoc basis, among administrative, Party, union and other officials.[134] What a new law on the labour collective offered to do was convert some or all of the informal departures from the principle of *edinonachalie* into a formal role for worker participation in enterprise management. In a widely cited 1979 article, Maslennikov (who together with his colleague at the Institute of State and Law, Boris Kurashvili, was one of the preeminent and consistent advocates of *samoupravlenie*) argued that these *ad hoc* 'unofficial structures' could not provide the basis for the new legislation on collectives; what was required instead was a firm distinction between the 'enterprise' as an economic and legal category and the 'enterprise collective' as a social and political category. The distinction between these two categories, while firmly established in the theoretical literature, was, as Maslennikov lamented, lost in practice.[135]

The argument Maslennikov put forward was that on the basis of such a distinction, there were two roles which the collective played in decision-making. On the one hand, the collective was a participant in state and social decisions; implicitly this was the role derived from democratic centralism of exercising political power through Party,

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[134]This was, in Ruble's term, the 'troika' of administrative, Party and union officials. Adding Komsomol officials to the list of key participants, Moses refers to the 'quadrangle'. Blair Ruble, *Soviet Trade Unions* (Cambridge: Cambridge University Press, 1981), 52; Moses, 'Worker Self-Management', 207.

[135]V.A. Maslennikov, 'Pravovoi status trudovogo kollektiva', *Sovetskoe gosudarstvo i pravo* 1 (January 1979), 40-47, 42.

legislative and other institutions who in turn determined enterprise plans and other policy in the aggregated interests of all workers. In this role all collectives could and should be governed by the same set of legal rights. On the other hand, the collective participated in the decisions of the enterprise (or more specifically the organisation for which it was the collective). Maslennikov's implication, spelled out more clearly than in the Constitution, was that in principle the collective should be able to participate in all decisions undertaken at the enterprise.[136]

On that foundation, however, reformist proposals could be put forward that more decisions should be devolved to the enterprise level and that more of those decisions should be subject to the binding authority of the labour collective. Although the discussion centred on demarcating the correct boundaries in decision-making powers between the state and the labour collective, just below the surface was the issue of ownership, and this was a precursor to the more intense debate which began after the adoption of the enterprise law when there was a shift in focus from decision-making rights to ownership rights, as will be seen in a subsequent chapter. The radical conclusion that all decisions regarding the enterprise should be undertaken by the labour collective foreshadowed the later radical conclusion that all ownership rights over the state enterprise should be invested in the people who worked there.

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[136]Maslennikov, 'Pravovoi status trudovogo kollektiva', 43.

The question of what was the appropriate institutional form for worker participation (however defined) was relatively straightforward. Ivanov and Livshits identified two principal options: strengthen the union committees or create a new body specifically for worker participation.[137] The preferred option among reformers was to create a council of the labour collective elected by all the workers or (more rarely) a council consisting of the brigade leaders elected by each brigade. The reformist objections to the union committees were that they were already over-burdened with the tasks they already had; workers in fact preferred their union committees to focus on social issues in the enterprise;[138] and though the union committees were mandated to represent workers, they were extensions of the unions, not of the labour collective.[139]

Notably, there was only one decision taken by higher agencies which reformers explicitly sought to place within the

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[137]S.A. Ivanov and R.Z. Livshits, 'Konstitutsiia SSSR i voprosy trudovogo kollektiva', *Sovetskoe gosudarstvo i pravo* 4 (April 1978), 14-23, 18-19. A third option was also available but rarely discussed: elevate the status of the permanent production conferences. This option made some sense in the terms of the structural goals of reformers - the permanent production conferences had a standing presidium whose membership was elected by the workers - but was not popular among reformers. The reasons against this option listed by Tsepin included: the permanent production conferences had not been created in every enterprise, those that did exist had severe shortcomings, and - undoubtedly the overriding objection - they were created not as an executive arm of the collective but as an organ under the leadership of the union committees. A.I. Tsepin, 'Trudovoi kollektiv kak sub"ekt trudovogo prava', *Sovetskoe gosudarstvo i pravo* 8 (August 1981), 51-54, 53.

[138]Maslennikov, 'Pravovoi status trudovogo kollektiva', 46.

[139]Tsepin, 'Trudovoi kollektiv kak sub"ekt trudovogo prava', 52.

competence of the labour collective: the selection of enterprise management. Clearly in part for ideological acceptance, but also out of anticipation of the negative reaction such ideas would elicit, not least among enterprise managers, proposals for the broader adoption of electing management usually suggested that the practice could be introduced incrementally. In a 1980 article, Maslennikov endorsed the idea of first consolidating the principle of electability of low-level leaders, and then expanding the principle to include leaders of labour collectives.[140] In 1981, Tsepin more forcefully argued that electing directors 'gradually, building on past experience', made sense if labour collectives were to be given other powers of decision-making.[141] With a law on collectives nearing its final form in 1982, Kurashvili (of whom more below), however, went further and argued that if there were to be any significant new legislation on the labour collective, among the required conditions for successful implementation was the election of enterprise directors.[142]

Part of the reason for the focus on naming enterprise directors seems to have stemmed from the legalistic approach adopted by these academic lawyers; they were focusing on a law on the labour collective and were seeking to establish what

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[140]Maslennikov, 'Sovershenstvovanie khoziaistvennogo mekhanizma', 138.

[141]Tsepin, 'Trudovoi kollektiv kak sub"ekt trudovogo prava', 52.

[142]B.P. Kurashvili, 'Gosudarstvennoe upravlenie narodnym khoziaistvom: perspektivy razvitiia', *Sovetskoe gosudarstvo i pravo* 6 (June 1982), 38-48, 45.

would be the scope of its involvement in decision-making. In his 1979 article, Maslennikov observed that the degree of worker involvement in enterprise-decision making was 'directly tied to the amount of economic independence of a given economic organisation'.[143] In itself, this was a reformist argument to diffuse decision-making powers, if only within the enterprise. Tsepin supplemented this argument by proposing that nearly all activities within the enterprise undertaken by any organisation should be subjected to the oversight of the labour collective, including not only administrative decisions, but also union committee decisions, socialist competition, comrades' courts and voluntary organisations.[144] The major thrust of the argument was that the limits to the rights and responsibilities of the labour collective should be congruent with the rights and responsibilities of the enterprise.

Inherent in the argument was that any further devolution of decision-making within the economic system should be linked to the diffusion of decision-making within the enterprise. The advocates of *samoupravlenie* stood ready to make common cause with other advocates of economic reform. The linkage was made explicit in a hallmark article by the legal scholar Boris Kurashvili, who demonstrated a remarkable tenacity in holding

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[143]Maslennikov, 'Pravovoi status trudovogo kollektiva', 43.

[144]Tsepin quoted the director of the Kaluga factory, the site of the most extensive experimentation with brigades, that if new labour policies still left administrative organs making all the decisions then 'people would soon understand that they were playing management games'. Tsepin, 'Trudovoi kollektiv kak sub"ekt trudovogo prava', 52-54.

to his views despite changes in the political winds.[145] What was the radical edge of reformist thinking in 1982 had become mainstream by the time of the enterprise law and reactionary by 1989, but all the time Kurashvili was advocating the same ideas on political and economic reform, the centrepiece of which was *samoupravlenie*. With the adoption of the law on collectives only a few months away, Kurashvili's 1982 article also established his practice of publishing what amounted to his own version of a draft law before the far less satisfactory official draft fixed a more limited agenda, which he again did in a 1986 article prior to the ratification of the enterprise law.[146]

In one of many of his articles which came with the editorial addendum 'for discussion', Kurashvili in a 1982 article set out his vision of a 'radical improvement to the system of *upravlenie*, its *perestroika*', enunciating, in addition to what was to become the slogan for reform three years later, the basic themes of reform: full *khozraschet*, organisational independence, and *samoupravlenie*. Enterprises were to be fully accountable for their economic activity; virtually all those decisions would be undertaken at the level of the enterprise, with the central authorities setting general production targets and national standards such as a minimum wage; and those decisions would be taken by the labour

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[145]Kurashvili, 'Gosudarstvennoe upravlenie narodnym khoziaistvom'.

[146]B.P. Kurashvili, 'Osnovnoe zveno khoziaistvennoi sistemy (K kontseptsii zakona o sotsialisticheskom predpriiatii)', *Sovetskoe gosudarstvo i pravo* 10 (October 1986), 12-21.

collective. In the 'self-regulating economic mechanism' the state's role would be to focus on long-term planning through the manipulation of the economic environment in which enterprises made production decisions. The state *apparat* itself would be drastically reduced in size and scope, with ministries streamlined into seven bodies and Gosplan renamed 'Genplan', or the Committee for General Planning.

Kurashvili also made an explicit connection between reform design and reform implementation, a crucial problem to which many other reformers - both then and during *perestroika* - devoted far less attention. If reform meant that administrative agencies would lose power, then the implication was that a mechanism other than the administrative agencies was required to implement reform; *samoupravlenie* was both the means and the goal of reform. Basic questions of production would be decided by the workers at periodic general meetings or conferences of the enterprise. In the periods between these meetings, workers' interests would be safeguarded through a new 'labour collective council' (*sovet trudovogo kollektiva*), the chair of which would be the enterprise director, who was elected at a general meeting. Only in the case of 'especially serious or systematic violations' of law could the enterprise be placed, for a 'defined period', under direct state control.[147]

That Solidarity was making similar proposals in Poland at the same time did not augur well for Kurashvili's ideas, or,

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[147]Kurashvili, 'Gosudarstvennoe upravlenie narodnym khoziaistvom', 45.

indeed, for that matter any proposal which would lead to a transfer of power to workers at the enterprise. Without making specific references, Andropov insisted that the Soviet Union would not tolerate 'anarchosyndicalism'.[148] The events in Poland continued well into the *perestroika* period to provide the basis on which proposals on *samoupravlenie* could be subjected to such criticisms that relinquishing too much central control would lead to 'games of market forces' in which 'anarchosyndicalism' would emerge.[149]

The 'Solidarity factor' undoubtedly had a dampening effect on the final formulation of the Law on Labour Collectives which was adopted in April 1983[150] (the sole major piece of legislation adopted during Andropov's tenure): there were no references to elected management or a workers' council. Instead, workers were to be consulted on enterprise appointments, and meetings of all workers were legally required to be held regularly. The major channel for workers to be consulted on enterprise decisions was the union committees; interestingly, accusations of 'anarchosyndicalism' were not levelled at the union committees.

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[148]Iu. Andropov, 'Uchenie Karla Marksa i nekotorye voprosy sotsialisticheskogo stroitel'stva v SSSR', *Kommunist* 3 (February 1983), 18-20, 19.

[149]A. Auzan, 'Sotsialisticheskoe samoupravlenie: politiko-ekonomicheskii aspekt', *Kommunist* 13 (September 1986), 77-88, 83. The popular support enjoyed by Solidarity later enabled it to implement a 'shock treatment' reform, a precondition which Gorbachev aide Georgii Shakhnazarov lamented was lacking in the Soviet Union for a similarly deep reform in 1990. *Corriere della Sera*, 31 May 1990. Quoted in Elizabeth Teague, 'Soviet Workers Find a Voice', *Report on the USSR*, 13 July 1990, p. 13.

[150]Moses, 'Worker Self-Management', 218.

Advocates of *samoupravlenie* did not accept the law on collectives as the final word on the matter. Electing enterprise directors was an issue which would be settled in the future but there still was the 'real possibility' of electing middle managers, and some brigade leaders already were elected, even if that was not (yet) required for positions at higher levels.[151] In the Andropov-era tightening of discipline, arguments were also adjusted accordingly; checks on arbitrary actions by management should include the requirement that directors give periodic accounts to workers' conferences.[152] The legal specialist at the Institute of Economics, Torkanovskii, established the point that more was yet to be done in a 1983 *Kommunist* article, immediately after the adoption of the law on collectives: the democratisation of production *upravlenie* was 'moving along the path of *samoupravlenie*' which in time would shift the locus of decision-making. Workers would consult enterprise managers on decisions, not the other way around. Decisions in an enterprise had to be made by those who implemented them in order to create the conditions for workers to 'feel like the master' of the enterprise.[153] Nonetheless, *samoupravlenie* was removed from the decision agenda. Andropov declared that the

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[151]A.M. Kurennoi, 'Uchastie trudovykh kollektivov v upravlenii predpriiatiiami', *Sovetskoe gosudarstvo i pravo* 3 (March 1984), 83-88, 87.

[152]F.M. Rudinskii, 'Biurokratizm i problemy ego iskoreneniia', *Sovetskoe gosudarstvo i pravo* 5 (May 1984), 35-42, 42.

[153]E. Torkanovskii, 'Razvitie demokraticheskikh nachal v upravlenii proizvodstvom', *Kommunist* 8 (August 1983), 36-46, 43.

time was not yet right for 'communist *samoupravlenie* ... *upravlenie* of the people by the people'.[154]

The suspension of *samoupravlenie* as an issue for reform, however, did not last long. Indirectly disagreeing with Andropov, Gorbachev in his December 1984 speech rejected the 'one-sided view' that 'the practical implementation of the principles of *samoupravlenie* are put off until the transition to the highest phase of communism'.[155] That statement, together with his views on commodity-monetary relations, was already part of Gorbachev's instrumental contribution to Soviet ideology. Policy would be guided by an ideology which sought not to bring about a new level of development. Instead, ideology borrowed basic and long-established principles about economic relations from the past as well as ideas on the organisation of industrial relations which had been relegated to the future in order to undertake reform at the current stage of development.

In a later passage in that speech, Gorbachev re-established the basis of discussion for *samoupravlenie* on the basis of the faulty implementation of the Law on Cooperatives:

> Available information indicates that many collectives are not yet fully implementing their rights and they are sporadically applying the sanctions, privileges, and measures for material and moral incentives set out by law. The administration does not always listen to the suggestions of workers, and union committees are not demonstrating sufficient persistence... [T]he issue is

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[154]Andropov, 'Uchenie Karla Marksa', 18.

[155]Gorbachev, 'Zhivoe tvorchestvo naroda', *Izbrannye rechi i stat'i*, Volume 2, 83.

> not about something desirable or undesirable, but about a law which should be strictly implemented.[156]

These new terms of reference set out two important themes for reform during *perestroika*: reform would build on existing legislation, and the law would be strictly applied. Although Gorbachev did not specifically endorse workers' councils and the election of directors until the 27th Congress, advocates of *samoupravlenie* took Gorbachev's 1984 speech as indicating support for reform. The initial position focused primarily, as before, on involving the collective in the decisions which already took place at the enterprise - which could be effected with supplementary rules to the existing law on collectives.

Before long, however, *samoupravlenie* was connected to economic reform. Kurashvili had already laid the groundwork in a 1983 article. Without specifically identifying the law on collectives, Kurashvili had distinguished between 'quasi-reforms', which were superficial reorganisations, and 'reforms' which changed 'the organisational relationships between the state apparatus and members of society';[157] inasmuch as the law on collectives was a reorganisation of decision-making authority at the level of the enterprise, leaving the authority of higher agencies intact, it was a quasi-reform. A lead editorial in *Sovetskoe gosudarstvo i pravo* in June 1985 reiterated that same argument, concluding that *samoupravlenie* within the enterprise could be successful

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[156]Gorbachev, 'Zhivoe tvorchestvo naroda', *Izbrannye rechi i stat'i*, Volume 2, 94-95.

[157] B.P. Kurashvili, 'Ob"ektivnye zakony gosudarstvennogo upravleniia', *Sovetskoe gosudarstvo i pravo* 10 (October 1983), 36-44, 44.

only if undertaken concurrently with a deconcentration of decision-making authority within the economic system.[158]

The climate for advocacy of *samoupravlenie* was further improved over the following months with fundamental reassessments of two of the ideological limits to worker participation in enterprise decision-making which Bova has identified, as noted above. The first, that there could be no conflicting interests in a socialist society, had been challenged privately in the Novosibirsk Report and publicly soon thereafter; conflict between social interests provided a theoretical foundation for the 'human factor', and clearly so in the article by Zaslavskaia on the concept.[159] abandoned with Zaslavskaia's exposition of the human factor. The second, that *samoupravlenie* would not entail a diminution of state power, was redefined under the rubric of economic levers and *khozraschet*: the centre would give up some powers, which properly belonged at the level of the enterprise, but would be able to exercise other, indirect powers over the economy to far greater effect than even administrative levers in an ideal form could provide.

What is notable is that the efforts of *samoupravlenie* advocates to connect their proposals with economic reform were not reciprocated by the reformist economists. There were a few exceptions: Abalkin and Petrakov had both linked economic

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[158]'Zakon o trudovykh kollektivakh v deistvii', *Sovetskoe gosudarstvo i pravo* 6 (June 1985), 5-12, 11.

[159]T. Zaslavskaia, 'Chelovecheskii faktor razvitiia ekonomiki i sotsial'naia spravedlivost'', *Kommunist* 13 (September 1986), 61-73.

reform with political reform in the 1960s, and Abalkin, like Zaslavskaia (whose education had been in economics) wrote widely on the 'human factor' during *perestroika*. Perhaps most important was Zaslavskaia's colleague in Novosibirsk, Aganbegian, who had gone on record, in a 1984 *Trud* article, saying that successful economic reforms needed to be 'organically interconnected'. This was to include change both in the relationship between the enterprise and its ministry and in the relationship between workers and the director within the enterprise.[160] Kurashvili cited Aganbegian in his own 1982 article.

These individuals, however, were in a distinct minority; *Sovetskoe gosudarstvo i pravo* and Aganbegian's *EKO* were the major venues for advocacy of *samoupravlenie*. The primary concern of the reformist economists was devolving authority to the enterprise, and they tended to share the critique of Hewett, a Western economist, that *samoupravlenie* imposed new restraints on directors just as old ones were removed.[161] Bunich, for example, quoted the 12th Party Congress to the effect that 'a director's striving for profit serves the interests of the working class'.[162] The fact that *samoupravlenie* was rarely addressed outside of its small group of advocates led Petrakov to quip that:

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[160]*Trud*, 28-29 August 1984.

[161]Hewett, *Reforming the Soviet Economy*, 327.

[162]P. Bunich, 'Tsentralizovannoe upravlenie i samostoiatel'nost' proizvodstvennykh ob"edinenii', *Voprosy Ekonomiki* 5 (May 1985), 48-58, 88.

> The term '*samoupravlenie*' literally burst onto the conceptual stage in the economic life of our country. Its novelty for many theoreticians and practitioners was so great that they unwittingly attempted to use this term as rarely as possible.[163]

Petrakov termed *samookupaemost'*, *samofinansirovanie*, and *samoupravlenie* - the three 'S's' - of the enterprise law a 'declaration of rights of the socialist enterprise.[164]

Gorbachev himself, however, was a staunch advocate of *samoupravlenie* at the enterprise. At the 27th Congress Gorbachev indicated his support for both labour collective councils and electability of managerial personnel;[165] this was a position which he confirmed on numerous occasions in subsequent speeches. It is significant that in his major speeches, Gorbachev discussed *samoupravlenie* not in the economic sections, but in the political sections. At the 27th Congress, under the heading 'The further democratisation of society', Gorbachev supported the election of enterprise personnel and the creation of a new institution of work-place democracy, the labour collective council. At the January 1987 Plenum, under the heading 'To deepen socialist democracy', Gorbachev reiterated his support of these principles at the enterprise while at the same time expanding his focus to reform of the political system of the country as a whole. The results culminated in the creation of a new political

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[163]N.Ia. Petrakov, *Demokratizatsiia khoziaistvennogo mekhanizma* (Moscow: Politizdat, 1988), 242.

[164]Petrakov, *Demokratizatsiia khoziaistvennogo mekhanizma*, 196, 190.

[165]Gorbachev, 'Politicheskii doklad tsentral'nogo komiteta KPSS 27omu s"ezdu kommunisticheskoi partii sovetskogo soiuza', *Izbrannye rechi i stat'i*, Volume 3, 240.

institution, the Congress of People's Deputies (with a reformed Supreme Soviet as an inner parliament), in March 1989, and Gorbachev's own election to the new post of President of the Soviet Union the following year. As Gorbachev was later to claim, his intention was exactly to begin with democratisation of the enterprise and then expand democracy throughout society.

Chapter Four

Decision-Making

According to the Party documents, *perestroika* began when Gorbachev became general secretary in 1985, and more specifically with Gorbachev's inaugural speech at the April Plenum. Among the leaders of the *perestroika* era, however, there is a considerable divergence of opinion over when the process of reform really began. Ligachev does identify the year 1985 as when he 'began *perestroika* along with Gorbachev'.[1] For Medvedev, the 'practical implementation of *perestroika*' began later, in 1987.[2] Iakovlev gives a still later date, 1989, when political reform began, with economic reform not beginning until the following year.[3] Ryzhkov, however, goes to a much earlier time, when '*perestroika* began without noise or applause' in 1983, during Andropov's brief period in office.[4] The date given for the beginning of reform in deed may be seen as a defining characteristic of the attitudes of leading participants towards the proper scope and pace of reform under *perestroika*.

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[1]Yegor Ligachev, *Inside Gorbachev's Kremlin* (New York: Pantheon, 1993), xxxvii.

[2]Vadim Medvedev, *V komande Gorbacheva* (Moscow: Bylina, 1994), 42.

[3]Aleksandr Iakovlev, *Muki, prochteniia, bytiia* (Moscow: Novosti, 1991), 5.

[4]N.R. Ryzhkov, *Perestroika: Istoriia predatel'stv* (Moscow: Novosti, 1992), 156.

On one point, however, there is some consensus: With the end of the Brezhnev era, a denser network of relationships began to develop among hitherto disparate and half-hidden clusters of reformist politicians, academics and functionaries.[5] A full analysis of the decision process for the enterprise law needs to include both a longer time frame than that of the formal drafting and an account of the role played by reformist groupings. The case for this analytical strategy is made more compelling with respect to the enterprise law by Ryzhkov, who as Chair of the Council of Ministers had direct responsibility for economic policy for most of the *perestroika* era. According to Ryzhkov, 1983 was the year when reformists, armed with ideas which had been regarded as 'seditious' but were to become mainstream thinking, embarked on the 'path to free' the state enterprise 'from the weight of command-distributive centralisation'. The enterprise law was one important step in this process.[6] It was, in fact, in many respects a codification of the measures adopted after 1983.

In Chapter Two, the contents of the three 'process streams' - problems, policy alternatives, and participants - were analysed individually. In Chapter Three, the specific agenda for the law on the state enterprise was explored in depth, in part by examining the links which developed between

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[5]Even Iakovlev is in accord on the importance of this time. Cherniaev, Gorbachev's long-time advisor, recounts that in October 1988 Iakovlev complained to him that Gorbachev had never acknowledged that the idea of *perestroika* first arose during conversations they had in 1983 in Canada, where Iakovlev was in semi-exile as ambassador. A.S. Cherniaev, *Shest' let s Gorbachevym* (Moscow: Progress, 1993), 317.

[6]Ryzhkov, *Istoriia predatel'stv*, 46 and 165.

two process streams, problems and alternative policies. This chapter, on decision-making, builds on that analysis by exploring the links between policy alternatives and participants, and - with Ryzhkov's comment as the point of departure - assessing how enduring those links were as the decision process progressed.

Some experimentation with interest group theory notwithstanding,[7] looser, amorphous 'opinion groupings' and associated concepts have been more widely used as analytical constructs in Soviet studies, usually as a means of assessing sources of influence in policy-making from outside of formal institutions. Opinion groupings of academic specialists held particular importance in formulating ideas and proposals which were subsequently adopted by political leaders.[8] Opinion groupings at times focused on specific policy issues, forming temporary 'policy coalitions' to promote that issue,[9] but remained dependent on their ability to persuade leaders to act on a particular issue.[10] The chances of success for such alliances were improved if functionaries in policy-making institutions and particularly top leaders were included among

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[7]The most influential such study is H. Gordon Skilling and Franklyn Griffiths (eds.), *Interest Groups in Soviet Politics* (Princeton, NJ: Princeton University Press, 1971). For Skilling's response to critics of the interest group approach, see H. Gordon Skilling, 'Interest Groups and Communist Politics Revisited', *World Politics* 36:1 (October 1983), 1-27.

[8]Archie Brown, 'Policymaking in Communist States', *Comparative Communism* 11:4 (Winter 1978), 424-436, 434.

[9]John Löwenhardt, *Decision Making in Soviet Politics* (London: Macmillan Press, 1981), 25.

[10]Peter H. Solomon, Jr., *Soviet Criminologists and Criminal Policy* (London: Macmillan Press, 1978).

their number, creating 'coalitions that cut across institutional lines and whose main objective [was] to win the ear of influential leaders'.[11] Coalitions and opinion groupings tended to form within broader policy 'communities', 'whirlpools', or 'issue areas' in which knowledge and ideas about particular policy areas were developed and exchanged.[12]

There has in fact been some convergence in Soviet studies and policy studies on analysing the role of diffuse groups such as these in decision-making. If 'issue network' theory may have greater applicability in studies of Communist systems since, as Almond and Roselle observe, 'it does not carry the connotation of formal authority and autonomy',[13] Hugh Heclo put forward the term 'issue network' because of the shortcomings of traditional interest group theory to describe the policy process in Western systems.[14] This 'revisionist' or 'post-

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[11]Thane Gustafson, *Crisis Amid Plenty* (Princeton, NJ: Princeton University Press, 1989), 313.

[12]See, respectively: Löwenhardt, *Decision Making in Soviet Politics*, 87-88; Jerry F. Hough, 'The Man and the System', *Problems of Communism* XXV (March-April 1976), 1-17, 14; William Zimmerman, 'Issue Area and Foreign-Policy Process: A Research Note in Search of a General Theory', *American Political Science Review* 1204-1212.

[13]Gabriel A. Almond and Laura Roselle, 'Model Fitting in Communist Studies', in Frederic J. Fleron, Jr, and Erik P. Hoffmann (eds.), *Methodology and Empirical Theory in Sovietology* (Boulder: Westview Press, 1993), 27-75, 49.

[14]Hugh Heclo, 'Issue Networks and the Executive Establishment', in Anthony King (ed.), *The New American Political System* (Washington, DC: American Enterprise Institute, 1978), 87-124. The notion of 'issue network' should be sharply distinguished from Lowi's 'arenas of power'. The former has to do with particular spheres of policy; the latter defines all spheres of policy according to the nature of the policy itself. Indeed, Heclo has been highly critical of Lowi's approach. See: H. Hugh Heclo, 'Review Article: Policy Analysis', *British Journal of Political Science*, 2:1 (January

positivist' literature develops earlier work, of which Heclo's issue networks is one of the two more widely cited contributions (Kingdon's process streams, and 'garbage can' theory in general, being the other), in which the basic unit of study in understanding the policy or decision process is the interaction of bureaucrats, interest group leaders, specialists, journalists and others active in a particular policy area.[15] Decision-making is seen as an on-going process rather than an event, and therefore policy change is best understood within a long-term perspective.[16] Attention is paid less to the process of weighing the merits of competing policy options than to exploring how new knowledge is introduced into the policy process.[17]

In addition to issue networks and policy communities, a number of additional new concepts have been put forward to describe such groupings, including 'epistemic communities', 'policy monopolies', and 'advocacy coalitions',[18] each term

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1972), 83-108, 105-106.

[15]Paul A. Sabatier, 'Toward Better Theories of the Policy Process', *PS: Political Science and Politics*, 24:2 (June 1991), 147-156, 148.

[16]Claudio M. Radaelli, 'The Role of Knowledge in the Policy Process', *Journal of European Public Policy* 2:2 (June 1995), 159-183, 160-161.

[17]Louise G. White, 'Values, Ethics, and Standards in Policy Analysis', in Stuart S. Nagel (ed.), *Encyclopedia of Policy Studies* (New York: Marcel Dekker, 1994), 857-878, 872.

[18]See, respectively: Peter M. Haas, 'Introduction: Epistemic Communities and International Policy Coordination', *International Organization* 46:1 (Special Issue, Winter 1992), 1-35; Frank R. Baumgartner and Bryan D. Jones, *Agendas and Instability in American Politics* (Chicago: Chicago University Press, 1993); and Hank C. Jenkins-Smith and Paul A. Sabatier, 'Policy Change over a Decade or More', in Paul A. Sabatier and

reflecting nuances in emphasis which should not obscure the overall analytical thrust they share.[19] Regardless of nuance, all begin with the premise of a broad network of individuals with assorted institutional affiliations and interests who are active in a particular policy area, a 'policy community' (the term being used here primarily for terminological consistency).[20]

Policy communities may be relatively unified in their interaction, or they may be quite fragmented into different 'modes', with a division of labour in sub-areas of a particular policy.[21] Policy communities may also become fragmented as one or more smaller, more unified groups emerge, here termed 'policy coalitions' (again, the nomenclature is adopted for terminological consistency), to advocate specific policy alternatives (a 'shared-action' group, in Heclo's terminology). A policy coalition has a number of potential

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Hank C. Jenkins-Smith (eds.), *Policy Change and Learning* (Boulder, CO: Westview, 1993), 13-39.

[19]The major points of difference are: the degree of group cohesiveness, with the listing here in roughly ascending degree of cohesion; barriers to entry, with issue networks and policy communities being the most permeable; and the organising principle for defining the group - issue networks and policy communities being (in Heclo's terms) 'shared-knowledge' groups, and epistemic communities, policy monopolies and advocacy coalitions being 'shared-belief' groups (but clearly differentiated from traditional interest groups). On 'shared-knowledge' and 'shared-belief' groups, see: Heclo, 'Issue Networks and the Executive Establishment', 103-104.

[20]'Policy community' and 'issue network' are broadly congruent terms, both being more inclusive concepts than other possible candidates which appear in the literature, such as 'whirlpool', 'policy sub-system' or 'policy sub-government'.

[21]John W. Kingdon, *Agendas, Alternatives, and Public Policies* (Boston: Little, Brown, 1984), 124.

courses of action to promote policy change, including: convincing others within the wider policy community;[22] seeing its members promoted into formal decision-making positions;[23] and seeking other institutional venues which may be more amenable to its policy alternatives.[24] Thus, the dynamics of policy change can be seen through the interaction of policy communities and policy coalitions on the one hand, and institutional venues on the other hand.

The Decision Process

With the death of Brezhnev new ideas began to surface, circulate, and be discussed by politicians, functionaries and academics active in the sphere of economic policy. The decision process of the enterprise law can be summarised in terms of the diffusion of new ideas in the policy community which underwent consolidation in 1983-1985, but which then clearly began to fragment both along functional lines within the administrative agencies and into policy coalitions by the following year as the three key documents spelling out reform measures were formulated and adopted in the summer of 1987.

The enterprise law was the central document of the three measures, but its formulation was closely associated with the

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[22]Kingdon, *Agendas, Alternatives, and Public Policies*, 128.

[23]Emanuel Adler and Peter M. Haas, 'Conclusion: Epistemic Communities, World Order, and the Creation of a Reflective Research Program', *International Organization* 46:1 (Special Issue, Winter 1992), 367-390, 379-380.

[24]Baumgartner and Jones, *Agendas and Instability in American Politics*, 37-38.

other two. The June 1987 Central Committee Plenum, devoted entirely to economic issues, had approved the enterprise law together with the far more radical 'General Guidelines' outlining the wholesale reform of the entire economy, for which the enterprise law was the first step. The third document, the far more cautious package of decrees ostensibly designed to bring the activities of the administrative system into line with the new enterprise law, was adopted the following month. The decision process of the enterprise law was inextricably linked with the drafting of these two documents.

Similarly, the fact that the enterprise law was adopted without reform of the economic environment - with the General Guidelines constituting merely a statement of intent - draws attention to two decisions which had a profound effect on the enterprise law in implementation. The first was a sin of omission: the decision to delay price reform. As noted in the previous chapter, reformers had no illusions that full *khozraschet* could be divorced from changes in the pricing system. This position was shared by Gorbachev, who remarked at the time of the enterprise law's adoption that 'if we isolate the Law on the enterprise from the other elements which constitute the integrated system of *upravlenie* of our economy, that would put the enterprise in a difficult position'.[25] More specifically, Gorbachev noted that the most important aspect

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[25]Mikhail Gorbachev, 'Vstupitel'noe slovo na soveshchanii v TsK KPSS po voprosam korennoi perestroiki upravleniia ekonomikoi' [speech of 8 June 1987], *Izbrannye rechi i stat'i*, Volume 5 (Moscow: Politizdat, 1987), 109.

of reforming the economic system was in fact a 'radical reform of price formation', without which a transfer to the new economic mechanism would be impossible.[26]

The second decision was a sin of commission: the inclusion of *goszakazy*, or state orders. As originally intended, state orders were to guarantee production in areas deemed of particular importance by the state. While state orders were to have been profitable contracts for the state enterprise, they were nonetheless binding to whomever they had been issued - the only aspect of issuing state orders as set out in legislation to be fully implemented, in the view of Abalkin.[27] As state orders quickly came to occupy all an enterprise's production, valuable reformist attention was diverted to reducing them while at the same time the issue of price reform was repeatedly postponed.

Diffusion and the Policy Community: 1983-1985

It was not for a lack of ideas that the closing years of the Brezhnev era were absent of policy innovation, but rather the blocking of any initiatives which entailed any hint of reform. Two contrasting examples illustrate the situation. The first dates from a 1979 decree which was the last effort of any consequence in the Brezhnev era to invigorate the centralised

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[26]Gorbachev, 'O zadachakh partii po korrenoi perestroiki upravleniia ekonomikoi' [speech of 25 June 1987], *Izbrannye rechi i stat'i*, Volume 5, 171.

[27]*Izvestiia*, 1 March 1988, 2.

planning system.[28] Although the decree has been considered a 'reform' by some,[29] its provisions fell wholly within the framework of direct bureaucratic control and therefore constituted merely a change in policy. The central feature was the introduction of a value-added index to replace the notorious '*val*' - indicating gross production - as the single most important indicator of judging an enterprise's compliance with the plan. The decree was, in the words of Hewett, 'bereft of new ideas'.[30]

That was a conclusion which appears to have been shared by many within the higher echelons of the institutions of economic administration. The long-time Chair of Gosplan, Nikolai Baibakov, reportedly submitted a programme for more fundamental change to Brezhnev personally in that same year, but the memorandum was intercepted by Suslov and subsequently 'disappeared'.[31] What it was that Baibakov proposed is not known, but on the basis of subsequent events it seems reasonable to surmise that it was of a centralising nature -

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[28]'Ob uluchshenii planirovaniia i usilenii vosdeistviia khoziaistvennogo mekhanizma na povyshenie effiktivnosti proizvodstva i kachestva raboty', *Ekonomicheskaia gazeta* 32 (August 1979).

[29]This would appear to include Gorbachev and Ryzhkov. Gorbachev, 'O zadachakh partii po korennoi perestroike upravleniia ekonomikoi' [speech to the June 1987 Central Committee Plenum], *Izbrannye rechi i stat'i*, Volume 5, 161; Ryzhkov, *Perestroika: Istoriia predatel'stv*, 48.

[30]Ed A. Hewett, *Reforming the Soviet Economy* (Washington, DC: The Brookings Institution, 1988), 251.

[31]This information was revealed by Valentin Pavlov shortly after he had replaced Ryzhkov as Chair of the Council of Ministers (and shortly before Pavlov turned against Gorbachev in the August coup attempt). *Izvestiia*, 15 June 1991, 2.

given the kinds of proposals on economic reform which were put forward by Baibakov[32] and other Gosplan officials during *perestroika* and Baibakov's own role as an impediment to the changes Gorbachev sought in the 12th Five Year Plan in 1985. Regardless of the kind of proposal Baibakov had in mind, he did not appear to follow up with concerted advocacy once the political situation began to change: A special commission established in late 1982 and chaired by Baibakov to study attempts to improve the economic system in other socialist countries did not produce any significant proposals (despite numbering among its members Academician Oleg Bogomolov, who was to become one of the prominent advocates of *perestroika*).[33]

A second, very different example of a false start for reform was the 1982 Food Programme. Then in charge of agricultural affairs in the Central Committee, Gorbachev invited six economists to comment on the draft Food Programme in April 1982; it was at this meeting that Gorbachev and Tat'iana Zaslavskaia first met.[34]. In the course of the three hour discussion, Gorbachev accepted criticisms that the draft was less than what was needed, but countered that if anything

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[32]On Baibakov's views on economic reform, see: Hewett, *Reforming the Soviet Economy*, 281-282.

[33]Anders Åslund, 'Gorbachev's Economic Advisors', in Ed A. Hewett and Victor H. Winston (eds.), *Milestones in Glasnost and Perestroyka. The Economy* (Washington, DC: The Brookings Institution, 1991), 74-103, 84. With Baibakov's dismissal, his commission was also dissolved.

[34]Tat'iana Zaslavskaia, *The Second Russian Revolution Transcripts*, Roll 88, Pages 1-4; among the other economists present, according to Zaslavskaia, was Academician Viktor Nikonov, who assumed responsibility for agriculture in the Central Committee in 1985 and became a full Politburo member in 1987.

the draft would be even less innovative in its final form. For instance, the draft envisaged creating an umbrella organisation for the agricultural ministries. The economists suggested that merely adding another organisational level would not improve matters, and that the agricultural ministries should be fully amalgamated, to which Gorbachev responded, 'Do you think if I wrote that in the draft programme, I would still be sitting in this office?'.[35]

Amalgamating the agricultural ministries was an idea which was swiftly resurrected once Gorbachev became general secretary, with the creation of *Gosagroprom* being one of his first policy measures.[36] However, the significance of this meeting was not its impact on the drafting process of the Food Programme, but the official support, albeit informal, which was being given to the exchange of alternative ideas among scholars. According to Vadim Medvedev, such discussions took place on many occasions 'in the depths of the Central Committee at Gorbachev's initiative', bringing what were to become prominent advocates of economic reform into close contact with the future general secretary, including - in addition to Zaslavskaia, Nikonov, and Medvedev - Abel Aganbegian, Oleg Bogomolov, Georgii Arbatov, Leonid Abalkin, Vadim Medvedev, and Stepan Sitarian.[37] Aganbegian adds to the

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[35]Tat'iana Zaslavskaia, *The Second Russian Revolution Transcripts*, Roll 88, Page 4.

[36]*Pravda*, 23 November 1985.

[37]Medvedev, *V komande Gorbacheva*, 17. See also Ryzhkov, who describes these individuals as those who had 'secretly dissidented' since the disappointing 1979 decree, and who were already well-known to both Gorbachev and Ryzhkov. Ryzhkov,

list a number of subsequently prominent figures who had been participating in this informal exchange of ideas, including Aleksandr Anchishkin, Nikolai Fedorenko, Gavriil Popov, and Stanislav Shatalin, among others.[38] Such exchanges of opinions were, however, very much *ad hoc*, with little opportunity to express reformist views in a formal venue.

With Andropov's selection as general secretary in November 1982 the atmosphere for both social scientists and reformist ideas changed sharply for the better.[39] Gorbachev was given over-all control of economic affairs in the Central Committee - despite his relative lack of seniority - and, after a personal interview by Andropov, Ryzhkov was promoted from Gosplan to his first senior Party appointment, directly under Gorbachev, as head of the new Economic Department of the Central Committee. In a meeting with Gorbachev and Ryzhkov in December 1982, Andropov instructed them to 'work together', setting them the task of developing long-term programmes of improving the economic system as quickly as possible: 'And do not lose any time, we don't have any left'.[40] The new institutional venue created by the Economic Department was critical in establishing a space within the official Party structure in which reformers and ideas could circulate relatively openly and, most importantly, lead to policy

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Perestroika: Istoriia predatel'stv, 46.

[38]A.G. Aganbegian, 'Prakticheskie dela ekonomicheskoi nauki', *EKO* 9 (September 1989), 17-28, 19.

[39]Aganbegian, 'Prakticheskie dela ekonomicheskoi nauki', 19.

[40]Ryzhkov, *Perestroika: Istoriia predatel'stv*, 41.

measures. This was a field largely left to the Economic Department, with the Council of Ministers under the 'featureless' Tikhonov concentrating on current operations.[41]

Gorbachev and Ryzhkov, who had until then not known each other very well, quickly found a common language in the understanding they shared that halting the deterioration of the economy required radical changes. Given a free hand by Andropov in putting together their team to work out proposals, Gorbachev and Ryzhkov brought together two important networks of people: reformist academics known principally to Gorbachev and reformist officials from Gosplan with whom Ryzhkov had been working. The people from these two networks came from very different backgrounds and, as events subsequently demonstrated, with quite different views; for the time being such differences were of a secondary nature to their common cause of advocating any kind of reform at all. While the Economic Department may have provided a haven for reformist thinking, there was no guarantee that their suggestions would find a receptive audience elsewhere. Andropov's patronage was critical both in securing information from other departments less disposed towards reform and in obtaining Politburo ratification of its proposals.[42] Nonetheless, a fault-line remained between these two networks, and between Gorbachev and Ryzhkov, which in time would divide them.

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[41]Ryzhkov, *Perestroika: Istoriia predatel'stv*, 63.

[42]Nikolai Ryzhkov, *The Second Russian Revolution Transcripts*, Roll D85 Side A, Pages 3-4.

For the first half of 1983 Gorbachev and Ryzkkov held a number of meetings on the economic situation in the Central Committee which were attended by a broad array of individuals, from their own advisors to the directors of state enterprises and state farms.[43] In July the first fruits of their efforts emerged in the form of two decrees: one was the Large-Scale Economic Experiment and the other was on discipline.[44] These two decrees represented, in Ryzhkov's judgement, the inception of *perestroika* in the economy which 'proclaimed the beginning of order and discipline on the one hand, and, on the other hand, gave enterprises genuine rights so that they would not have to work *constantly* under the whip from above'.[45] New rules on enterprise management were being written, and greater emphasis was being placed on following those rules; this was the familiar path trodden in previous reforms efforts (as Ryzhkov acknowledges). In short, the two decrees taken together were a programme of 'discipline and reform',[46] with both of the relevant decrees being written with the support of

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[43]Ryzhkov, *Perestroika: Istoriia predatel'stv*, 43. Not all meetings of reformists, of course, were organised by Gorbachev or Ryzhkov; this was the time that the Novosibirsk Report was delivered.

[44]'O dopolnitel'nykh merakh po rasshireniiu prav proizvodstvennykh ob"edinenii (predpriiatii) promyshlennosti v planirovanii i khoziaistvennoi deiiatel'nosti i po usileniiu ikh otvetstvennosti za rezul'taty raboty', *Pravda*, 26 July 1983, 1; 'Ob usilenii raboty po ukrepleniiu sotsialisticheskoi distsipliny truda', *Pravda*, 7 August 1983, 1.

[45]Ryzhkov, *Perestroika: Istoriia predatel'stv*, 47-48, emphasis in original.

[46]The phrase comes from: Archie Brown, 'Andropov, Discipline *and* Reform?', *Problems of Communism* 33:1 (January 1983), 18-31.

Gorbachev and Ryzhkov in what was a prototype for the super-optimum solution of *uskorenie*.[47]

While Ryzhkov continued to have primary responsibility over the Large-Scale Economic Experiment both before and after its implementation in January 1984, in accordance with standard practice a special oversight commission within the Central Committee was formed.[48] The then-deputy chair of Gosplan, Lev Voronin, was named the director of the 'Commission for the General Guidance of the Experiment', with then-first deputy chair of Gosplan Stepan Sitarian as deputy director.[49] The Voronin Commission - although Sitarian was by far more active than Voronin himself - was given responsibility for troubleshooting the experiment and making recommendations for its further development, thus giving the many reformers Gorbachev and Ryzhkov had involved in the activities of the Central Committee and its Economic Department a direct voice in decision-making in a specific sphere of policy as well as a valuable learning experience from the experiment itself.

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[47]The situation was very different with the Law on Individual Labour Activity and the crack-down on unearned income. The former ('reform'), discussed below, was written largely within the Institute of State and Law, and the latter ('discipline') by the *apparat*. The goals of these two measures, drafted separately, were in direct conflict.

[48]On commissions in Soviet politics, see: Sergei Freidzon, 'Top-Level Administration of the Soviet Economy: A Partial View', *Rand Paper* P-7178 (Santa Monica, CA: Rand Corporation 1986), 102-102.

[49]Hewett, *Reforming the Soviet Economy*, 261; and Åslund, 'Gorbachev's Economic Advisors', 84.

According to Ryzhkov, the principal function of the Large-Scale Economic Experiment was as an opportunity to demonstrate the 'advantages and failings' of the reformist ideas which had been incubating in the Economic Department; Ryzhkov saw this as a gradual and long-term learning process before embarking on system-wide reform.[50] Insofar as learning theory is concerned, any results of the experiment would certainly require more than a few years before meaningful evaluation could begin. The validity of generalising data from the favourable conditions of an economic experiment to the economy as a whole is another matter.[51] However, the more critical political function of the Large-Scale Economic Experiment was to demonstrate the advantages of reformist ideas - and blame the failures on causes external to the experiment, namely the unreformed economic system within which it operated.[52] Andropov, for one, appears to have been more insistent on moving forward than Ryzhkov.[53]

Others within the higher echelons of state and Party power were, of course, less amenable to the Large-Scale Economic Experiment, whose logical conclusion would entail a significant reduction of central prerogatives in economic

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[50]Ryzhkov, *Perestroika: Istoriia predatel'stv*, 48.

[51]Alice M. Rivlin, *Systematic Thinking for Social Action* (Washington, DC: The Brookings Institution, 1971).

[52]Ryzhkov phrased the situation thus: 'without radical changes to the entire administrative machine it would be impossible to extend the economic experiment'. Ryzhkov, *Perestroika: Istoriia predatel'stv*, 70.

[53]Ryzhkov, *The Second Russian Revolution Transcripts*, Roll D85 Side A, Page 6.

affairs. As rumours of resistance in the government agencies began to reach the Economic Department, the preemptive response was to recommend a Politburo-level commission to supervise the experiment. Doing so could provide a higher profile for the experiment and secure clear Politburo support for the experiment, while the operational details could continue to be dealt with in the corresponding Central Committee commission under Voronin. This proposal resulted in the creation of a Politburo commission to oversee the Central Committee commission in charge of the economic experiment, under the leadership of the ageing Chair of the Council of Ministers, Nikolai Tikhonov, with Ryzhkov's first deputy in the Economic Department, Boris Gostev (later Minister of Finance) serving as secretary. As appears to have been the expectation of Gorbachev and Ryzhkov, the Tikhonov Commission filled a purely formal role,[54] met sporadically to supervise the Voronin Commission, and had little positive policy impact.[55] Tikhonov himself, however, proved to be more of an obstacle.

As the Large-Scale Economic Experiment began implementation, the Economic Department presented new proposals. After a lengthy series of heated discussions, a consensus formed that the main problem in the structure of the economic administrative system was the relationship between the centre and the republics. The suggestion was to divide Russia into large economic zones, and transfer all but the

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[54]Ryzhkov, *Perestroika: Istoriia predatel'stv*, 65.

[55]Åslund, 'Gorbachev's Economic Advisors', 84.

basic industrial ministries to those zones and the ministries of the other fourteen republics. This idea would appear to have raised constitutional questions inasmuch as the (post-*sovnarkhozy*) 1977 Constitution declared the Soviet Union to be a single economic unit. While it is not clear whether such considerations were part of the calculus, the idea itself was categorically opposed at an embryonic stage, not surprisingly, by Tikhonov[56]. The problem of the relationship between the centre and the republics, of course, later returned with far greater urgency.

A second proposal also encountered resistance, but returned to the decision agenda immediately on Gorbachev's assumption of the Party leadership. This was the proposal to hold a Central Committee Plenum on scientific and technological progress - the ideas associated with which formed the foundation for *uskorenie*. The suggestion that such a plenum be held had been circulating since at least 1965, but was repeatedly put off.[57] The suggestion resurfaced in early 1984 with the support of Gorbachev and the Economic Department and was put to the Politburo - by this time Chernenko had succeeded Andropov. At the Politburo meeting, Tikhonov led the old guard in opposing the Plenum, if indirectly, on the grounds that the time was not yet right for that kind of

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[56]Ryzhkov, *Perestroika: Istoriia predatel'stv*, 71.

[57]Ryzhkov, *The Second Russian Revolution Transcripts*, Roll D85 Side A, Pages 7-8; Ligachev, *Inside Gorbachev's Kremlin*, 45.

debate.[58] This time, there was sustained advocacy. Gorbachev and Ryzhkov persuaded Chernenko to put his own signature under the proposal for another Politburo discussion on the matter in July, but it was not until October that the decision was made that the Plenum on scientific and technological progress would at last be held in April 1985.[59]

In the meantime, Gorbachev had been unearthing old documents in the Central Committee and, with Ryzhkov, soliciting specific ideas from reformists.[60] Gorbachev asked Aganbegian in early 1984 for a discussion paper. Central Committee documents of this sort normally were some eight pages; the one Aganbegian wrote ran to some 150 pages covering a wide range of issues beyond the immediate question of scientific and technological progress.[61] In November, full preparations for the Plenum were under way, with a working group formed under Gorbachev and Ryzhkov to prepare a set of basic principles for discussion in the Politburo by the end of December. A final conference of reformists was held in the Economic Department, and Gorbachev and Ryzhkov had a policy document ready in January.[62]

By that time, however, the political winds had shifted. In December Gorbachev had delivered his speech to the Central

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[58]Vitalii Vorotnikov, *The Second Russian Revolution Transcripts*, Roll A79, Page 6.

[59]Ryzhkov, *Perestroika: Istoriia predatel'stv*, 73.

[60]Ligachev, *Inside Gorbachev's Kremlin*, 47.

[61]Abel Aganbegian, *The Second Russian Revolution Transcripts*, Roll A163, Page 7.

[62]Ryzhkov, *Perestroika: Istoriia predatel'stv*, 73.

Committee ideological conference and had a successful trip to Britain. His increasing stature evidently prompted opposition to the up-coming Plenum on scientific and technological progress including, Aganbegian suggests, Chernenko.[63] Gorbachev himself told Ligachev that 'they are trying to dump the plenum,'[64] and Gorbachev's December speech may have been as much a response to as a cause of the growing opposition. In any event, the non-decision was taken within the Politburo in January to postpone the scientific and technological Plenum indefinitely and instead to move the 27th Congress forward; any major new initiatives were to be discussed at the Congress.[65] The report prepared by Ryzhkov and Gorbachev and submitted to the Politburo did not come up for discussion for the rest of Chernenko's general-secretaryship.[66] The reformist momentum in the Economic Department which had been built up under Andropov in 1982 and continued through 1983 appeared to be dissipating. Gorbachev asked Aganbegian to prepare a shorter memo, which he did, and then Aganbegian went on vacation.[67] Ryzhkov at one point had thought of resigning, but was persuaded by Gorbachev to carry on and await more

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[63]Aganbegian, *The Second Russian Revolution Transcripts*, Roll A163, Page 9.

[64]Ligachev, *Inside Gorbachev's Kremlin*, 47.

[65]Ligachev, *Inside Gorbachev's Kremlin*, 47; Aganbegian, *The Second Russian Revolution Transcripts*, Roll A163, Page 9.

[66]Ryzhkov, *Perestroika: Istoriia predatel'stv*, 74.

[67]Aganbegian, *The Second Russian Revolution Transcripts*, Roll A163, Page 8.

propitious times.[68] While the political climate had become less conducive to reformist efforts, through the efforts primarily of Gorbachev the reformers themselves within the Central Committee and the Economic Department held together as a group.[69]

When Gorbachev became general secretary, he had at his disposal a circle of advisors who had been working in close contact on questions of policy for two years, as well as programmatic documents on economic reform, albeit in a preliminary form, which had been prepared for the aborted Plenum on scientific and technological progress. Both the advisors and the documents were quickly pressed into service. The subject of the April Plenum, however, remained the convening of the 27th Congress. When Ryzhkov approached Gorbachev to ask why the April Plenum would not be on scientific and technological progress, as originally intended, Gorbachev answered that the first task was to set out the strategy at the April Plenum, and then move on to the specific issues of scientific and technological progress.[70]

Gorbachev did use many of the documents which had been prepared earlier for the aborted version of April Plenum, but not the document which Ryzhkov had co-authored. It was, instead, the documents and ideas with a wider view developed

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[68]Ryzhkov, *Perestroika: Istoriia predatel'stv*, 59, 74; Ryzhkov, *The Second Russian Revolution Transcripts*, Roll D85 Side A, Pages 8-9.

[69]Ryzhkov, *The Second Russian Revolution Transcripts*, Roll D85 Side A, Page 9.

[70]Ryzhkov, *Perestroika: Istoriia predatel'stv*, 83.

by Aganbegian and the other academics which were used.[71] The strategic line set out by Gorbachev on economic reform was to establish an 'integrated system of economic *upravlenie*',[72] in which the scope of the Large-Scale Economic Experiment would be expanded from enterprises to include the ministries, planning organs, and other higher agencies;[73] thus defining *uskorenie* as requiring economic reform, as discussed in Chapter Three.

When the specific issue of scientific and technological progress was discussed the following June, it was not at a Plenum, but a Conference. This time it was Ryzhkov who was directly involved in writing Gorbachev's speech, which the two of them did together over the course of some ten days alone in Gorbachev's office except for a stenographer.[74] For Ryzhkov, whether it was called a 'conference' or a 'plenum' was immaterial, so long as all members of the Politburo, Central

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[71]Aganbegian, *The Second Russian Revolution Transcripts*, Roll A164, Pages 2-3; and Aganbegian, 'Prakticheskie dela ekonomicheskoi nauki', 20.

[72]According to Vorotnikov, when the Plenum on Scientific and Technological Progress had been put off, it was not only the conservatives who were opposed, but also many who thought that the documents being prepared were not radical enough and that a far more comprehensive approach was required. While it would seem probable that reformers were pushing for a more comprehensive approach, it does however seem unlikely that there would be a concerted effort by reformers to cancel the Plenum altogether on those grounds. Vorotnikov, *The Second Russian Revolution Transcripts*, Roll A79, Page 8-9.

[73]Gorbachev, 'O sozyve ocherednogo XXVII s"ezda KPSS', *Izbrannye rechi i stat'i*, Volume 2, 158.

[74]Ryzhkov, *Perestroika: Istoriia predatel'stv*, 87; and Ryzhkov, *The Second Russian Revolution Transcripts*, Roll D85 Side A, Page 14.

Committee secretaries and members participated.[75] Nevertheless, though the June Conference was clearly important for economic policy, the over-all policy direction set out in April, at a Plenum, was more encompassing on economic policy as well as in politics, foreign affairs, and social issues.

The first few months of Gorbachev's general secretaryship, and these two speeches in particular, had two consequences for the enterprise law. The first result, and of immediate importance, was to place on the formal decision agenda the issues of enterprise reform which had been advocated in a tentative form by Gorbachev, Ryzhkov and their allies for the previous two years. Increasingly, Party and state structures were used to advance that agenda, not to block it. The successful diffusion of reform proposals, if as yet not in programmatic form, within the economic policy community could not in itself guarantee a coherent economic reform package in 1987, even if opposition to reform in principle could have been entirely eliminated. The fault-line which had been more or less latent within the reformist camp began to emerge.

Thus the second consequence of importance from the April Plenum and June Conference had to do with the speeches themselves. The April Plenum speech, with its expansive scope, was written by Gorbachev with the assistance of Aganbegian and other academics. The June Conference speech on the narrower issue of scientific and technological progress, in contrast, was written by Gorbachev and Ryzhkov. The respective

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[75]Ryzhkov, *Perestroika: Istoriia predatel'stv*, 87.

recollections of Ryzhkov and Aganbegian on the drafting of the April Plenum speech are notable. According to Ryzhkov, Gorbachev himself 'dictated, corrected and revised' that speech on his own.[76] According to Aganbegian, he was in the working group Gorbachev had set up which 'worked day and night, and he [Gorbachev] was actively involved in that work'.[77] This pattern - Aganbegian and the academics working on the grand strategy, Ryzhkov working separately on the concrete policy decisions - was to be repeated in 1987 on a much larger scale.

Over the course of the latter half of 1986, new appointments were made within the Party and state institutions. Two appointments in particular were important for the course of the enterprise law. The first was the replacement of Tikhonov by Ryzhkov as the Chair of the Council of Ministers. After Kosygin's removal from that post, the Council of Ministers under Tikhonov had become largely inert - a situation which Ryzhkov as head of the Economic Department had exploited, with policy initiative largely being the province of the Central Committee. After being named to be the Chair of the Council of Ministers in September (but not confirmed officially by the Supreme Soviet until November, vividly demonstrating the limited role that organ then played

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[76]Ryzhkov, *Perestroika: Istoriia predatel'stv*, 85.

[77]Aganbegian, *The Second Russian Revolution Transcripts*, Roll A164, Page 3. Aganbegian also reveals that already at this relatively early date a decree restricting alcohol consumption was being prepared and that the working group prepared documents for the April Plenum without the customary benefit of alcohol - the anti-alcohol campaign itself did not begin until 1986.

in decision-making), he moved quickly to establish relative independence for that body as a policy-making institution, taking with him 'the interest and hope' of the Economic Department.[78] Soon thereafter, Ryzhkov established a policy advisory department on the economic system within the Council of Ministers under Piotr Katsura.[79] The Economic Department of the Central Committee itself, however, remained, and with the appointment of Nikolai Sliun'kov, a full Politburo member, as its new head in 1987 (the position having been vacant since Ryzhkov's promotion) it regained an important policy role during the final drafting of the enterprise law.[80]

The second important appointment in 1985 was the replacement of Nikolai Baibakov by Nikolai Talyzin as Chair of Gosplan in October 1985. With the removal of Tikhonov, the Politburo Commission on the Large-Scale Economic Experiment appears to have been dissolved. Its nominal Central Committee counterpart under Lev Voronin also was placed in abeyance with Voronin's promotion to head Gossnab in November. A new 'Commission for the Improvement of *Upravlenie*, Planning, and the Economic Mechanism' headed by Talyzin was organised soon thereafter to formulate policy proposals in line with the

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[78]Ryzhkov, *Perestroika: Istoriia predatel'stv*, 106, 112-113.

[79]Anders Åslund, 'The Making of Economic Policy in 1989 and 1990', in Ed A. Hewett and Victor H. Winston (eds.), *Milestones in Glasnost and Perstroyka. The Economy* (Washington, DC: The Brookings Institution, 1990), 335-359, 336.

[80]Åslund, 'Gorbachev's Economic Advisors', 67.

April Plenum.[81] Formally under the Council of Ministers, the Talyzin Commission proved to be more of an impediment than a catalyst for reform, effectively functioning as an extension of Gosplan. Talyzin appears to have spent more time on his official Gosplan duties (which he discharged with limited effectiveness, prompting his dismissal in 1988) than as head of the Commission, and his first deputy, Stepan Sitarian, took the more active role, as he had done in a similar capacity in the recently disbanded Tikhonov Commission.

Within the Talyzin Commission, a scientific section was formed, which gathered together many of the reformers who had been involved in discussions in the Economic Department and the Central Committee by Ryzhkov and Gorbachev but had not secured an official position in Party or state institutions. These individuals were, for the most part, academic reformers including Aganbegian, Abalkin, Anchishkin, Petrakov, Popov, Shatalin, Yevstigneev and Zaslavskaia.[82] Under the leadership of Gvishiani (and especially after Gvishiani was replaced by Aganbegian in mid-1986), the scientific section provided an important, relatively independent institutional venue for many of the prominent radical reformers. They were also those who were to have close contact with Gorbachev in the next two years. Being a subsection of the Talyzin Commission, any

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[81] *Izvestiia*, 23 January 1986, 2.

[82] Åslund, 'Gorbachev's Economic Advisors', 85.

proposals they put forward, however, had to secure the approval of the officials staffing the Commission itself.[83]

Thus in the space of one year important changes had occurred which were to play out in the decisions of the next two years. At the end of 1984, a relatively small grouping of reformists led by Ryzhkov and (principally) Gorbachev based in the Central Committee and the Economic Department had been working together to advocate reform in conditions of considerable adversity. By the end of 1985, their reform agenda had become the official agenda, but their efforts were increasingly scattered among various institutional venues. The distribution of reformers, moreover, split different groupings into different venues: Ryzhkov and the moderate reformers in the Council of Ministers; the less reformist functionaries in the Talyzin Commission; and the radical reformers in the scientific subsection of the Talyzin Commission, to name just three of the critical venues. Standing above it all, of course, was Gorbachev. Over the next eighteen months, he was to argue the case for reform in some venues, and seek out others as he could when he encountered resistance. As Ryzhkov put it, the leading role was less that of the Party than of Gorbachev.[84]

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[83]For details on the structure, and later activities, of the Commission for the Improvement of *Upravlenie*, Planning, and the Economic Mechanism, see the series of short reports in *Voprosy ekonomiki* 10 (October 1988), 35-39; 11 (November 1988), 58-60; and 12 (December 1988), 104-106.

[84]Ryzhkov, *Perestroika: Istoriia predatel'stv*, 115.

Fragmentation and Decision: 1986-1987

The formal drafting process of the enterprise law began soon after the 27th Party Congress in February 1986 and continued through June 1987. In the intervening period, as the strategy of reform evolved so too did the content and depth of the enterprise law draft. Just what the enterprise law was to accomplish went through three clear iterations. In phase one, from February through June 1986, it was not yet clear that enterprise reform would even assume the form of a law, and was about consolidating the practices of the Large-Scale Economic Experiment and the Sumy and AvtoVAZ experiments in *samofinansirovanie*. In phase two, roughly from June through December, reformers struggled to expand the enterprise law beyond the framework established by the experiments into a more market-orientated reform. The resistance of Gosplan and ministerial officials was only partially overcome, and in phase three, from December 1986 through June 1987, reformers focused their efforts more squarely on the framework of reform itself in the form of the supplementary legislation.

Phase One:
Attempted Reform by Decrees

The signal that four years of experimentation with enterprise management had been concluded and the time had come for concrete legislation on the economic system as a whole came at the 27th Party Congress in February 1986. In his speech, after a lengthy exposition of the economic situation and the need for *uskorenie*, Gorbachev made clear his intent on economic policy by rehabilitating the term 'reform':

> It is obvious that economic *upravlenie* requires constant perfection. But now the situation is such that we cannot limit ourselves to partial improvements. A radical reform is needed.[85]

Gorbachev proceeded to outline the scope of reform to include the ministries, Gosplan, Gossnab, price formation, credit, and finance. In the course of listing the targets for reform, Gorbachev identified the enterprise as the focal point: 'In the final analysis, everything we are doing' to improve the economic system 'is aimed at creating the conditions for efficient work at the basic link of the economic system, the association or enterprise'.[86]

In the resolutions of the 27th Party Congress, the Central Committee and the Council of Ministers were instructed 'to implement in the near term a complex of measures' to update the economic administrative system. The goals which were set included increasing the 'role and independence' of associations and enterprises 'on the basis of direct [*podlinnyi*] *khozraschet*, *samookupaemost'*, and *samofinansirovanie'*, and for the

> transfer to economic methods of administration [*rukovodstva*] at all levels of the national economy, the modernisation of planning, the finance-and-credit mechanism, the system of price-formation, and a restructuring of material-and-technical supply.[87]

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[85]Gorbachev, 'Politicheskii doklad tsentral'nogo komiteta KPSS XXVII s"ezdu', *Izbrannye rechi i stat'i*, Volume 3, 212.

[86]Gorbachev, 'Politicheskii doklad tsentral'nogo komiteta KPSS XXVII s"ezdu', *Izbrannye rechi i stat'i*, Volume 3, 214.

[87]'Iz rezoliutsii XXVII s"ezda kommunisticheskoi partii sovetskogo soiuza po politicheskomu dokladu tsentral'nogo komiteta KPSS', *KPSS o perestroike* (Moscow: Politizdat, 1988), 16.

Although the depth of reform indicated by the resolutions of the Congress was not as yet very deep (the language of the resolutions was markedly less radical than in Gorbachev's speech[88]), the mandate was for full, comprehensive reform as defined in Chapter One.

Both the legislative agenda and the machinery for drafting reform measures, in the form of the Talyzin Commission, were in place. Given the precedents of 1957 and 1965 where the announcement of a reform programme was followed by legislation within a few months, swift action on this legislative agenda could have been expected, this time announced in the more important venue of a Party Congress. However, where in 1957 and 1965 a full package was adopted more or less simultaneously, the Talyzin Commission drafted a series of measures which were adopted in piecemeal fashion throughout 1986.

One of the first measures to come out of the Talyzin Commission[89] after the Congress was a decree adopted in May expanding *samofinansirovanie*, as practised at Sumy and AvtoVAZ, to the enterprises of five ministries and a number of

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[88]Three examples illustrate: first, Gorbachev spoke of 'enterprises and associations', whereas the resolutions reversed the order; secondly, Gorbachev spoke of 'full' *khozraschet* - the terminology used by reformers in articles and speeches, as well as by Gorbachev himself - but the resolutions called for 'direct' [*podlinnyi*] *khozraschet* - an adjective generally used in the less reformist tracts; and where Gorbachev called for 'radical reform', the resolutions referred instead to a 'deep restructuring' [*glubokoi perestroiki*].

[89]*Pravda*, 22 December 1986, 2.

enterprises of other ministries from January 1987.[90] As the enterprises and associations of these ministries were concentrated in light industry and consumer goods production - the sectors which had been identified as important for the success of *uskorenie* - it appeared at this point that enterprise reform would take the form of a series of decrees. A number of other decrees on issues listed in the resolutions of the Congress were also passed, on wages, foreign trading, quality, contract fulfilment, and the role of local government in food and consumer goods production, among others.[91] These decrees, however, neither came close to meeting the full reform agenda set at the Congress nor gave the impression that they had been drafted within a wider frame-work of a reformed 'integrated system of economic management'. As for the specific issues of enterprise reform, the viability of the extension of *samofinansirovanie* in isolation was increasingly dubious, as the experiences of AvtoVAZ and Sumy suggested.[92] No measures on *samoupravlenie* had yet been adopted.

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[90]'Ob uluchshenii planirovaniia, ekonomicheskogo stimulirovaniia i sovershenstvovanii upravleniia proizvodstvom tovarov narodnogo potrebleniia v legkoi promyshlennosti', *Sotsialisticheskaia industriia*, 6 May 1986.

[91]For these decrees (and other major decrees from 1986 through mid-1987) see Hewett, *Reforming the Soviet Economy*, 360-363.

[92]As Pavel Bunich put it, 'the new conditions are predicated on widening the rights of enterprises', yet ministries continued to impose far more indicators on the activities of enterprises than were allowed by the provisions of the experiments, including the favoured Sumy and AvtoVAZ factories. P. Bunich, 'Novye usloviia khoziaistvovaniia: dostizheniia, problemy, perspektivy', *EKO* 5 (May 1986), 3-20, 14-15. Also see, Pavel G. Bunich, 'Problemy perestroiki mekhanizma upravleniia ekonomikoi', *Ekonomika i matematicheskie metody* 22:4 (July-August 1986), 579-590, 587.

Phase Two:
Drafting a Law on the Socialist Enterprise

What had been lacking in the materials of the 27th Congress was a strategy of reform. From June a clearer strategy began to take shape, but still on the assumption that measures would be quickly adopted. At the same time, Gorbachev began to widen the scope of reform to include political as well as economic issues. In a Politburo session reviewing the draft five-year plan, noting that 'the most important aspect of *perestroika* is *demokratizatsiia*', Gorbachev observed that the ministries were interfering in the independence of enterprises and that a more vigorous approach might be necessary.[93]

In the summer of 1986, the drafting of a number of new laws was announced. At the June 1986 Central Committee Plenum on the five-year plan, Gorbachev called for the drafting of a 'law on the socialist enterprise (association)' to be 'quickly completed'. In August, it was disclosed that two additional laws were to be drafted on individual labour activity and on the ministries, all of them to be adopted in 1986, together with a number of decrees on the rest of the economic system.[94] Three laws were adopted, but not all in 1986, and the third law was on cooperation, not on the ministries.[95] According to

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[93]A.S. Cherniaev, *Shest' let s Gorbachevym* (Moscow: Progress, 1993), 88-89.

[94]'O plane podgotovki zakonatel'nykh aktov SSSR, postanovlennii pravitel'stva SSSR i predlozhenii po sovershenstvovanniu zakonodatel'stva SSSR na 1986-1990 gody', *Vedomosti verkhovnogo soveta SSSR* 37 (10 September 1986), 729-736.

[95]For a discussion of the other two laws, see: Karin Plokker, 'The Development of Individual and Cooperative Labour Activity in the Soviet Union', *Soviet Studies* 42:3 (July

Aganbegian, that had been the intent from the beginning. In his narrative of these events, in mid-1986 'the decision was taken' to prepare three laws concerning the three forms of ownership: state, cooperative, and individual; all other measures were to be taken by decrees based on those three laws.[96] That this is what occurred represented an important reformist victory.

Expanding the sphere of the non-state sector of the economy had been a clear reformist aim. Advocates included Gorbachev, who in many of his speeches had spoken forcefully for individual and cooperative economic activities, and nearly always separately from his discussion of state enterprise reform. If reform of the state enterprise entailed reducing central control over the economy, the development of individual and cooperative activities meant increasing the sector of the economy over which there was no central control. Strong resistance to reform of the non-state sector prompted Gorbachev in a Politburo session shortly after the 27th Congress to deride the slow progress of individual labour activity because of excessive 'fears about private farming'. Cooperative activity, Gorbachev continued, had been 'so tormented that there is no longer anything left of Lenin's ideas'.[97]

1990), 403-428.

[96]Aganbegian, 'Prakticheskie dela ekonomicheskoi nauki', 21.

[97]Cherniaev, *Shest' let s Gorbachevym*, 72.

The fact that in its initial formulation it was a law on the 'socialist' enterprise suggested, as Åslund has pointed out, that the reform would include cooperative as well as state enterprises;[98] on the basis of what had been officially announced in August, the new label given in January for the law on the 'state' enterprise[99] implied that cooperatives were to be excluded from reform, at least at the level of a Law.[100] However, from the beginning of the drafting process, what was to become the enterprise law was exclusively about state enterprises.[101] According to the legal specialist on the economy Vladimir Laptev of the Institute of State and Law, who participated in the drafting of many of the economic reforms of *perestroika* including the enterprise law, initially there were proposals to include cooperatives in the reform, but that approach was rejected because it would lead to an 'excessively abstract formulation'.[102] Rather than implying a neglect of cooperatives, the change in the enterprise law's formal title

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[98]Åslund, *Gorbachev's Struggle for Economic Reform*, 69.

[99]*Pravda*, 29 January 1987, 1.

[100]Reform in the cooperative sector (as in the state sector) began with several decrees, notably the two decrees on cooperatives in the consumer sphere in August 1986 and January 1987. *Pravda*, 5 August 1986; and *Sotsialisticheskaia industriia*, 12 February 1987.

[101]V.V. Laptev, 'Zakon o predpriiatii i kodifikatsiia khoziaistvennogo zakonodatel'stva', *Sovetskoe gosudarstvo i pravo* 12 (December 1987), 67-75, 47.

[102]Laptev, 'Zakon o predpriiatii i kodifikatsiia khoziaistvennogo zakonodatel'stva', 47-48.

more likely indicated that the commitment had been made for a separate law on cooperation.[103]

The three laws on individual labour activity, the state enterprise, and cooperation, although adopted over the course of 1986-1988, nevertheless shared many of the same basic reformist principles: self-management (by definition in the Law on Individual Labour Activity - the term *samoupravlenie* appears only in the other two laws); self-financing (again, only implied in the individual labour law)[104]; and direct contractual relations. All of these laws gave the right of appeal against decisions made by local and national officials. Each of the three reforms included the formula 'all is permissible which is not prohibited by law'.[105] Perhaps most important for the reform process over the long term, they were

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[103]At the time of the adoption of the Law on Individual Labour Activity in November 1986, Leonid Abalkin indicated that more legislation was forthcoming on cooperatives. Cited in Archie Brown, 'Soviet Political Developments and Prospects', *World Policy Journal* 4:1 (Winter 1986-87), 55-87, 61. The label 'law on the socialist enterprise' did, however, continue to be used even after its formal adoption. See, for instance, Stepan Sitarian, 'Iiun'skii plenum TsK KPSS o korennoi perestroike sistemy planirovaniia, upravleniia i metodov khoziaistvovaniia', *Planovoe khoziaistvo* 11 (November 1987), 70-81, 74.

[104]Notably, the Law on Individual Labour Activity granted individuals the opportunity to seek credit; it said nothing about what would happen in the event of insolvency.

[105]In the Law on Individual Labour Activity, in each of the sections there was a phrase such as 'Other types of handicrafts are allowed if they are not prohibited by USSR and Union-republic legislation'. The formula was stated explicitly in an article by the academic lawyer Vladimir Kudriavtsev soon thereafter, endorsed by Gorbachev at the June 1987 Plenum, and included in the laws on the state enterprise and cooperatives. V. Kudriavtsev, 'Pravovaia sistema: puti perestroiki', *Pravda* 5 December 1986, 3; Gorbachev, 'O zadachakh partii po korrenoi perestroike upravleniia ekonomikoi', *Izbrannye rechi i stat'i*, 183.

adopted as Laws, setting benchmarks for each successive reform. Thus the extent of reform in the Law on Individual Labour Activity (in which there were many prohibitions on what was allowed) was surpassed by the enterprise law the following year, which in turn was exceeded in 1988 by the law on cooperation. The declarative character of these reforms, which was especially pronounced in the first two laws, thus contributed to advancing the reform process overall, if making for confusion in the individual laws.

That dynamic had yet to evolve in June 1986. At that point in time swifter formulation of reform was expected, and after its announcement by Gorbachev, the first round of work on the draft enterprise law proceeded quickly. An *ad hoc* Politburo Commission headed by Ryzhkov was established to oversee the drafting process, which took place in the Talyzin Commission. By July the first version of the enterprise law had emerged with work proceeding simultaneously on reform to the economic system as a whole - the efforts of which became adopted as the packet of decrees adopted in July 1987. However, while work on the first draft was 'quickly completed', as Gorbachev had called for, the content of the draft far from fulfilled the mandate of the 27th Congress to 'increase' the independence of enterprises on the basis of economic methods.

Work on new decrees and regulations on the enterprise had begun within the Commission after the 27th Congress. Only one of the decrees, expanding *samofinansirovanie* from 1987, was in fact adopted. The first draft of the enterprise law was

essentially a collection of the decrees which had not been adopted and placed in the form of a law.[106] Like the decree of 6 May, this first draft was more or less simply a restatement of what had already been made practice;[107] what the Commission offered amounted to reform along the lines of *khozraschet* #2, as discussed in the previous chapter. This version of *khozraschet* would give economic criteria predominance only in the relationship between the centre and the enterprise. This constituted reform of the enterprise (although if successfully implemented on its own would certainly represent a departure from current practice), not of the economic system. Reform of the economic system, and reducing the powers of the administrative system - not merely redefining those powers - was what *khozraschet* #3 was all about. It was essentially on this basis that the lines of struggle were drawn between what Kurashvili termed the 'conservatives' and the 'reformers'.[108]

What ensued was a struggle which was heavily weighted against the reformers during this phase of the drafting process. The first draft of the law was written within the Talyzin Commission with principal specialist support coming from Gosplan, giving Gosplan as an institution a powerful role in the drafting process both at the level of the overall

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[106]V.K. Senchagov, *O proekte o gusudarstvennom predpriiatii (ob"edinenii)*, (Moscow: Znanie 1987), 30.

[107]'Bol'she sotsializma', *Ogonek* 12 (March 1988), 4-5 and 18-20, 19.

[108]B.P. Kurashvili, 'Perestroika i predpriiatie', *EKO* 10 (October 1987), 3-30, 4; and B.P. Kurashvili, interview in 'Pravo na samostoiatel'nost'', *Sovetsksie profsoiuzy* 1 (January 1988), 6-7.

framework - by virtue of Talyzin's position as head of Gosplan - and at the level of the details. The circle of participants was expanded only after this first draft had been prepared in what amounted to an effort to channel discussion on to the merits of the draft rather than the framework itself.

There were also limits to the criticism that would be tolerated. Boris Kurashvili, in his one and only appearance as a direct participant in the drafting of the enterprise law in July, denounced the first draft as wholly inadequate. Regarding it as a document which was 'no good in principle', Kurashvili argued for a completely fresh start, and not only a rewriting.[109] As a result, Kurashvili was no longer invited to participate.[110] Instead, he retreated to the Institute of State and Law to supervise the writing of an alternative draft which was sent to both Gorbachev and Ryzhkov. While the Institute of State and Law produced the Law on Individual Labour Activity, it was certainly unlikely that this remit would be extended to the enterprise law. In the event, Kurashvili received no direct response from either Gorbachev or Ryzhkov.[111]

That is not to say that there was no response at all. The pressure for a more substantial reform was increased. First, with the retirement of Gvishiani, the reformers' position was

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[109]Interview with B.P. Kurashvili, Institute of State and Law, Moscow, 25 March 1992.

[110]'Bol'she sotsializma', 19.

[111]Interview with B.P. Kurashvili. The alternative draft was printed as an article by Kurashvili in B.P. Kurashvili, 'Osnovnoe zveno khoziaistvennoi sistemy (K kontseptsii zakona o sotsialisticheskom predpriiatii)', *Sovetskoe gosudarstvo i pravo* 10 (October 1986), 12-21.

strengthened with his replacement as head of the scientific section in the Talyzin Commission by one of Gorbachev's closest economic advisors, Abel Aganbegian.[112] Secondly, in a speech to party workers in Khabarovsk, Gorbachev announced that the drafting on the enterprise law was being completed and indicated that the draft would be submitted for public discussion.[113] Thirdly, the draft was remanded for further work.[114] Gorbachev had evidently expected that the enterprise law would have been completed by this time, and was frustrated that *perestroika* was proceeding slowly.[115] At the 27th Congress, Gorbachev had called for 'radical reform'; in his speech in Khabarovsk he went further, equating *perestroika* with a 'revolution in the entire system of relations in society, in the minds and hearts of the people...'[116]

In principle, decision-making authority over the drafting process of the enterprise rested with the weekly meetings of Ryzhkov's Commission. The fact that the enterprise law did not proceed more swiftly and comprehensively is only partly attributable to Ryzhkov's cautious disposition. The proximate cause was that the machinery for drafting the details of the law remained unchanged. The enterprise law was drafted 'in the

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[112]Hewett, *Reforming the Soviet Economy*, 324.

[113]Gorbachev, 'Perestroika neotlozhna, ona kasaetsia vsekh i vo vsem', *Izbrannye rechi i stat'i*, Volume 4, 49.

[114]Senchagov, *O proekte o gusudarstvennom predpriiatii (ob"edinenii)*, 30.

[115]Cherniaev, *Shest' let s Gorbachevym*, 89.

[116]Gorbachev, 'Perestroika neotlozhna, ona kasaetsia vsekh i vo vsem', *Izbrannye rechi i stat'i*, Volume 4, 37.

traditional way'.[117] First, this meant that most of the principal authors of the enterprise law were those who stood to lose from reform by virtue of their official positions. Reform towards *khozraschet* meant at the minimum a change in the planning system, and it was not auspicious that the Talyzin Commission provided critical access for Gosplan to the drafting process both at the top, with Talyzin heading Gosplan, and at the bottom in the working groups. It was no coincidence that the longest section of the enterprise law (longer, indeed, than the other two sections put together) dealt with planning issues. The agenda of the working groups was controlled principally by Gosplan. Kurashvili dismisses the outside specialists who were included in the working groups as those 'who were accustomed to serving the apparat'; others, such as himself, who 'vainly knocked on the fortress gates with their own proposals and drafts' were 'skilfully kept out'.[118]

The second reason for the fitful progress in drafting the enterprise law derived from the decision-making structure itself. This was a structure which worked against innovation regardless of any one individual's disposition. Individual sections of the draft were written separately in working groups; those sections were then processed up the Commission hierarchy and distributed for comment to the relevant agencies and ministries, whose suggestions were accordingly

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[117]Boris Kurashvili, 'Prava i ogovorki', *Moskovskie novosti* 16 (17 April 1988), 8.

[118]Kurashvili, 'Prava i ogovorki', 8.

redistributed back to the working groups.[119] Thus some officials in institutions of the administrative system made comments on sections of the draft written by other officials from the same institutions.

For all the conflict in the working groups, the deeper cause of the limited success of 'reformers' in drafting the enterprise law until this point, however, derived from unresolved differences at the level of the Politburo - and chiefly those between Ryzhkov and Gorbachev. A slight difference in approach was already apparent in their respective speeches to the 27th Congress. Gorbachev had called for a 'radical reform' and to 'reorganise everything that has become out of date and outlived its usefulness'.[120] Ryzhkov echoed Gorbachev's call for radical reform, but implied a far more gradual process in which 'we will have to persevere in developing an integrated system of control, to consistently adjust the elements of the economic mechanism'.[121]

The disagreement between Gorbachev and Ryzhkov had to do with both the pace and the scope of reform. The reason Ryzhkov disapproved of the term 'radical' (and specifically as expressed by the word '*korrenoi*' at the June 1987 Plenum, which he deliberated omitted in his own speech), was that it

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[119]Interview with V.V. Laptev, Institute of State and Law, Moscow, 26 October 92.

[120]Gorbachev, 'Politicheskii doklad tsentral'nogo komiteta KPSS XXVII s"ezdu', *Izbrannye rechi i stat'i*, Volume 3, 212 and 219.

[121]*Pravda*, 4 March 1986, 4.

implied that all previous efforts had been superficial.[122] The principle of marketising enterprise activities was endorsed by Ryzhkov, but he expected the process to take at least three years.[123] Thus Ryzhkov counted himself among those who in 1986 actively supported transferring the economy to the 'market', but

> we did not believe, we did not even consider, that this change of 180 degrees in the economy could be achieved immediately, at once, in 500 days, for instance.[124]

As Ryzhkov implies, the debate was a forerunner of that between gradualism and 'shock therapy'. In policy studies terms, this was a disagreement over synoptic versus incrementalist policy-making, with Ryzhkov wholeheartedly endorsing the latter; Gorbachev's rhetoric and that of his advisors advocated swifter progress across a wider front.

The symbol of the substantive disagreements in both the working groups of the enterprise law and the Politburo was the role of the plan. *Khozraschet* #3 was predicated on the principle that enterprises concluded contracts directly with other actors in the economy; enterprises, in other words, did their own planning. Within the Politburo, the consistent advocates for *khozraschet* #3 were Gorbachev, Iakovlev, and

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[122]Ryzhkov, *Perestroika: Istoriia predatel'stv*, 161.

[123]Ryzhkov, *Perestroika: Istoriia predatel'stv*, 163.

[124]Ryzhkov, *Perestroika: Istoriia predatel'stv*, 165. Ryzhkov's reference is to the '500 Days Plan', also known as the 'Shatalin Plan' for its senior author Stanislav Shatalin which outlined a rapid shift to the market. One of several alternative proposals for marketisation to emerge in the summer of 1990, the plan was embraced by Yeltsin and by Gorbachev, but vigorously opposed by Ryzhkov and eventually eclipsed by events.

Medvedev. Ryzhkov, as a moderate reformer, was not opposed to enterprises negotiating some agreements among themselves, but he was opposed to transferring the right of initiative in drafting plans completely to the enterprise, a position shared by Sliun'kov and Zaikov.[125]

The incrementalist reform position of Ryzhkov did not make him a 'conservative'.[126] As Ryzhkov complained to Gorbachev in a meeting they had shortly after a particularly heated Politburo discussion: 'surely we practitioners are not more conservative than those who know life through textbooks ... which they compile themselves?'[127] However, his position on gradually implementing market relations within the economy - and then only after stabilisation - meant that the economic reform envisaged within the enterprise law thus far need not go beyond the bounds of *khozraschet* #2. Translated into the drafting process of the enterprise law, Ryzhkov's position made for an alliance of moderate reformers and conservatives against the radical reformers.

The narrative of his memoirs suggests that when he complained to Gorbachev he was referring principally to Iakovlev and Medvedev, although he would undoubtedly have included among those 'who know life through books' the

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[125]Ryzhkov, *Perestroika: Istoriia predatel'stv*, 166.

[126]For example, Ryzhkov was strongly supportive of including in the enterprise law the article providing for the closure of insolvent enterprises. Ryzhkov, *Perestroika: Istoriia predatel'stv*, 169.

[127]Although Ryzhkov does not give a date, this exchange presumably took place after the 4 December 1986 meeting of the Politburo. Ryzhkov, *Perestroika: Istoriia predatel'stv*, 167.

reformist academics who, with Iakovlev and Medvedev, were forming a policy coalition on economic reform, the essence of which was *khozraschet* #3. This coalition resulted from the confluence of two reformist forces: Iakovlev and Medvedev leading the reformers based in the Central Committee, and Aganbegian leading the scientific section of the Talyzin Commission. Prior to December these two groupings had been engaged in reform advocacy in two relatively distinct venues: preparations for the December Plenum on the economy, which was cancelled at the last moment, and the Talyzin Commission, which after December held a reduced role in the reform process.

At the same time as the enterprise law was being drafted, the Talyzin Commission and Gosplan had been charged with preparing documents for a reform blueprint of the economic system, in which reformers had been no more successful than they had with the enterprise law. In November 1986, a conference composed primarily of the academic specialists was held in which an alternative blueprint was put forward - effectively, the scientific section staged a revolt against the Talyzin Commission.

The 'All-Union Conference on Problems of the Scientific Organisation of *Upravlenie* of the Economy' was originally to be convened in order to discuss the draft blueprint which Gosplan and the Talyzin Commission had prepared. Even in this form, the conference would have represented a significant increase in the policy-making role of specialists outside of the official agencies, albeit in an advisory capacity. Only

two such conferences had been held since Stalin, in 1966 and 1971 - that is, after a reform programme had already been adopted.[128] This conference was organised to comment on a reform programme at the conceptual stage. The blueprint which Gosplan and the Talyzin Commission had drafted was not supported by the reform economists in the scientific section, nor was it made available to the rest of the conference participants. With the latter factor as justification, the conference organisers led by Aganbegian redefined the purpose of the conference from commentary on the official draft to the generation of their own alternative draft.[129]

The alternative blueprint was put together by Aganbegian, Boris Mil'ner and Gavriil Popov and consisted of eight sections, covering most of the issues of reform identified at the 27th Party Congress, from the administrative structures at all levels of the economic system to prices and wages. The working groups for each section were led by a prominent reformist, including Leonid Abalkin, Evegenii Iasin, Boris Mil'ner, Nikolai Petrakov, Gavriil Popov, and Stanislav Shatalin. Thus the report which was presented to the conference represented a reformist consensus, and it was on that agenda that discussion at the conference took place. In the course of three days, over 1000 people attended the conference, including academics, planning and administrative

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[128]A.G. Aganbegian, L.I. Abalkin, N.Ia. Petrakov, et al., *Reforma upravleniia ekonomikoi: Problemy i poisk* (Moscow: Ekonomika, 1987), 313.

[129]Aganbegian, et al., *Reforma upravleniia ekonomikoi*, 313.

officials, and enterprise directors. The relative balance of power, at least in this particular venue, between the academics of the scientific section of the Talyzin Commission and the officials in Gosplan and the ministries was effectively reversed. The conference report which emerged was then sent to the Talyzin Commission as well as, presumably, Gorbachev and Ryzhkov,[130] and abbreviated versions of the individual sections were printed in *Ekonomicheskaia gazeta*.[131] While the conference had limited impact on the reform blueprint being drafted by Gosplan and the Talyzin Commission, the reformist consensus of the conference's documents led to what became the 'Basic Provisions'.

The treatment of three issues had direct relevance for the enterprise law. First, while the conference endorsed *samoupravlenie*, it did not figure prominently as an issue. The relevant working group was led by Rem Belousov, a moderate Party economist, and not by any of the more active advocates of *samoupravlenie*. Indeed, people like Kurashvili, Torkanovski and Masslenikov were neither included in the roster of the

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[130]Aganbegian says that it was sent to 'directive bodies'. Aganbegian, et al., *Reforma upravleniia ekonomikoi*, 315.

[131]Most, but not all, of these abstracts were clearly identified with the conference. All in *Ekonomicheskaia gazeta*, 1986, they were: L. Abalkin, 'Proizvodstvennye otnosheniia i khoziaistvennyi mekhanizm', #46; G. Popov and E. Sminitskii, 'Kadry khoziaistvennykh rukovoditelei', #46; N. Petrakov and E. Iasin, 'Ekonomicheskie metody upravleniia', #47; B. Mil'ner and V. Rapoport, 'Razvitie organizatsionnykh struktur upravlenii', #47; L. Kozlov, 'Sovety i predpriiatii', #47; P. Bunich, 'Samofinansirovanie: sushchnost', opyt, problemy', #48, S. Shatalin, E. Egiazarian, E. Gaidar, et al., 'Realizatsiia printsipa raspredeleniia po trudu', #48.

organising committee nor listed as speakers.[132] In the published extracts from the conference, *samoupravlenie* was subsumed within Abalkin's theoretical article. Secondly, the idea of state orders was included to guarantee the production of 'the most important' items; while state orders 'could be obligatory', their details should be worked out in a contract, including the price.[133] Pricing itself, thirdly, was a dominant theme. Nearly every section made some reference to the issue of prices and price formation, with the thrust of argument in support of wholesale trade.[134] The proposal was not for an explicit delegation of all price formation authority to the market, but it did call for a reform in the methodology of calculating price levels: prices should reflect supply and demand, not average costs.[135]

Finally, the most important impact of the November conference on reform legislation had to do with the conference itself: it marked the public emergence of a policy coalition on economic reform, denoting a clear break between the scientific section of the Talyzin Commission and the Talyzin

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[132]The most prominent individual associated with *samoupravlenie* appears to have been Nikolai Travkin, then the director of the Mosoblsel'stroi trust in Moscow (and subsequently a prominent politician), who had initiated an experiment in *samoupravlenie* with a labour council. *Trud*, 22 January 1986. The experiment was endorsed (but not made binding) by the Central Committee later that year. *Pravda*, 31 October 1986.

[133]Petrakov and Iasin, 'Ekonomicheskie metody upravleniia'.

[134]See Abalkin, 'Proizvodstvennye otnosheniia i khoziaistvennyi mekhanizm'.

[135]Petrakov and Iasin, 'Ekonomicheskie metody upravleniia'.

Commission itself. For the policy process, however, this conference could only suggest alternatives, not act on those alternatives as a formal decision-making arena.

From all indications, the draft enterprise law was to be presented in December at a Central Committee Plenum together with a framework document on economic issues. A working group on the new economic mechanism was organised early in the autumn by the first deputy chief of the Economic Department, Professor Vladimir Mozhin (no formal replacement as chief had been named since Ryzhkov's promotion to Chair of the Council of Ministers). The day-to-day work at Volynskoe, however, was the domain of Gorbachev's two key allies from the Central Committee, Iakovlev, in charge the Ideology Department, and Medvedev, with responsibility for the Department of Socialist Countries. On monetary issues in particular, the recently-appointed head of Goskomtsen, Valentin Pavlov, was brought in.[136]

While Pavlov's own disposition favoured a gradual reform process, his credentials were sufficiently radical for Iakovlev and Medvedev to include him subsequently in the reform process, and for Pavlov to list himself among those at Volynskoe who quickly arrived at a remarkably radical

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[136]Some caution is in order regarding the source of these events, Valentin Pavlov, beyond the exculpatory purposes of his memoirs; clear errors are made. He identifies Mozhin's affiliation to the 'Planning and Financial Organs Department', which had been superseded by the Economic Department in 1982; he implies his own affiliation to Gosplan, when he had been made chair of Goskomtsen that summer; and he names Baibakov as the head of Gosplan, although he had been replaced the previous year. Valentin Pavlov, *Ulushchen li shans?* (Moscow: Terra, 1995), 39.

'consensus': explicit support for marketisation and for private property as a supplement to the state economic system. Substantive discussion on these particular issues, not surprisingly, was effectively blocked by those opposed in principle, led by Ligachev, and by the more cautious reformers.[137] Instead, the Volynskoe group focused on the issue of normatives. The size of deductions made from enterprise profits had been individually determined, permitting ministries and territorial organs to shift funds arbitrarily among enterprises under their respective control. The Volynskoe group proposed that normatives on deductions be made uniform over five-year periods for all enterprises throughout the country. Doing so would harden the budget constraint of state enterprises; it would also represent the removal of one the principal instruments of power over enterprise activities from their supervisory organs. This particular proposal was strongly opposed by Stepan Sitarian, the deputy head of both Gosplan and the Talyzin Commission, and by Boris Gostev, the Minister of Finance.[138] By December opposition within planning and ministerial institutions had consolidated, with Ryzhkov's support.

If no agreement on any of these issues was to be found, the November Conference, the Volynskoe group, and the Ministry of Finance[139] all agreed on one item: price revision. Around

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[137]Pavlov, *Ulushchen li shans?*, 43-44.

[138]Pavlov, *Ulushchen li shans?*, 46-47.

[139]The position of the Ministry of Finance is probably best explained by the fact that it, alone among the ministries, stood to gain from a shift from administrative to

this time Gorbachev himself changed his views in favour of price reform. In a meeting in the Politburo in October, Gorbachev had rejected any price increases, principally on the grounds that people had not yet received any tangible benefits from *perestroika*, and that 'if we raise prices you can imagine the political consequences, we would discredit all of *perestroika*'.[140] But when Boris Gostev presented a proposal to revise wholesale prices to the Politburo in early December, it had Gorbachev's support, after finally being convinced by his advisors of the need for this.[141]

The proposal was defeated, but not along what might have been expected to be radical and conservative lines. Gorbachev agreed on the need to increase prices and was supported by Ryzhkov, somewhat surprisingly, and by Solomentsev, even more surprisingly given his cautious record during *perestroika*. Ligachev was adamantly opposed on the grounds that the poor would suffer unduly as a result, a sentiment echoed by one of Gorbachev's closest allies, Shevardnadze. In the course of the heated debate which ensued, a consensus failed to emerge. In the end, the proposal was returned to the Ministry of Finance for further work, with Gorbachev observing that 'otherwise we will come to blows'.[142] Price reform had been postponed, and not for the last time.

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economic levers; it was in charge of the money supply.

[140]Cherniaev, *Shest' let s Gorbachevym*, 124.

[141]Cherniaev, *Shest' let s Gorbachevym*, 124.

[142]Cherniaev, *Shest' let s Gorbachevym*, 122-123.

With the fundamental issues of normatives and prices unresolved, the December Plenum was postponed. Attention shifted to the January Plenum on party cadres and, it transpired, on advancing political reform. It was in fact on the political issues of the enterprise law that the Politburo remanded the draft for one more round of work before its publication after the January Plenum. While the main areas of the draft were finally approved, instructions were sent to strengthen the provisions for 'the social development of labour collectives and their *samoupravlenie*'.[143] Consequently, in the last stage of preparing the draft, a number of declarations were added to the existing text proclaiming overarching principles.[144]

Phase Three:
The Enterprise Law and Two Blueprints for Reform

At the beginning of 1987, the decree expanding *samofinansirovanie* took effect; in essence, half of the enterprise law entered implementation - the economic side. As Gorbachev declared at the January Plenum, the transfer of enterprises to full *khozraschet*, *samofinansirovanie* and *samookupaemost'* was already well under way. For success to be achieved, however, Gorbachev argued a direct link between the economic and political sides of the enterprise law: the 'present stage of *perestroika* and the transition to new

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[143]Moscow Home Service, in *BBC Summary of World Broadcasts: Soviet Union*, SU/8441/b/13-15, 14; *Pravda*, 12 December 1986, 1.

[144]'Bol'she sotsializma', 19.

methods of economic management' made the election of the leaders of enterprises, divisions, sections, and so forth 'important and necessary'. Enterprise employees, he noted, were 'far from indifferent to who heads their enterprise, shop, section or brigade'.[145]

The January 1987 Plenum was principally about political reform of Party and state structures. Having established the importance of the electivity of enterprise directors, Gorbachev then directed that principle at the Plenum's delegates themselves by endorsing such practices as multiple candidatures and secret balloting at regional and local levels; and it was 'perfectly logical' to extend democratisation to the Party's central bodies as well.[146] Political and economic reform were inextricably linked not only at the enterprise level, but throughout the system, and the meaning of *perestroika* was redefined accordingly: 'Only through and because of democracy is *perestroika* itself possible.'[147] Six months later, it was the political side of the enterprise law which was strengthened; while the economic aspects of the enterprise law were now subjected to intense criticism, reformist energies were directed at the framework of reform itself. The result was that two blueprints for reform were put forward, one written by the radical reformers

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[145]Gorbachev, 'O perestroike i kadrovoi politike partii', *Izbrannye rechi i stat'i*, Volume 4, 320.

[146]Gorbachev, 'O perestroike i kadrovoi politike partii', *Izbrannye rechi i stat'i*, Volume 4, 322-323.

[147]Gorbachev, 'O perestroike i kadrovoi politike partii', *Izbrannye rechi i stat'i*, Volume 4, 317

under Gorbachev, and the other written by Gosplan and the Council of Ministers under Ryzhkov.

The January Plenum duly accepted the draft enterprise law for publication and national discussion, which was then printed in *Izvestiia* and *Pravda* in February.[148] Over the course of the next few months, conferences were held to discuss the draft, the major journals published commentaries, and newspapers printed letters from individual citizens. In all, over 180,000 suggestions were submitted, of which only a small portion were published.[149] Most of what was published was critical of the draft, occasionally stridently so. One economist went so far as to complain, disingenuously it turned out, that journal editors spiked articles supporting the draft.[150]

The extent of the public discussion was certainly unprecedented, and served the important mobilising function of alerting society on both the need for and the scope of reform, as well as providing an opportunity for an exchange of different views on economic and political issues. For reformers, one of the most important features of the drafting process of the enterprise law was the opportunity to organise discussions and round-tables on substantive political issues

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[148]*Pravda* and *Izvestiia*, 1 July 1986, 1-4.

[149]P.S. Fillipov in 'Normy prava i praktika khoziaistvovaniia', *EKO* 1 (January 1988), 24-46, 33.

[150]Senchagov, *O proekte zakona o gosudarstvennom predpriiatii*, 29. Senchagov was perhaps hasty in making this claim in a booklet approved for publication in late February; in May he published an article extolling the virtues of the draft in 'Novye cherty predpriiatiia v sovremmenom ekonomike', *Voprosy ekonomiki* 5 (May 1987), 60-69.

without the oversight of the Party.[151] As for the enterprise law itself, the significance of all these suggestions was less the direct impact they had on the final draft, which was minimal, than for what they revealed about the distance which existed between the reformers and the conservatives. This was particularly clear in the extracts from two round-table discussions published in the respective journals of the Institute of Economics and Gosplan.

Soon after the publication of the draft, the journal *Voprosy ekonomiki* and the Institute of Economics held a round-table discussion of many of the notable reformist academics.[152] Opening the discussion, Leonid Abalkin, in what appears to have been the first example in print of what became the predominant characterisation of the enterprise law, declared the draft a 'compromise'. One example he gave is that while enterprises were to engage in the wholesale trade of the means of production, it was the supply agencies which bore responsibility for ensuring the fulfilment of orders, leaving the door open for the supply of the means of production through forms other than wholesale trade. The specialist on *samoupravlenie*, E. Torkanovskii, observed that workers' councils had been given the role merely of 'examining' issues of enterprise management; this meant that the administration would 'decide' - the administration therefore would retain the

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[151]Interview with V.K. Andreev, Institute of State and Law, Moscow, 23 April 1992.

[152]'Uchenie obsuzhdaiut proekt Zakona SSSR "O gosudarstvennom predpriiatii (ob"edinenii)"', *Voprosy ekonomiki* 5 (May 1987), 70-92. The round-table had been held on 25 February 1987.

real power in the enterprise. Pavel Bunich observed that the sections on state orders, limits, and so forth were defined in such a way that administrative methods of management would retain their predominance at the expense of economic methods. This was a topic also brought up by Evgenii Iasin, who noted a contradiction between the first section of the draft which proclaimed that higher agencies exercised control over enterprises through state orders, control figures, and normatives and the third section of the draft, where it was the five-year plan which was made the basis of enterprise activities with assignments broken down by year - these 'assignments' could not be defined as either control figures or norms.

Much of the discussion at this round-table was devoted to the third section in the draft on planning which, as Iasin had noted, contradicted many of the provisions of the first two sections. This was a frequent theme in the published criticisms, and it was Zaslavskaia who drew the logical conclusion that the section as a whole should be 'radically re-worked'.[153] The opposite conclusion was implied in the round-table published in *Planovoe khoziaistvo*, where the criticism focused on the first two sections.[154]

Although it is not clear whether they were direct participants in the drafting process, the contributors to this

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[153]*Sovetskaia Rossiia*, 24 March 1987, 2.

[154]'Proektu zakona - bol'shuiu opredelennost'', *Planovoe khoziaistvo* 5 (May 1987), 42-52. Although the date of the round-table is not given, presumably it took place near to the date of the Institute of Economics round table.

particular round-table gave a clear indication of the sorts of positions which had been encountered in the working groups which drafted the enterprise law. Among the recommendations were: removing the definition of the state enterprise as a 'commodity producer'; removing the direct link between economic performance and the wage fund; having the labour collective share the right of production decisions with local organs and higher agencies; eliminating the section on closing unprofitable enterprises (an issue for which 'we are not yet prepared'); and removing any mention of cooperatives from the line which read 'state enterprises, along with cooperative enterprises, are the basic unit of the national economic complex'. A more reactionary reform programme would be difficult to find in spring 1987; yet its publication was evidence that under *glasnost'* not all contributions to political debate needed to be in support of the official line.

All of the suggestions which were sent in were examined by a special commission,[155] but few found their way directly into the final draft. Instead, a compromise was struck in which the overall independence of the state enterprise was strengthened[156] particularly in the provisions on *samoupravlenie* yet the right of intervention by higher agencies was left intact. This was particularly clear in the treatment of *khozraschet* itself. The final draft permitted two forms: in one the wage fund was formed on the basis of income,

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[155]N.A. Syrodoev, *Zakonodatel'stvo o korennoi perestroike upravleniia ekonomikoi* (Moscow: Iuridicheskaia literatura, 1988), 3.

[156]'Izvlech' uroki iz oshibok', *Nedelia* 19 (1988).

in the second it was formed by profits. The second form was by far the more market-orientated. An enterprise's selection of which form of *khozraschet* to adopt, however, was subject to the approval of its ministry. Additions such as these, whose impact is discussed in the following chapter, were deliberately included to minimise any genuine independence of state enterprises.[157]

Soon after the publication of the draft enterprise law, preparations began on the June Plenum. Some important changes had occurred since December. Two personnel appointments at the January Plenum served to strengthen the Party's position, and by extension that of Gorbachev, in negotiating reform documents: Iakovlev became a candidate member of the Politburo and Nikolai Sliun'kov was named to replace Ryzhkov as head of the Central Committee's Economic Department after a lapse of two years. Ryzhkov, for his part, in December established a special department on economic reform under Vadim Kirichenko, a Gosplan research economist, in addition to the department on the economic mechanism under Katsura. Ryzhkov's move signified the wider scope of economic reform which was under debate than had characterised the preparations for the aborted December Plenum. Over the next several months, debate on economic reform took place directly between the Party and state institutions; the Talyzin Commission, which had been the single venue for vetting reform proposals, consequently became eclipsed. Finally, the June Plenum would adopt not only the enterprise law, but also, at the suggestion of Vladimir

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[157]Raisa Khalfina in *Sovetskie profsoiuzy* 17 (1988).

Mozhin, the enabling decrees which customarily were enacted after a Plenum.[158]

Soon after the January Plenum Gorbachev held what amounted to a summit meeting with the leaders of the departments involved in drafting economic reform: Ryzhkov, Sliun'kov, Mozhin, Sitarian from the Talyzin Commission, and Aganbegian and Abalkin, the chair and deputy chair respectively of the Talyzin Commission, and also Iakovlev and Medvedev. All agreed on the principle of an integrated, systematic approach to reform issues, but the rift between radical reformers and moderate reformers on the pace and scope of reform deepened from this point on. The difference between the two can be clearly seen in the respective approaches to the supply problem.

At the beginning of 1987 whatever growth potential could be tapped by the *uskorenie* policies had been exhausted, and economic growth dropped. At the end of April the Minister of Finance Boris Gostev reported to the Politburo that the financial situation was becoming critical, concluding that two or even three five-year periods would be required to correct the situation.[159] Ryzhkov, as a moderate reformer, had taken the position that the government was losing control of the supply system and required the strengthening of central instruments to ensure adequate supply and delivery among

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[158]Pavlov, *Ulushchen li shans?*, 50-51.

[159]Cherniaev, *Shest' let s Gorbachevym*, 145.

enterprises.[160] Gorbachev, as a radical reformer, rejected that line of reasoning, seeing the supply problem as a consequence of the unreformed economic system and not as a temporary problem; the answer was to move more aggressively on reform, not resort to micromanagement from the centre, an argument which he made forcefully in June.[161]

At the summit meeting Abalkin argued that those who were to be affected by reform, the ministries and central agencies, should not be the ones to write the reform proposals.[162] The problems with drafting reform legislation were undoubtedly part of what Gorbachev had in mind, as well as the slow progress of implementing reform measures already adopted, when he complained in a Politburo meeting that 'those who want *perestroika* already have restructured themselves, and those who do not want *perestroika* never will'.[163] He used a similar formula at the June Plenum, with the addition that those who had not restructured themselves were 'sabotaging *perestroika*', then proceeded to enumerate the deficiencies of the ministers

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[160]Medvedev, *V komande Gorbacheva*, 49. In his memoirs Ryzhkov states his philosophical position thus: 'I am for the market, or, to put it another way, market relations in a country with a *developed* economy are absolutely logical and reasonable. I emphasise: with a developed economy. Our economy was fa-a-ar from developed...' Ryzhkov, *Perestroika: Istoriia predatel'stv*, 171. Emphasis in original.

[161]Cherniaev, *Shest' let s Gorbachevym*, 145. *Pravda*, 13 June 1987. Medvedev indicates that Gorbachev was a recent convert to advocacy of expanding wholesale trade after the radicals had convinced him that shortages were a symptom of the system. Medvedev, *V komande Gorbacheva*, 51.

[162]Medvedev, *V komande Gorbacheva*, 49.

[163]Cherniaev, *Shest' let s Gorbachevym*, 147.

and the head of Gosplan by name.[164] While Gorbachev was not able to take direct control over writing reform legislation, what he could and did do was sponsor the drafting of an alternative blueprint by the radical reformers.

After the summit meeting, preparation of the official documents for the June Plenum went along two paths. The first path led to the packet of decrees, the drafting of which began immediately after the submission of the draft enterprise law for national discussion. Where outside specialists at least participated in writing the enterprise law, they were wholly excluded from the direct drafting process of the decrees - nor were the decrees ever published as drafts for public comment.[165] Each decree was written by a working group dominated by, and usually headed by a representative of, the agency concerned in each particular area. The decree on planning reform was drafted in Gosplan, the decree on finances by the Ministry of Finance, the decree on credit by the State Bank, and so forth.[166]

The second path led to the Basic Provisions, and was written by the radical reformers at Volynskoe. Among those who regularly attended were Gorbachev's 'brain trust' of Anchishkin, Aganbegian, Abalkin, Bogomolov, and Zaslavskaia,

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[164]Gorbachev, 'O zadachakh partii po korrenoi perestroike upravleniia ekonomikoi', *Izbrannye rechi i stat'i*, volume 5, 136, 138.

[165]V.M. Mashits in 'Normativey prava i praktika khoziaistvovanniia', 34.

[166]Aganbegian, 'Prakticheskie dela ekonomicheskoi nauki', 21; Leonid Abalkin, *The Second Russian Revolution Transcripts*, Roll A145, Page 4.

with at least Gorbachev, Iakovlev or Medvedev usually present at each meeting. Among those who were also involved were Valentin Pavlov, Gavriil Popov and Otto Latsis. The Volynskoe policy coalition built on the reformist consensus established in the November conference to draft Gorbachev's speech and also a set of Party theses on economic reform to complement the enterprise law and the packet of decrees. They were also freed from the constraints imposed on reformists during the drafting of the enterprise law; in fact while they were sent the materials and drafts on the decrees, the government group did not have direct access to the documents being written at Volynskoe.[167] The gap between the Party theses being written at Volynskoe and the government decrees widened over time. Ryzhkov was strongly opposed to issuing state orders on a competitive, non-binding basis as the Volynskoe coalition proposed.[168] The senior position of the Volynskoe group was confirmed when, evidently in May, Medvedev successfully put forward the idea that the government decrees be adopted only in principle, and to rewrite the Party theses as the Basic Provisions, thereby raising the status of the reformist blueprint - although, at the same time, diminishing the stature of the concrete legislation.

An indication of what the Volynskoe group was to propose came in a conference two weeks before the June Plenum. In his opening statement Gorbachev asked the participants to comment

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[167]Otto Latsis, *The Second Russian Revolution Transcripts*, Roll A69, Page 4.

[168]Pavlov, *Ulushchen li shans?*, 51.

of the draft enterprise law and on the progress of economic reform overall. Although enterprise directors and ministerial officials as well as Ligachev and Ryzhkov were among those attending the conference, the discussion was very much on the agenda of the Volynskoe group. Gorbachev himself endorsed price reform in the clearest terms. Bogomolov made an open call for the market, with the adjective 'regulated' rather than the hitherto customary 'socialist'. Abalkin made a clear warning that state orders should not be made binding, lest they become directive planning by other means. One item in particular appears to have been included without a formal decision as yet having been made: Nikolai Sliun'kov stated that control figures would not be directive.

This last point was one not supported by Ryzhkov, and it was not until five days before the Plenum that it was settled. At Volynskoe on 20 June another summit was held to discuss the draft of Gorbachev's speech. Against the united front of Gorbachev, Iakovlev and Medvedev, Ryzhkov argued that control figures, and by extension state orders, needed to be made binding in order for him to ensure production needs were met. Medvedev led the debate against making control figures obligatory. The result was that control figures were not made binding, and they would include budget payments and indicators on social and economic progress as well as gross production.[169] State orders, however, remained binding, although they could be profitable for the state enterprise to undertake.

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[169]Medvedev, *V komande Gorbacheva*, 51. See also: Cherniaev, *Shest' let s Gorbachevym*, 163-166.

With the original drafts of Gorbachev's speech and the Basic Provisions left essentially intact, final revisions to the enterprise law were made under the supervision of Abalkin. The June Plenum duly approved the enterprise law, and it was adopted by the 11th USSR Supreme Soviet on 30 June 1987.[170] Final revisions to the packet of decrees were then made in July, in which, like the enterprise law, overarching principles were essentially inserted before the individual sections, the substance of which remained virtually unchanged.

The reformist victory which was won in principle on price reform, however, was then lost. The Ministry of Finance, Goskomtsen, and Gosplan had put forward proposals for revising prices, albeit only for wholesale prices and still not constituting a price reform.[171] The failure to implement even these limited proposals was the result of two factors.

First, the Volynskoe position on combining plan and market was being outflanked. Two articles published by *Novyi mir* in particular moved the debate in to entirely new waters. The reform programme was, as Stepan Sitarian had noted in article published on the eve of the June Plenum, to be based on

> ... the resolution of two fundamental interconnected issues in the *upravlenie* of the socialist economy: the relationship between centralism and democratic principles in the leadership of the national economy and the so-called issue of *plan and market*.[172]

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[170]*Izvestiia*, 1 July 1987, 1.

[171]Medvedev, *V komande Gorbacheva*, 54.

[172]Stepan Sitarian, 'Kontseptsiia uskoreniia - politiko-ekonomicheskie aspekty', *Kommunist* 7 (May 1987), 13-24, 17. Emphasis added.

In May the economist 'L. Popkova' had written a short article in *Novyi mir* saying that the conservatives were right: it was either the plan or the market - market socialism was founded on 'illusory ideas'; the notion itself was 'absurd' - and the implication was clear that the market was better.[173]

In a wide-ranging critique of the economic system the following month, Nikolai Shmelev began with the observation that the 'condition of our economy satisfies no one'.[174] In the transition from what he termed 'administrative socialism' to '*khozraschet* socialism' Shmelev included in his list of policy priorities not only price reform but also giving enterprise directors the right to reduce their workforce: unemployment was a necessary condition for improving labour productivity. By including not only price increases but also unemployment under the heading of '*khozraschet*' Shmelev gave ammunition to those opposed to any price change at all, as well as putting other reformers on the defensive. In a Politburo session, after being challenged by Ligachev, Gorbachev distanced himself explicitly from the articles written by Popkova and Shmelev, as well as the editor of *Novyi mir*.[175] Fedor Burlatskii wrote an article suggesting that there were

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[173]L. Popkova, 'Gde pyshnee pirogi?', *Novyi mir* 5 (May 1987), 239-241. 'L. Popkova' was the pseudonym used by Larisa Piiasheva of the Institute of the International Workers' Movement.

[174]Nikolai Shmelev, 'Avansy i dolgy', *Novyi mir* 6 (June 1987), 142-158, 142.

[175]Cherniaev, *Shest' let s Gorbachevym*, 150.

practical limits to *glasnost'*, grouping what Popkova and Shmelev had written with the activities of *Pamiat'*.[176]

The second cause of the retreat from the issue of price reform was that reformers themselves were having second thoughts on whether the time was right for doing so. By the summer of 1987, the growth policies of *uskorenie* were clearly failing; instead macro-economic imbalances were becoming greater. Many articles began to appear as the consensus shifted towards stabilisation first, price reform second - the position, that is, for which Ryzhkov had previously been criticised. Some, such as Bogomolov, had been only half-committed to price reform, seeing inflation and the deficit as more important issues.[177] Bogomolov, together with Georgii Arbatov, actively discouraged Gorbachev from undertaking price revisions.[178] Medvedev, who retained his support for a price reform, approached Gorbachev in August and argued that on that issue rested the 'fate of reform itself' and without it 'all discussion about *perestroika* of the economic mechanism is idle talk'.[179] Gorbachev instructed Medvedev to take an informal poll among the economists and report back. On 6 November Medvedev met with radical economists - including Abalkin, Shatalin, and Petrakov - and found himself alone in advocating

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[176]*Pravda*, 18 July 1987, 3.

[177]Oleg Bogomolov, *The Second Russian Revolution Transcripts*, Roll A72, Page 1.

[178]Pavlov, *Ulushchen li shans?*, 84.

[179]Medvedev, *V komande Gorbacheva*, 55.

price reform.[180] Price reform was not to take place for the duration of the enterprise law. As Kurashvili concluded in an article published the month before, the fate of the enterprise law would be decided during implementation in 'the struggle between advocates of *perestroika* ... and its opponents.'[181] The chances for success did not appear good; given the inclusion of state orders and the exclusion of price reform, the state enterprise was going to be placed, as Gorbachev had suggested that June would happen without price reform, in a difficult position.

Rationality in the Decision Process

In his path-breaking case study of the 1962 Cuban Missile Crisis, Allison formulated and tested three alternative models of decision-making based on three dominant approaches in decision theory: 'rational policy', 'organisational process', and 'governmental politics'.[182] Others have since used a similar methodology incorporating new developments in those three still dominant approaches, with some including the body of literature which has developed around 'garbage can' theory.[183] In this section, the enterprise law as a decision

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[180]Medvedev, *V komande Gorbacheva*, 55.

[181]Kurashvili, 'Perestroika i predpriiatie', 15.

[182]Graham Allison, 'Conceptual Models and the Cuban Missile Crisis', *American Political Science Review* 63:3 (September 1969), 689-718, and *Essence of Decision: Explaining the Cuban Missile Crisis* (Boston: Little, Brown, 1971).

[183]See, notably: Lawrence B. Mohr, 'Organisations, Decisions, and Courts', *Law and Society Review* 10:4 (Summer 1976), 621-642; other treatments include Jonathon Bendor and Thomas H. Hammond, 'Rethinking Allison's Models', *American*

will be briefly examined through the conceptual lenses of each of these four major classes of decision theory.[184] While part of this task will be to arrive at some conclusion as to which theoretical approach best describes the decision-making process behind the enterprise law, the more important analytical task is to illuminate the various aspects of the decision process which each approach tends to emphasise.

Several initial assumptions will be made, all of which are consistent with these four theoretical approaches. First, there were multiple participants behind the decision of the enterprise law. Secondly, there were multiple goals in the enterprise law, both in the sense that the law itself contained many different goals, not all of which were mutually reconcilable, and in the sense that participants came to the decision situation with different goals. Thirdly, the participants did not have unlimited information. These boundaries of rationality were certainly fixed in part by the suspect information about the economy at their disposal, but also by the fact that participants were entering uncharted waters in which the consequences of their decision could not be known with any great certainty beforehand.

Political Science Review 86:2 (June 1992), 301-322; and Paul J.H. Schoemaker, 'Strategic Decisions in Organisations: Rational *and* Behavioural Views', *Journal of Management Science* 30:1 (January 1993), 107-129; and P. Shrivastava and J.H. Grant, 'Empirically Derived Models of Strategic Decision-Making Processes', *Strategic Management Journal* 6 (1985), 96-113.

[184]For a succinct summary of decision theory see: James G. March, *A Primer on Decision-Making* (New York: Free Press, 1994).

The organising principle is how goal inconsistency is handled within each class of theory. The relevant specifics will be detailed below, but it is worth noting the salient features of each approach. Using Mohr's labels and in general, Mohr's approach, the 'rational actor' strives to reduce inconsistency in order to maximise a goal; the 'firm' attempts to find points of agreement among decision participants in order to establish a consensus about goals, thereby reducing inconsistency over those goals; with 'politics' participants are not predisposed to eliminating inconsistency and strive to assert their goals either on the basis of mutual indifference or through struggle; and in the 'garbage can', goals become attached to a decision not as a result of specific means-ends calculations but because of their temporal proximity to the decision situation.

Mohr's point of departure with regard to the US court system is also of relevance for this dissertation. Much decision theory derives from organisational theory. (More rarely, organisational theorists have borrowed from other disciplines such as political science, especially with regard to the 'politics' approach.) With due caution to methodological imperialism, the important issue in the investigation of a single policy, however, is not whether the Soviet polity may be viewed as an organisation (for instance as has been argued, in somewhat different ways, by Alfred Meyer and Jerry Hough), but whether organisational theory has anything to offer in analysing the Soviet polity. This point can be made clearer by recalling that the original context for

within the economic system, to uncover hidden reserves and so forth, and reform of the economic system itself.

Among the radical reformers themselves, the rational actor model is also applicable, first in evidence with 'the 1986 concept', as Sutela terms it,[186] of the November conference organised by Aganbegian. The Volynskoe group which drafted the Basic Provisions in particular was an excellent exemplar of the kinds of behaviour associated with this model. As Abalkin describes their activities,

> Though the experts were different, they quickly found a common language... Of course there were shades of meaning in everybody's approaches, for example in the analysis of the financial crisis and the consumer market, [but] the direction of radical reform, we were unanimous about that. We knew each other, I mean the experts, early on but his group was formed and consolidated.[187]

It would not seem to be a coincidence that the 'shades of meaning in everybody's approaches' to which Abalkin referred began to take on greater significance with the failure of *uskorenie*; as time progressed, all the various issues which had been grouped under accelerated growth became disengaged, with, as Medevdev found, clear differences on the relative importance of proceeding with reform versus stabilising the growing financial crisis.

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[186]Pekka Sutela, *Economic Thought and Economic Reform in the Soviet Union* (Cambridge: Cambridge University Press, 1991), 151.

[187]Leonid Abalkin, *The Second Russian Revolution Transcripts*, Roll A144, Page 6.

The Firm and Satisficing

Only with the 'rational actor' are goals assumed to be fixed at the inception of the decision process. With the next two approaches to be examined, goals emerge as a decision is reached through a process of consensus-building and conflict, but in two recognisably distinct manners. With the 'firm', the decision is presumed to be founded on the need to create a partnership among the participants as a means of joint action.[188] The choice mechanism is satisficing: decision-makers pay closer attention to success versus failure than to degrees of success or failure. Rather than assuming an effective unitary decision-maker, theories in this class assume multiple participants with inconsistent and at least latently conflicting interests and identities. Inconsistency and conflict come into play and are partially reconciled within the decision process. The decision process itself is marked by bargaining, negotiation, and so forth during the course of which a consensus emerges around an alternative which meets all active demands to minimum levels (as opposed to some goals being maximised and others not at all); those levels themselves emerge during the decision process. There is among the participants an implicit or explicit rule that no one

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[188]The theoretical framework of the 'firm' was originally developed collectively and individually by Simon, March, and Cyert. See, in particular, Richard M. Cyert and James G. March, *A Behavioral Theory of the Firm*, Second Edition (Oxford: Blackwell, 1992); James G. March and Herbert A. Simon, *Organizations*, Second Edition (Oxford: Blackwell, 1994); and Herbert A. Simon, *Administrative Behavior*, Third Edition (New York: Fine Press, 1976).

participant is left significantly worse off as a result of that decision.

Satisficing theory, and Graham Allison's model in this class in particular, places great emphasis on the function of organisational rules to smooth out potential conflict among participants to a decision. At the core of the drafting process of the enterprise law and the packet of decrees, such rules were invoked effectively to formulate reform proposals which in substance were not particularly radical. With some ministerial and planning officials both deeply involved in the drafting process and other officials signing off on what was drafted, the result was, at least initially, documents which left none of the official participants or institutions significantly worse off from reform. As time progressed, however, the compromises which were struck between 'reformers' and 'conservatives' did not satisfy anybody. No synthesis on active demand levels emerged; nor, for that matter, were the goal-sets of either the reformers or the conservatives met at minimum levels, as the discussion of the two round tables above makes clear.

Politics and Struggle

If the 'rational' model directs analytical attention towards the instrumental means of maximising a goal-set, and the 'firm' model focuses on the points of agreement in the goals of participants to a decision, the political model is centred on the points of disagreement among the participants to a decision. Many activities associated with the firm model may

also be present in the political model: coalitions, compromise, and so forth. However, there is not necessarily the expectation that the decision will lead to a win-win situation; there may be clear losers. Partisanship, not consensus, is the fundamental search rule of the political model as participants seek to advance or secure their own position, although in its benign form, a win-win situation is a possibility; logrolling is one example.

Ultimately, the enterprise law and the associated documents were about politics and struggle. The redistribution of power and authority outlined even in the contradictory enterprise law and the packet of decrees (and especially in the Basic Provisions) would in implementation make for clear winners and losers. The compromises which were made were political compromises, a style of decision-making which many identified closely with Gorbachev. As Ryzhkov put it, Gorbachev 'is a seeker of compromises - in all situations. That is part of his nature.'[189] More explicit is Latsis, who described Gorbachev as

> a politician who has a very special trait. He acts more or less resolutely but he always wants to avoid an open confrontation, whatever he does.[190]

Whenever possible, Gorbachev attempted to strike compromises on economic reform directly within the broadly reformist camp; that is, directly with Ryzhkov. After each compromise Gorbachev then moved forward with reform, as symbolised by the

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[189]Nikolai Ryzhkov, *The Second Russian Revolution Transcripts*, Tapes 14 and 15, Page 1.

[190]Otto Latsis, *The Second Russian Revolution Transcripts*, Roll A68, Page 6.

increasingly radical nature of the first three laws on reform: the Law on Individual Labour Activity, the Law on the State Enterprise (Association), and the Law on Cooperation. At the same time, he did not hesitate to withdraw when it became clear that compromises were not forthcoming, as with price reform.

The Garbage Can

The 'garbage can' model, detailed in the introduction, is predicated on the idea that there are three principal streams in the policy process - problems, alternatives, and participants - which then come together at choice opportunities, when the 'garbage can' is emptied. One of the ideas which had long been in the alternatives stream was, of course, the state order. However, during the drafting process of the enterprise a realignment took place between participants and this particular alternative. Initially, the state order was something which reformers were willing to tolerate, and in some cases endorse, but only for strategic production. By the time the enterprise law was passed, and more so during implementation, this was an idea which ministerial and planning officials adopted as their own to continue directive planning under another name. For reformers, the state order became a symbol of the inadequacies of the enterprise law as an economic reform.

Garbage can theory also helps to explain what happened with the issue of price reform. Cohen, March and Olsen suggest that in a garbage can situation decisions take place according

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to one of three styles: (1) decision by oversight - if solutions are available to problems and there is no controversy, the decision is made quickly and without attention to other existing problems; (2) decision by flight - if there are too many problems to be solved under the circumstances, some problems will leave the choice opportunity to await another occasion; and (3) decision by resolution - problems are solved after debate and discussion.[191] It is the second of these three decision styles which accompanied price reform.

Although 'garbage can' theory has been made something of a central pillar in much of the revisionist literature, and therefore often deployed as a challenge to the 'rational analysis model' of a goal-driven policy process,[192] the behaviour within a garbage can situation of ambiguity and uncertainty may nonetheless be completely rational. As Moch and Pondy observe on this point:

> Knowledge of garbage can processes can, of course, be misused for 'mini-machiavellian' purposes. Administrators can overload decision makers when they want to avoid certain outcomes; they also can create more attractive garbage cans to distract participants away from issues.[193]

It is also the case that other garbage cans can be created in order to divert some issues: if an issue under discussion is

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[191]Michael D. Cohen, James G. March, and Johan P. Olsen, 'A Garbage Can Model of Organizational Choice', *Administration Science Quarterly* 17:1 (March 1972), 1-25, 8.

[192]White, 'Values, Ethics, and Standards in Policy Analysis', 869.

[193]Michael K. Moch and Louis R. Pondy, 'The Structure of Chaos: Organized Anarchy as a Response to Ambiguity', *Administrative Science Quarterly* 22:2 (June 1977), 351-362, 360.

> which clearly contradicted both the spirit and the letter of the decisions of the June (1987) Plenum of the Central Committee and the Law on the State Enterprise.[195]

Gorbachev was deeply involved in economic policy-making in the months between the 27th Congress and the June Plenum, and his participation was clearly critical in moving the reform process forward as far as it had moved - if not far enough. Not until the end of 1989 did he participate as actively in economic reform policy, with his attention shifting to foreign policy and political reform; by the end of 1987 Gorbachev and his close advisors had strengthened their conviction that not a single economic reform would take place if there were no political reform.[196]

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[195]Aganbegian, 'Prakticheskie dela ekonomicheskoi nauki', 26.

[196]Georgii Shakhnazarov, *Tsena svobody* (Moscow: Rossika-Zves, 1993), 39.

Chapter Five

The Enterprise Law in Action

At the June 1987 Plenum, Gorbachev summarised the legislative act of the enterprise law and the programmatic Basic Provisions thus:

> These ideas and principles, on the basis of which the *perestroika* of the *upravlenie* of our economy is projected, are the deepest and most wide-ranging in all the years of socialist construction.[1]

The enterprise law was a product of over twenty-five years of theory development, five years of building up reform momentum, and one year of drafting. It all ended quickly. Even before it was scheduled to be fully implemented, by 1988 it was clearly failing; in 1989 it was terminated effectively, and in 1990 formally. As a result, implementation, evaluation and termination were tightly interwoven, effectively occurring simultaneously. This chapter draws out the themes and events of each of these three categories, and concludes with a section on the relationship of the enterprise law to the reforms and reform processes which replaced it.

Implementation

That the enterprise law was contradictory and filled with far more proclamations than specific rights - by some accounts 95 per cent of the provisions of the reform were declarations and

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[1]Mikhail Gorbachev, 'O zadachakh partii po korrenoi perestroike upravleniia ekonomikoi', *Izbrannye rechi i stat'i*, Volume 5 (Moscow: Politizdat, 1989), 185.

slogans[2] - was certainly nothing new in Soviet, or post-Soviet, legislation. The important issue is rather how those contradictions and declarations were resolved in the implementation process. Even had the enterprise law been tightly defined as a radical reform and beyond legalistic reproach, implementation was bound to run into difficulties. A characteristic of the policy process in both the Soviet and Western experiences is that most initiatives fail to be fully, or even at times partially, implemented. The gap between intent and result is so frequent that Pressman and Wildavsky, in their widely-cited study of implementation in the US, suggest policy failure is the rule rather than the exception:

> The cards in this world are stacked against things happening, as so much effort is required to make them move. The remarkable thing is that new programs work at all.[3]

The chances for success of the enterprise law, as a single reform, were complicated by the fact that in many respects the reform was a consolidation of policy initiatives introduced since 1983 which themselves were far from successful: the Law on Labour Collectives, the Large-Scale Economic Experiment, and the AvtoVAZ and Sumy experiments in *samofinansirovanie*, to list three of the enterprise law's antecedents.

Implementation of the 'enterprise law', in other words, began in 1983. This had two important consequences for the process of implementation. First, while reformers pointed to

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[2]B.I. Puginskii, 'Prava predpriiatii: Zakon i praktika', *Sovetskoe gosudarstvo i pravo* 8 (September 1989), 28-35, 28.

[3]Jeffrey Pressman and Aaron Wildavsky, *Implementation* (Berkeley: University of California, 1973), 109.

the successes of these earlier measures, it was where they failed that the case was made for more radical policies. Enterprise reform built on failures, not on successes (and this dynamic continued when the failure of the enterprise law itself was subsequently deployed in the debate for a full shift to the market). Legislatively, the enterprise law consolidated the incremental adjustments on the margin of these earlier measures; the fact that these measures were themselves only partially implemented meant that in practice - as opposed to in legislation - the law entailed a far greater large-scale change than might have been the case. While learning from failure had the virtue of sharpening the debate on economic reform, what it meant for implementation was that reform took place on the basis of problematic reform policies - which themselves were adopted *ad hoc*.

This leads to the second consequence for implementation of the enterprise law. The reform programme was one of an 'integrated system' of economic management; the changes to the system itself, however, emerged on the basis not of what was desirable economically, but of what was feasible politically. In other words, the sequencing of reform was not by design but by happenstance. The implementation of most of the enterprise law was itself tacked on to the expansion of *samofinansirovanie* of the 1986 decree.

If there was no explicit strategy of implementation, there was an implicit strategy in the design of the enterprise law itself (as well as in the design of the earlier reform measures on which it was based). This is explicable in terms

of 'forward mapping' and 'backward mapping'. Most policy-making is about 'forward mapping': objectives are defined with respect to the top, methodologies prescribed, and instructions issued to every level of the implementation process. There is the assumption that implementation is controlled from above, with all organisational units operating in essentially hierarchical relationships.[4] As Elmore suggests, policy-makers do not always exercise complete control and suggests an alternative approach, 'backward mapping', which

> begins not with a statement of intent, but with a statement of the specific behaviour at the lowest level of the implementation process that generates the need for a policy. Only after that behaviour is described does the analysis presume to state an objective.[5]

That of course was a central theme of the Novosibirsk Report, and recurred in the reformist rhetoric throughout *perestroika*: the existing economic system worked against the initiative of workers and, by extension, state enterprises. The thesis that reform design should begin at the bottom was reinforced by the unsatisfactory experiences of past reforms which began at the top (constituting further learning from failure). The enterprise law was, consequently, about designing reform around the needs of the basic unit in the economy, the state enterprise, and on that basis proceeding to reform the administrative structure overall. As Leonid Abalkin explained in an interview,

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[4]Richard E. Elmore, 'Backward Mapping: Implementation Research and Policy Decisions', *Political Science Quarterly* 94:4 (Winter 1979-1980), 601-616, 603-604.

[5]Elmore, 'Backward Mapping', 604.

> Why did we begin with the state enterprise? Why, in our system, didn't we need to begin first by restructuring planning, then the ministries, and then finally the enterprises? We need to begin at the bottom. We started with production collectives because without shifting them to new operating conditions, without their feeling they were in charge, there would be no hope of restructuring the top - centralised planning and ministerial *upravlenie*.[6]

Creating the space at the bottom for implementing economic reform was, in this sense, the purpose of the 'human factor', *samoupravlenie*, and full *khozraschet*.

The boundaries of the space created, however, were very much defined from the top. While ideas and support were solicited from enterprise directors during the process of drafting the enterprise law and from society at large during the public discussion of that draft, the content of the enterprise law was the result of struggle at the top. In sum, though the decision process was centralised, the 'backward mapping' design of reform meant that implementation would occur both at the top and at the bottom.

In the rhetoric of *perestroika*, this was the 'revolution from above and from below'. In the terminology of the implementation literature, this was to be a synthesis of 'top-down' and 'bottom-up' processes.[7] The point at which these two

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[6]*Izvestiia*, 1 March 1988, 2.

[7]Elmore's work cited above is concerned primarily with describing this divide; 'backward mapping' in the design of policy is offered as one prescription to improve implementation - it is in the sense of policy design that his terms have been used here. On top-down versus bottom-up perspectives and a review of the relevant literature also see: Paul A. Sabatier, 'Top-down and Bottom-up Approaches to Implementation Research: A Critical Analysis and Suggested Synthesis', *Journal of Public Policy* 6 (January 1986), 21-48; and Donald J. Calista, 'Policy Implementation', in Stuart S. Nagel (ed.), *Encyclopedia of Policy Studies* (New York: Marcel

processes met was the decision-making sphere at the state enterprise: central authorities were to withdraw from above in favour of the labour collective from below. The two parts of this section on the implementation of the enterprise law consequently examine the process from the top and from the bottom. The synthesis which was envisaged did not emerge, and the 'revolutions' failed to meet.[8]

After enumerating the principles of enterprise activity, Article Six of the Law stated in no uncertain terms that:

> The state is not responsible for the commitments of the enterprise. The enterprise is not responsible for the commitments of the state, nor of other enterprises, organisations, and institutions.

The clear, legalistic boundary thus established was blurred in nearly every other article, with the result that during implementation of the reform enterprises remained responsible for decisions made by ministries and planning agencies, and the state, in the form of the financial system, was responsible for the decisions of the enterprise.

Dekker, 1994), 117-155, especially 132-137.

[8]Within the extensive literature on the problems of implementing economic reform after June 1987 see notably: on the macroeconomic developments, Anders Åslund, *Gorbachev's Struggle for Economic Reform*, Revised Edition (Ithaca, NY: Cornell University Press, 1991), 182-292; on the ministerial response, Stephen Whitefield, *Industrial Power and the Soviet State* (Oxford: Clarendon Press, 1993), 192-205; on the economic developments in the state enterprise, Gertrude E. Schroeder, 'The Soviet Industrial Enterprise in the 1980s', in Ian Jeffries (ed.), *Industrial Reform in Socialist Countries* (Aldershot, Hants: Edward Elgar, 1992), 219-236; and on workplace democratisation, Donald Filtzer, *Soviet Workers and the Collapse of Perestroika* (Cambridge: Cambridge University Press, 1994), 78-88. An excellent longitudinal case-study of a single state enterprise in reform is given by Michael Buraway and Kathryn Hendley, 'Between *Perestroika* and Privatisation: Divided Strategies and Political Crisis in a Soviet Enterprise', *Soviet Studies* 44:3 (1992), 371-402.

A Stalled Revolution from Above

Standing commissions, whose prominence in the policy process had receded during the first half of 1987 in the final phase of drafting the reform documents, regained their importance to supervise the introduction of economic reform after the June 1987 Plenum. A special Commission for the Implementation of Legislation was established soon after the adoption of the enterprise law under Lev Voronin, who brought with him the experience of supervising the Large-Scale Economic Experiment.[9] The first major achievement of this commission was to review the mountain of legislation, rules and regulation governing enterprise activities which had been adopted in piecemeal fashion over the years, much of which was eliminated at a stroke. In early 1988 Voronin announced that 1,200 all-Union decrees, 33,000 all-Union rules and 800,000 republican rules and regulations had been rescinded.[10] At the same time, the Talyzin Commission (which retained responsibility for overseeing economic reform overall[11]) reviewed Gosplan's 680

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[9]Interview with V.V. Laptev, Institute of State and Law, Moscow, 28 October 1992. See also: V.V. Laptev in *Sovetskaia rossiia*, 10 June 1988, 3.

[10]'Priznanii utrativshimi sily', *Ekonomicheskaia gazeta* 12 (March 1988), 4. What was not revealed was how many such regulations remained on the books. One source gives the impression that the reduction at the all-Union level was one fourth of the total, with 150 thousand regulations of various sorts remaining in force. In Ruslan Khasbulatov, *'Biurokratiia tozhe nash vrag...': Sotsializm i biurokratiia* (Moscow: Politizdat, 1989), 260.

[11]'O perevode ob"edinenii, predpriiatii i organizatsii otraslei narodnogo khoziaistva na polnyi khoziaistvennyi raschet i samofinansirovanie', *Polnyi khoziaistvennyi raschet i samofinansirovanie. Sbornik dokumentov* (Moscow: Pravda, 1988), 37-41, 40.

normative acts, rescinding 432 and clarifying 36; in their place 50 new acts were adopted on planning, finance and credit.[12]

The significance of the legal clarifications, however, was already being devalued regardless of the clear conflict of interest of both Voronin and Talyzin, as heads of Gosplan and Gossnab respectively. The initial conditions of the implementation of the enterprise law were dictated not by any streamlining of the regulatory framework, but by the 1988 plan, the drafting of which exploited the contradictions of the enterprise law. According to the Law, the enterprise independently drafted its yearly plan and five-year plan. However, not only did the enterprise law come into force at the mid-point of the five-year plan, which Gosplan successfully prevented from being revised, but the law itself was adopted at the time the plan for 1988 was being drafted. Gosplan's schedule required that the first draft be prepared by the autumn, and in the summer and autumn after the enterprise law's ratification planning officials insisted that there was simply not enough time to introduce significant changes, suggesting that if need be, alterations could be made during the plan period,[13] a clear disregard of the enterprise law's emphasis on stability. With the planning process proceeding as before, the result was the issuance to

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[12]*Izvestiia*, 18 August 1987, 2.

[13]A.G. Aganbegian, 'Prakticheskie dela ekonomicheskoi nauki', *EKO* 9 (September 1989), 17-28, 26-27.

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enterprises of a plan for 1988 wholly dictated from above,[14] but with financial responsibility ostensibly resting with enterprises being transferred to full *khozraschet*. According to one survey, 60% of enterprise directors reported they were 'frequently' instructed to undertake activities which were not economically profitable; another 28% said that such was the case virtually without exception.[15]

Although the enterprise law empowered labour collectives to appeal against decisions made by higher agencies, this did not prove to be a successful avenue. In one celebrated case, Uralmash successfully refused to accept the 'unrealistic' plan for 1988 which had been calculated by Gosplan the previous July - by going, portentously, not to Gosarbitrazh but directly to its ministry and Gosplan. According to the two reporters, the ministry 'painted apocalyptic scenes of the mass refusal by enterprises to accept edicts from Moscow'; a functionary stated bluntly that the ministry 'is not an enterprise, therefore the Law does not apply to us'. A Gosplan official was equally forthright when asked directly whether the enterprise law was operative: 'Not completely. We are operating under a five-year plan. Now, when the new five-year plan begins...'[16] If the ministry and Gosplan used the rules of the planning process to ignore the enterprise law even at a factory formerly headed by Ryzhkov, the resolution in this

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[14]*Ekonomicheskaia gazeta* 17 (1988), 2.

[15]L. Shcherbakova, 'Anketa direktora', *EKO* 3 (March 1988), 59-75, 63.

[16]'Sluchai s "Uralmashem"', *Izvestiia*, 23 March 1988, 3.

exceptional instance of an enterprise objecting to its plan did not improve the situation: the portion of the plan to which Uralmash had objected was not rescinded, but merely transferred to another ministry.

The non-reform process which was set in motion by the 1988 plan was sustained by the transformation of 'economic levers' into effective instruments of directive control. The enterprise law provided for four avenues through which the centre could influence enterprise decision-making: limits, control figures, normatives, and state orders. Of these, the first two represented, both in methodology and in application, holdovers from the traditional centralised planning system. Limits (*limity*, also translated as 'quotas') rationed central capital and material investment which were, according to the relevant decree, to be reduced in tandem with the expansion of wholesale trade. Control figures, or production targets, had been the backbone of the centralised planning system, and in the enterprise law had merely been reduced in number - although including the volume of production - without changing how they were calculated. The last minute tactical victory which reformers had achieved, that control figure be non-binding, quickly proved to be short lived; not only were control figures treated by planners and ministerial officials as binding, but their number in fact increased.[17] Even as originally formulated in the enterprise law limits (bureaucratic directions) and control figures (bureaucratic

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[17]P. Bunich, 'Khozraschet i tsentralizovannoe upravlenie', *Voprosy ekonomiki*, 8 (August 1988), 53-65, 60.

suggestions) were direct, administrative levers. Only normatives and state orders offered the possibility, however remote, of developing indirect, economic levers. The failure of normatives and state orders to serve that function constituted, according to Aganbegian, two 'universally recognised mistakes' of economic reform.[18]

The role of normatives as an economic lever would have been through tax rates and financial regulations; normatives were to convey the centre's instructions to the enterprise through economic means.[19] Ideally, for normatives to function as economic levers they would be calculated for the economy as a whole, and at least for all enterprises in a particular branch.[20] However, the option of defining normatives equally for all enterprises had been blocked by the Ministry of Finance and Gosplan,[21] and in the enterprise law the phrasing was ambiguous, stating that 'normatives are established by taking into account special regional features'. It quickly became clear that 'special regional features' meant each individual enterprise would have different normatives. At a round table held by the journal *Kommunist* and the Sumy oblast'

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[18]A.G. Aganbegian, 'Nepredusmotrennye ostanovki reformy', *EKO* 2 (February 1989), 80-85, 82.

[19]Åslund, *Gorbachev's Struggle for Economic Reform*, 126; Fyodor Kushnirsky, 'The New Role of Normatives in Soviet Economic Planning', *Soviet Studies* 41:4 (October 1989), 526-542, 527.

[20]On this point see, among others: D.M. Kazakevich, 'Podlinyi khozraschet: Nereshennye problemy', *EKO* 10 (October 1988), 21-32, 25.

[21]Valentin Pavlov, *Ulushchen li shans?* (Moscow: Terra, 1995), 47.

(and attended by such notable reformists as Bunich and Latsis) the Gosplan official O.M. Iun' expressed the circular logic which had been applied. The current five-year plan meant some enterprises had to undertake unprofitable activities; the five-year plan itself could not be changed; and therefore normatives had to be individually tailored:

> Each enterprise has its own five-year plan for technical re-equipment, reconstruction and distribution, a plan for its social development and its own level of profitability. If you add up all the materials needed to implement the tasks of the five year plan and relate that to profitability, then you unavoidably arrive at an individual normative. Therefore it is impossible to predetermine whether an enterprise ... will have sufficient resources for *samofinansirovanie* by the same normative. Such a normative shows nothing. As much resources as are needed for the implementation of what is envisaged in the five-year plan should remain at the enterprise. This is what the economic normatives now established and confirmed have done. They are unavoidably individual.[22]

It would not appear to be coincidental that Iun' injected this lengthy exposition during the discussion of price reform. Certainly for so long as prices remained unchanged - let alone unreformed - individual economic normatives were one method planners could use to compensate for arbitrary prices.[23]

However, the setting of these normatives was within the province not of Gosplan, but of the ministries, with capital charges ranging from 0 to 12% and normatives on profits established anywhere from 0 to 90%.[24] The ministerial practice

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[22]O.M. Iun' in *Samofinansirovanie: Zamysli i deistvitel'nost'* (Moscow: Ekonomika, 1988), 38-39.

[23]Kushnirsky, 'The New Role of Normatives', 540.

[24]P. Bunich, 'Mekhanizm samofinansirovaniia', *Voprosy ekonomiki* 9 (November 1987), 3-13, 6; Nikolai Shmelev, 'Novye trevogi', *Novyi mir* 64:4 (April 1988), 160-175, 166.

of confiscating profits from some enterprises to subsidise others continued.[25] Two instructions issued by the Talyzin Commission failed to improve the situation, and a third instruction made matters worse by endorsing the practice of compensating the losses of enterprises whose low profit margins were authorised by the plan - thus guaranteeing the survival of loss-making enterprises.[26] Any notion of normatives functioning as economic levers had been lost. Instead, ministries confirmed the normatives for each enterprise with the result, as one critic phrased it, that the 'individualisation of normatives, adjusting them for the specific economic conditions of an enterprise, castrates their essence and transforms them into directive plan commands'.[27]

If economic normatives governing financial flows in the economy became administrative levers by other means, state orders were introduced as clear tools of administrative control within the production process itself; efforts to transform state orders into economic levers proved unsuccessful. As noted in the previous chapter, the Volynskoe group advocated the idea that state orders should be issued by the ministry ordering materials, not by the ministry supplying materials; that alternative had been blocked by Ryzhkov with

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[25]Whitefield, *Industrial Power and the Soviet State*, 197-198.

[26]*Ekonomicheskaia gazeta*, 6 (February 1988), 23; 43 (October 1987), 7; and 19 (1988), 19.

[27]A. Siginevich, 'Ekonomicheskie normativy v sisteme polnogo khozrascheta', *Voprosy ekonomiki* 3 (March 1988), 74-84, 74.

the support of Gossnab and the ministries.[28] Had the Volynskoe position been adopted, on its own it might not have prevented the widespread use of state orders, but it would have represented a clear shift towards consumer sovereignty as well as improving the chances that production would find a use.

Although state orders were issued by the supplier, whether an enterprise's ministry, Gossnab, or Gosplan, Leonard Vid of Gosplan confidently stated in July 1987 that they would occupy only 50-70% of an enterprise's production.[29] Events quickly proved otherwise. According to Article 10 of the enterprise law, 'state orders guarantee the satisfaction of priority social requirements'. Priority production, it transpired, could include just about anything. At the round-table discussion noted above, Iun' remarked that state orders should be extended to alleviate shortages of which 'unfortunately, we have many'. To this Latsis responded that only priority shortages should be included and that 'if we set a state order for all shortage production, then we are lost'.[30]

For 1988, state orders occupied on average 82% of an enterprise's production,[31] covering all types of production, not merely 'key' output.[32] By March, Leonid Abalkin had

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[28]Pavlov, *Ulushchen li shans?*, 51.

[29]*Pravda*, 18 July 1987.

[30]*Samofinansirovanie: Zamysli i deistvitel'nost'*, 57.

[31]V. Popov and N. Shmelev, 'Anatomiia defitsita', *Znamia* 5 (May 1988), 158-183, 183.

[32]G.B. Grenbek and E.A. Solomennikova, 'Metodoligicheskie podkhody k issledovaniiu raboty predpriiatii v usloviiakh polnogo khozrascheta i samofinansirovaniia', in V.V. Kuleshov and G.B. Grenbek (eds.), *Promyshlennoe predpriiatie v*

remarked that the only provision in the enterprise law regarding state orders to be implemented was that they were obligatory. The sentiment was echoed by Vladimir Laptev, who expanded the attack on ministries for issuing state orders without providing the supplies which would be needed to fulfil them, which was 'not only irrational, but illegal'. Both criticised the one body which had been established to protect enterprise rights, Gosarbitrazh, for refusing to make any rulings on disputes involving state orders.[33]

In March 1988, the drafting of a statute to set limits to the size of state orders and define when an enterprise could refuse them had been announced.[34] By the time the Council of Minsters approved the 'Temporary Decree of State Orders for 1988-1989' in July,[35] none of the central issues had been resolved: enterprise rights to appeal against state orders were not strengthened, the methodology of calculating state orders was not changed, and the issuance of state orders was not transferred to the ministries requiring inputs rather than the ministries producing output. Instead, the temporary statute gave Gosplan the sole prerogative of issuing state orders, and the volume of an enterprise's production they were

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usloviiakh polnogo khozrascheta i samofinansirovaniia (Novosibirsk: Nauka, 1989), 4-20, 5.

[33]Leonid Abalkin in *Izvestiia*, 1 March 1988, 2; and V.V. Laptev in *Sovetskaia rossiia*, 10 June 1988, 3.

[34]*Izvestiia*, 1 March 1988, 2.

[35]*Izvestiia*, 21 July 1988, 2.

to occupy was to be cut by over 50%.[36] As had been the case for the enterprise law's adoption the previous year, however, the temporary statue was approved when the next year's plan was being prepared. In the end, by December Gosplan was still struggling to establish internal procedures for formulating state orders,[37] relying heavily on the ministries to define them. Any reduction in state orders, however, did not necessarily mean greater freedom of action for state enterprises; the temporary statute included a provision stating that Gosplan, Gossnab, the ministries and other administrative agencies were empowered to assign production targets which were not explicitly included as state orders if such production was required to preserve proportionality in the economy.[38] As a result of this loophole, any reductions in state orders reappeared either as traditional directives from Gosplan and Gossnab or control figures issued by ministries.[39]

State orders, by definition, established priorities in the economy. The simple issuance of state orders, however, did not guarantee their fulfilment. Some state orders had more priority than others - and in practice those relating to scientific and technical progress, the linchpin of the

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[36]The reduction in the size of state orders envisaged by the statute appears to have been more than what Gosplan had in mind. See, for instance, *Planovoe khoziaistvo* 6 (June 1988), 126.

[37]Stepan Sitarian in *Pravda*, 5 January 1989, 2.

[38]P. Bunich, 'Sotsialisticheskii rynok sredstv proizvodstva ili razverstka?', *Voprosy ekonomiki* 11 (November 1988), 55-57, 55.

[39]*Izvestiia*, 3 January 1989, 2.

policies of *uskorenie*, rated low. The fulfilment of state orders for 'principally new forms of technology and materials' for the first half of 1989 was a scant 16%. As Khanin remarked, 'even for us, accustomed to the systematic unfulfillment of plans, such a wretched percentage is surprising'.[40]

The overall domination of enterprise planning by state orders was something not opposed by enterprise directors. State orders, as a rule, guaranteed not only the sale of production, but also the provision of material and financial resources; enterprise directors as a consequence were willing partners in the extensive use of state orders.[41] The objection of enterprise directors was not to the size of state orders, but to their distribution. Their preference was for them to be issued competitively[42] - which would make state orders more advantageous to the enterprise without requiring a search for suppliers or customers. Given the lack of concerted interest by the relevant actors, wholesale trade failed to materialise. In the autumn of 1987, Gossnab's chair, Lev Voronin, confidently predicted that wholesale trade would be at 60% for 1988-90, and expand to 75-80% in 1990-92.[43] With state orders occupying over 80% of enterprise production, Voronin revised

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[40]G.I. Khanin, 'Krizis ugliubliaetsia', *EKO* 1 (January 1990), 73-87, 81.

[41]*Izvestiia*, 29 December 1987, 2; *Izvestiia*, 21 July 1988, 2.

[42]R.M. Ponikarova and G.A. Kiselev, 'Ekonomicheskaia reforma v otsenkakh rukovoditelei predpriiatii', *EKO* 1 (January 1990), 67-72, 68.

[43]*Pravda*, 23 September 1987.

his figures to claim that for 1988 the balance of 15% had been distributed on the basis of wholesale trade.[44] Given the other means of distributing enterprise production at the disposal of the planning agencies and the ministries, the figure was reportedly closer to a mere 3% as of the beginning of 1989.[45] In so far as the economy as a whole was concerned, the reform process had stalled. Within the enterprise itself, reform did not fare much better.

A Systemic Revolt from Below

The budget deficit, inflation and shortages which led to the crisis which convulsed the Soviet economy after 1989 had their roots in the implementation process of the enterprise law. These problems did not emerge as a result of the enterprise law itself, for the centre maintained a firm grip on the core enterprise decisions over what to produce and how production was distributed. Nor were these problems the result of any significant changes in enterprise management as envisaged by the enterprise law. If anything, ministerial control over state enterprises was strengthened during the duration of the reform, and the agents of bureaucratic control, the enterprise directors, in turn increased their authority within the state

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[44]L. Voronin, 'Razvitie optovoi torgovli', *Planovoe khoziaistvo* 3 (March 1989), 3-13, 4. The fault for the failure of wholesale trade, Voronin disingenuously stated elsewhere, did not lay with Gossnab, 'which is not against the market, but for it!', but with the academics for failing to develop the concept of the 'socialist market'. *Izvestiia*, 8 September 1988, 2.

[45]*Izvestiia*, 3 January 1989, 2.

enterprise.[46] However, there were changes on the margins of the administrative system, and it was there that the causes of the economic crisis took root.

The centrepiece of the enterprise law, and its most radical element, was *samoupravlenie*, which - unlike the gradual introduction of *khozraschet* - was applied to all enterprises from the beginning of 1988. Although the sections on workplace democratisation were among the most clearly written - certainly compared to the section on planning - their implementation was superficial at best. At the base of the reformed management structure was to be the general meeting of employees. Here the major enterprise decisions were to be made, including the election of the director, the election of the council of the labour collective, and the adoption of the plan; general meetings could also 'examine' any issue relating to enterprise activity. The enterprise director, whose election had to be confirmed by the higher agency (but which had to give a reason if confirmation was declined), was the intermediary between the collective and the outside world, and assumed operational control over the enterprise. The decisions of the director were overseen by the council of the labour collective, which itself was to be a labour-dominated venue with representatives from management allowed to constitute no more than one fourth of its membership. The decisions made by the labour council were binding on management.

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[46]Puginskii, 'Prava predpriiatii: Zakon i praktika', 33.

Enterprise directors were not notable supporters of workplace democratisation.[47] The Law on labour collectives had greatly increased the legal status of the general meetings of the enterprise, yet four years after the adoption of that law little had in fact changed, with surveys showing both worker participation and worker awareness of the provisions of the labour collective law to be minimal.[48] This situation continued under the enterprise and despite the media barrage following its adoption, knowledge of its specific provisions was frequently low among workers as well as management throughout the duration of the reform.[49] Much confusion surrounded the introduction of *samoupravlenie*, which further instructions failed to alleviate; that was exploited by enterprise directors to avoid sharing power with labour. *Samoupravlenie* at the enterprise was at best formal.

At a very early stage the charge had been levelled that labour collectives were electing 'easy' managers, a fiction

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[47]B.E. Boikov, 'Khoziaistvennaia reforma v plenu otchuzhdeniia', *EKO* 3 (March 1989), 3-18, 11-13.

[48]R.A. Belousov, N.N. Gritsenko, and S.I. Shkurko, 'Uchastie trudovykh kollektivov v upravlenii proizvodstvom' in A.G. Aganbegian, L.I. Abalkin, N.Ia. Petrakov, et al., *Reforma upravleniia ekonomikoi: Problemy i poisk* (Moscow: Ekonomika, 1987), 280; and V.M. Solianik, *Trudovoi kolletiv: samoupravlenie* (Moscow: Nauka, 1988), 18.

[49]See, for instance: *Sotsialisticheskii trud* 3 (1989), 117; *Sotsialisticheskii trud* 2 (1990), 36; P. Matzhanova, 'Zakon o predpriiatii: Problemy nadzora', *Sotsialisticheskaia zakonnost'* 9 (September 1989), 28-29, 29; and V. Oigenzikht, 'Zakon o gosudarstvennom predpriiatii i demokratizatsiia sotsialisticheskoi ekonomiki', *Kommunist Tadzhikistana* 3 (March 1988), 29-35, 35.

which was often invoked by opponents of work-place democracy.[50] It was not so much that workers would choose directors who would go easy on discipline and increase wages - which directors tended to do anyway - but that workers in fact rarely had the opportunity to do so. By the end of 1988, after one year of *samoupravlenie* only 20 per cent of enterprise directors had gone through any form of election.[51] When elections were held, they were usually managed jointly by the local Party organisation and the relevant higher agency; very few enterprise directors were displaced as a result of elections.[52]

The labour collective councils similarly failed to become an effective venue of worker control. At their height, the number of labour collective councils in 1989 was 140,000,

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[50]*Izvestiia*, 1 March 1988, 2. Individuals as diverse as Egor Ligachev and Gregorii Khanin condemned *samoupravlenie* on this count (as well as then British Prime Minister Thatcher, who when asked her opinion of the draft enterprise law during her visit to the Soviet Union in 1987 remarked that on the whole it was a step forward, but gave too much power to labour). At least in the cases of Ligachev and Khanin, their complaint was a wider one: premature democratisation weakened discipline. Yegor Ligachev, *Inside Gorbachev's Kremlin* (New York: Pantheon Books, 1993), 332; Grigorii Khanin, 'Economic Growth in the 1980s', in Michael Ellman and Vladimir Kontorovich (eds.), *The Disintegration of the Soviet Economic System* (London: Routledge, 1992), 73-85, 82; Interview with V.V. Laptev, Institute of State and Law, Moscow, 26 October 92.

[51]*Argumenty i fakty* 41 (1988), 7.

[52]Filtzer, *Soviet Workers and the Collapse of Perestroika*, 242. In what appears to have been an exceptional counter-example (the reporter described it as unprecedented), the director of 26 years at one factory was not confirmed after being elected by the labour collective; finding the arguments of the administrative official unconvincing, the labour collective re-elected the same director. *Izvestiia*, 19 September 1988, 2.

representing some ten per cent of industrial workers;[53] in most cases they existed only formally.[54] Where labour councils had been established, in the first months of implementation ministries issued instructions that the enterprise director should also chair the council.[55] This was a practice which in principle was not opposed by advocates of *samoupravlenie* - Boris Kurashvili had included a provision to that effect in his alternative draft[56] - but was not stipulated in the enterprise law. However, the distribution of power in such situations clearly favoured the director over the labour council, but instead of clarifying the rights of the labour council, an instruction issued by Goskomtrud and the Labour Unions Council in February 1988 recommended that the same individual should not occupy both posts.[57] Kurashvili denounced the instruction on the grounds that the deeper problem was the continuation of the directive planning system; the instruction itself would result either in the marginalisation of the labour council as an arm of enterprise management or in

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[53]E. Torkanovskii, 'Sobstvennost' i samoupravlenie trudovogo kollektiva', *Voprosy ekonomiki* 10 (October 1990), 103-112, 103.

[54]V. Gerchikov, 'Samoupravlenie v promyshlennosti SSSR: Problemy i perspektivy', *Voprosy ekonomiki* 12 (December 1990), 94-102, 97.

[55]*Izvestiia*, 14 February 1988, 3.

[56]B.P. Kurashvili, 'Osnovnoe zveno khoziaistvennoi sistemy (K kontseptsii zakona o sotsialisticheskom predpriiatii)', *Sovetskoe gosudarstvo i pravo* 10 (October 1986), 12-21.

[57]*Trud*, 14 February 1988.

debilitating conflicts between the labour council and the director.[58] It was the former scenario which took place.

Directors quickly developed methods of turning labour councils to their advantage. The enterprise law limited management to one fourth of the labour council's members. A popular way around this was to pack the labour council with up to two hundred members, then organise a presidium dominated by management.[59] Doing so ensured that the labour council would be prevented from developing into an alternative power base within the enterprise. Labour councils rarely dealt with the issues which they were empowered to decide, with their role at best limited to consultation.[60] Instead, enterprise directors regularly had labour councils take responsibility for decisions which could prove controversial, such as the distribution of bonuses and under-fulfilling plans, but for which directors were clearly accountable under the enterprise law. In 1988 Gosarbitrazh issued around 1.5 billion rubles' worth of fines to state enterprises for plan infractions, yet in no more than 2% of the cases were specific individuals named as culpable; all other fines were paid out of the collective's income.[61]

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[58]*Moskovskie novosti* 9 (28 February 1988), 2.

[59]E. Torkanovskii, 'Sobstvennost' i samoupravlenie', *Voprosy ekonomiki* 11 (November 1988), 77-87, 86. The instruction issued by Goskomtrud and the Labour Councils Union also recommended that labour councils be limited to 30 members, but had little effect.

[60]Gerchikov, 'Samoupravlenie v promyshlennosti SSSR: Problemy i perspektivy', 97.

[61]Puginskii, 'Prava predpriiatii', 33.

By the end of 1989, labour collective councils had failed to become effective instruments of workplace democracy, with workers deeply disillusioned about their viability.[62] A letter from one labour collective council in Omsk summarised their experience:

> The basic provisions of the enterprise law do not work and *samofinansirovanie* remains on paper. The labour collective, as before, is like Gulliver, bound hand and foot by innumerable ropes of limitations, prohibitions and instructions. And, judging by everything, the Lilliputian-bureaucrats are not going to give up their position... The basic problem, from the beginning, was giving the ministries the right to set normatives.[63]

The impotence of the labour collective councils was made clear with the advent of another form of labour-management relations which began to emerge in 1988, strikes. The industrial action by miners in 1989 put the situation in stark relief: their complaints - bad housing, food shortages, unsatisfactory working conditions - made clear that four years of *perestroika* had failed to improve living conditions. In organising strikes, the labour collective councils were wholly by-passed because, as one Kuzbass miner explained:

> People were elected to the labour collective councils according to the old principle - 'just as long as it isn't me'. To tell the truth, there are only a few people who believe that the councils of labour collectives are to be taken seriously. They are conducted as a mere formality and under supervision. The workers do not feel independent.[64]

Instead, strike committees were formed, which challenged not only the labour collective councils, but local Party and state

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[62]Filtzer, *Soviet Workers and the Collapse of Perestrioka*, 87.

[63]*Pravda*, 24 May 1989, 3.

[64]*Nedelia*, 24-30 July 1989, 3.

organisations as well, introducing by force a new independent political activity by labour into Soviet politics.

If the miners' strikes developed outside of the sphere of workplace democracy defined by the enterprise law, the causes of the strikes derived from the failures of the economic side of the enterprise law. Despite the fact that the coal industry had been scheduled to undergo reform from January 1989 according to the enterprise law, the coal ministry had 'done very little' to implement the reform, as a *Pravda* editorial observed.[65] Nor, for that matter, had implementation of economic reform progressed in the enterprises of other ministries.

Regardless of what had been written in the enterprise law and the Basic Provisions, *khozraschet* became defined by the unreformed economic framework in which it was implemented. The failure to establish wholesale trade precluded the development of relationships based on economic criteria between state enterprises. The retention of some administrative levers - control figures and limits - and the transformation of what were to have been economic levers - state orders and normatives - meant that the primary relationships between centre and enterprise remained directive. This left one relationship, from enterprise to centre, and it was here that economic criteria had the greatest consequences.

That situation, it must be said, did not emerge as a result of the formal introduction of *khozraschet* at the state enterprise. The 1986 wage reform had introduced new wage

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[65]*Pravda*, 27 July 1989, 1.

scales to create greater differentials in the salaries of enterprise employees, and established two methods of applying the revised scales: either as guaranteed minimum established by normatives with bonuses paid out of profit, or as a normative-established portion of the enterprise's income.[66] On this basis, the enterprise law established two models by which an enterprise could elect to form its '*khozraschet* income':

> 1: The sum of the wage fund fixed by normative and the profit remaining after payment of taxes, loan payments, and contributions to higher agencies. With the wage fund protected, residual profits were distributed into three additional funds: development, science and technology (investments and research and development); social development (housing and other social programmes); and material incentive (bonuses).
>
> 2: The income remaining after deductions for taxes, loans, and payments to higher agencies. Further deductions were then made according to normatives to two funds: development, science and technology; and social development. A single pay fund, for wages and bonuses, was formed from the adjusted net income.

Although both models of 'full *khozraschet*' required that enterprises finance their own investments and be accountable for contract fulfilment, the first model made a direct connection only between enterprise performance and the level of bonuses. The second model was by far the more progressive: no income, no wage fund. In principle, tying employee pay to enterprise performance would have provided a strong stimulus towards efficiency in enterprise production; this second form was, however, not widely adopted.

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[66]On the 1986 wage reform, see: Janet G. Chapman, 'Gorbachev's Wage Reform', *Soviet Economy* 4:4 (October-December 1988), 338-365.

By November 1988, only 943 enterprises were operating on the second model of *khozraschet*.[67] One reason for the limited success certainly was that the ministry had to approve which model an enterprise chose, and according to one survey in 1988 75% of directors whose enterprises were operating on the first form expressed a desire to adopt the second model.[68] What was more interesting, however, was that the same survey found that of those directors who had already moved to the second model, 33% wanted to return to the first model.[69] Even the trend-setting Sumy production association opted to stay with the first model of *khozraschet*.

When leasing reappeared in the industrial sector,[70] it was presented as a way of circumventing the persistence of bureaucratic control over enterprise decision-making; another method, that is, of establishing enterprise independence as envisaged by the enterprise law but which had failed to develop in implementation. Leasing was based on a long-term legal relationship between the state and the production unit, with economic activity based on contracts. The enterprise law itself did not make any provisions for leasing, and despite being labelled a 'third model of *khozraschet*', the introduction of leasing arrangements in 1988 marked the

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[67]*Pravda*, 5 January 1989, 2.

[68]Ponikarova and Kiselev, 'Ekonomicheskaia reforma v otsenkakh rukovoditelei predpriiatii', 69.

[69]Ponikarova and Kiselev, 'Ekonomicheskaia reforma v otsenkakh rukovoditelei predpriiatii', 69.

[70]Leasing had been made illegal in 1930. V. Medvedev, 'K poznaniiu sotsializma', *Kommunist* 17 (November 1988), 3-18, 15.

beginning of completely different direction in economic reform based on the repartition not of decision-making authority but of ownership rights, a situation which is explored in further detail in the last section of this chapter. Moreover, leasing could be introduced at enterprises operating on either of the two models of *khozraschet*.[71] With this in mind Pavel Bunich suggested, without effect, that a third model of *khozraschet* be introduced as a prerequisite for the introduction of leasing: 'non-normative' *khozraschet*, thus severing any lingering administrative connection with enterprises.[72]

Leasing of state enterprises did not prove to be widely adopted. In 1988 there were some 60 enterprises operating on lease arrangements;[73] the number had increased to around 900 by the middle of 1989.[74] Of all state enterprises, however, that was a small proportion. By the end of 1989, after the enterprise law had come into force throughout the state industrial sector, only 4% of all enterprises had introduced leases, and 8.5% had adopted the second model of *khozraschet*.[75]

Leasing within state enterprises, in contrast, had a more tangible effect. The enterprise law had also established that sub-divisions within factories be transferred to *samofinansirovanie* on the basis of internal contracting; sub-

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[71]Puginskii, 'Prava predpriiatii: Zakon i praktika', 31.

[72]Pavel Bunich in 'Arendnyi podriad - osnova korennoi perestroiki ekonomiki', *Voprosy ekonomiki* 3 (March 1989), 35-53, 39.

[73]*Izvestiia*, 21 January 1989, 1.

[74]*Pravda*, 3 October 1989, 3.

[75]*Ekonomika i zhizn'* 31 (1990), 8.

divisions did not conclude agreements with production units outside of the enterprise. With the introduction of leasing,[76] many enterprise directors began to separate profitable sub-divisions, put them on leases, and give them favourable consideration in the allocation of funds[77] (while continuing to claim employees within the sub-divisions working on leases for the purposes of the wage fund). This process, the beginning of *nomenklatura* privatisation, was fostered by ministerial officials through normative acts on lease arrangements by, for instance, providing that sub-divisions on leases be recognised as juridical persons - which the law as it then stood did not permit.[78] In 1990, some 170,000 cooperatives had been established by leasing sections of state enterprises,[79] and the cooperative movement as a whole was highly integrated with state enterprises. A 1989 survey found that 80% of cooperatives had been formed within state enterprises or

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[76]The introduction of legislation on leasing was contradictory. Initially, in the absence of a formal legal framework, leasing arrangements were highly arbitrary with leasing units essentially free to distribute their income to investment and wages as they saw fit. An April 1989 decree brought leasing into line with *khozraschet* practice, providing for fixed norms in the distribution of income. With the Law on Leasing the following December, leasing units were again given a free hand the use of their income. See: John M. Littwack, 'Discretionary Behaviour and Soviet Economic Reform', *Soviet Studies* 43:2 (1991), 255-279, 269.

[77]L. Shcherbakova, 'Dumaite, liudi, dumaite...', *EKO* 8 (August 1990), 89-92, 91-2; Burawoy and Hendley, 'Between *Perestroika* and Privatisation', 381.

[78]V.K. Andreev, 'Pravovoe regulirovanie khozrascheta i kollektivnogo podriada na predpriiatii', *Sovetskoe gosudarstvo i pravo* 2 (February 1989), 45-50, 45.

[79]International Monetary Fund, et al., *The Soviet Economy*, Volume 2 (Paris: OECD, 1991), 18.

operated under their protection.[80] Given that the cooperative movement was so dependent on the state sector pointed to the lack of reform in the economy a whole; state enterprises were the primary points of entry into the supply and distribution system.

After two years of implementation, the enterprise law had made little headway. In Chapter Two, three elements of economic reform were identified: (1) an organisational change which would (2) eliminate problems in the administration of the economy which would (3) effect greater economic growth. By 1989 the enterprise law had failed on all three counts.

First, the fact that most state enterprises remained on the first model of *khozraschet* was merely emblematic of the lack of change, inasmuch as the enterprises which had transferred to the more progressive arrangements were themselves operating essentially as before. Despite the early publicity on closing unprofitable factories, very few went bankrupt and the problem of loss-making enterprises in fact got worse. In 1988 the costs of sustaining them was 10 billion rubles; in 1989 the cost of subsidising unprofitable enterprises - 7,000 of them, officially[81] - was 20 billion rubles.[82] Within the administrative system, the major organisational change had been the cutbacks in bureaucratic personnel announced in 1988 which had by the following year

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[80] *Sovetskaia torgovlia*, 29 March 1990, 1.

[81] *Izvestiia*, 21 January 1989, 3.

[82] 'Strategiia obnovleniia', *Ogonek* 13 (March 1989), 6-7 and 18-20, 20.

led to a 23% reduction in the number of ministerial officials. The methods and style of the ministries, however, had not changed.[83] At the same time, the number of enterprise personnel actually went up by 5%.[84] As a *Pravda* editorial opined, the only result of the reduction in the apparat of the ministries was the growth in the number of enterprise functionaries.[85]

Secondly, the problems in the economy which the enterprise law was intended to solve instead became more pronounced. The introduction of *Gospriemka* did little to improve quality in production. Smooth operation of the economy was undermined by the arbitrary use of economic normatives and state orders. Shortages in the supply system led to enterprise hoarding at even higher levels.[86] The number of indicators imposed on state enterprises was not reduced, and in some instances it went up considerably. Out of these indicators, one emerged which was more important that the others, but it was not profit, but gross production in the guise of the state order - *val* persisted.[87]

Thirdly, the ultimate indicator which had been set, economic growth, stagnated. According to the official figures,

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[83]Whitefield, *Industrial Power and the Soviet State*, 193; Puginskii, 'Prava predpriiatii: Zakon i praktika', 30.

[84]*Izvestiia*, 7 March 1989, 1.

[85]*Pravda*, 28 July 1989, 1.

[86]Åslund, *Gorbachev's Struggle for Economic Reform*, 183. Enterprises in the Ministry of Construction, Road Building and Municipalities, for instance, increased their stocks on hand by 50%. *Izvestiia*, 3 January 1989, 2.

[87]Otto R. Latsis, *Vyiti iz kvadrata* (Moscow: Politizdat, 1989), 12.

annual growth was in the region of 3% for 1986-87 and increased to over 4% in 1988-89. In July 1988 the final resolution of the 19th Party Conference went so far as to claim that the pre-crisis phenomena had been overcome.[88] However, the reliability of the official statistics was not improved by the fact that Goskomstat began withholding data on economic performance. The alternative figures of Grigorii Khanin do paint a different picture. According to Khanin, there was a short spurt in growth in 1986 due to such administrative policy changes as increased shift work, but these 'extensive' sources of growth were quickly exhausted. By 1988-89, in Khanin's view, the economy was in fact contracting by 1-2% each year.[89] These particular figures were themselves controversial (from which the editors of *EKO* felt it necessary to distance themselves), but even the official statistics were acknowledging that for 1990 gross national product had fallen by 2%.

A fall in growth may be taken as a sign that something is taking place in an economy, but in this case it was not reform. Very little had changed as a result of the implementation of the enterprise law; the irony is that it was the little that had changed which intensified the destructive processes inherent in the unreformed economic system to the point of an open crisis. As ministerial and planning organs struggled to retain their grip over production and distribution, these process found their outlets through the

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[88]*Pravda*, 5 July 1988.

[89]Khanin, 'Krizis ugliubliaetsia', 76-77.

activities of the state enterprise to intensify disequilibria in the market, to accelerate the monetary overhang, and to fatally undermine state finances. The centre was losing control of the economy; in short, the activities of the system's constituent elements undermined the system itself.

First, the imbalances in the economy, which were built into the five-year plan, were exacerbated. While state orders consistently dominated enterprise production, enterprises were able to exercise some discretion in product assortment.[90] Enterprises consequently shifted into low-cost and high-profit production, washing out inexpensive goods.[91] Shortages in the means of production became as acute as they ever had been in Soviet history.[92] The provision of consumer goods, despite assorted measures instigated by the authorities, failed to improve; nor did social programmes lead to material improvements in daily life. Standards of living were much lower in 1990 than they had been at the end of the Brezhnev era.[93] The enterprise habit of introducing 'improved' production for which higher prices could be charged continued

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[90]International Monetary Fund, et al., *The Soviet Economy*, Volume 2, 26-27.

[91]Stepan Sitarian in *Pravda*, 5 January 1989, 2.

[92]A.A. Deriabin, 'Snachala ispravim tsenoobrazovanie', *EKO* 3 (March 1989), 41-51, 47.

[93]Gertrude E. Schroeder, 'Soviet Consumption in the 1980s', in Michael Ellman and Vladimir Kontorovich (eds.), *The Disintegration of the Soviet Economic System* (London: Routledge, 1992), 86-105, 102.

apace, with the rate of hidden inflation increasing to an estimated 6% in 1988.[94]

Secondly, hidden inflation was only the 'tip of the iceberg',[95] as a looming monetary overhang was creating the conditions for even higher inflationary pressures, and simultaneously pushing to the top of the agenda a wholly new problem to complicate the design of subsequent economic reforms. As part of the enterprise law, bank accounts which had been shared with parent organisations were transferred to enterprise control; in principle this was to be the primary source of funding investment programmes for *samofinansirovanie*. While some investment programmes were initiated, most of these were in capital construction, not reequipment, and without allocation orders to accompany funds held by the enterprise most of the rapidly rising enterprise profits remained in deposit accounts. By 1989 that sum had reached 250 billion rubles.[96] At the same time, enterprise directors had developed ways of accessing their capital. Some of these funds were transformed into cash through cooperatives established within enterprises. Directors also used bank deposits to supplement the wages of employees which were already rapidly increasing as a result of the 1986 wage reform. Average wages in state enterprises increased twice as

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[94]Khanin, 'Krizis ugliubliaetsia', 77.

[95]E. Iasin, 'Sotsialisticheskii rynok ili iarmarka illiuzii?', *Kommunist* 15 (October 1989), 53-62, 61.

[96]*Izvestiia*, 6 September 1989.

fast as labour productivity in both 1988 and 1989.[97] The growth in cash income, which Aganbegian rather optimistically characterised as having 'virtually got out of control', was based on normatives which were themselves tied to enterprise profits.[98] The attacks on wage increases were therefore off the mark, since they were not a source but a consequence of financial problems arising from enterprise profits which were increasing in the background.[99] By 1989 there were so many rubles circulating in the economy that, on the official exchanges rates, they could buy up all the available goods in western Europe.[100]

Thirdly, Gorbachev had entered office in 1985 already with a budget deficit, though he claims not to have been aware of that at the time.[101] Under the policies of *uskorenie*, budget outlays continued to outstrip the economic growth rate in 1986-87,[102] which then accelerated as *uskorenie* failed to deliver supply side growth. At the same time, taxes on enterprise profits had been reduced in the enterprise law - ostensibly as part of the shift in the burden of investment from the state budget - by some 3% of gross national product

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[97]*Pravda*, 27 April 1989; *Pravda* 28 January 1990.

[98]*Pravda*, 6 February 1989, 3.

[99]E. Gaidar, 'Trudnyi vybor', *Kommunist* 2 (January 1990), 23-34, 25.

[100]*Moskovskie novosti* 19 (7 May 1989), 4.

[101]*Pravda*, 10 July 1990.

[102]'Strategiia obnovleniia', *Ogonek* 13 (March 1989), 6-7 and 18-20, 20.

in 1987-89.[103] The budget deficit by 1989 had reached 250 billion rubles.[104]

The complete break-down in the economy which took place in the early 1990s was made possible by the implementation process of the enterprise law. By 1989, not only had the economic reform envisaged by the enterprise law failed to be implemented, but also the critical condition of the economy demanded far deeper measures than the enterprise law could deliver. That was a conclusion which reformers had reached even as the enterprise law had begun to be implemented.

Evaluation of the Policy and the Policy Process

Policy evaluation has two purposes. First, it can be the process of assessing the efficacy of a policy. In this sense evaluation shares many of the characteristics, purposes, and methodologies of agenda-setting - indeed, most of the literature on evaluation in policy studies has a clear tendency to focus of the pre-decision stage of a policy: cost-benefit analysis, impact studies, optimisation techniques, and so forth. Regardless of the time-frame, there is the obvious question of how effectiveness is to be measured.[105] Much

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[103]Åslund, *Gorbachev's Struggle for Economic Reform*, 194. Also see: Michael Ellman, 'Money in the 1980s', in Michael Ellman and Vladimir Kontorovich (eds.), *The Disintegration of the Soviet Economic System* (London: Routledge, 1992), 106-133, 114-115.

[104]*Izvestiia*, 21 January 1989, 3.

[105]For discussions on the difficulties in evaluation, see: James B. Anderson, *Public Policy Making*, Second Edition (New York: Holt, Rinehart and Winston, 1979), 157-160; Garry D. Brewer and Peter deLeon, *The Foundations of Policy Analysis* (Pacific Grove, CA: Dorsey Press, 1983), 351-354.

depends on the internal quality of the policy itself, which ideally meets each of three conditions:

1: Well-defined objectives
2: Plausible and realistic objectives
3: Well-defined uses for information[106]

Even assuming that the enterprise law could be argued to have fulfilled these criteria - an argument which would certainly be difficult to make - the fact that it was at best superficially implemented makes it difficult to distinguish causality from correlation. To take one example from the previous section, was the increase in wages the result of what had been implemented and therefore the fault of generous enterprise directors and self-indulgent enterprise directors or a sign that the economic framework had not been reformed and it was un-checked enterprise profits which drove wage increases? The answer to that question had far more to do with problem definition than with policy evaluation: culpability for wage hikes could be assigned either to individual actions at the enterprise or to impersonal causes of the economic system itself;[107] the former was an argument for tightening discipline, and the latter was a tool for advocacy of further reform.

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[106]Joseph S. Wholey, 'Using Evaluation to Improve Program Performance', in Robert A. Levine, Marian A. Solomon, Gerd-Michael Hellstern, and Hellmut Wollman (eds.), *Evaluation Research and Practice* (Beverley Hills, CA: Sage, 1981), 92-106, 95.

[107]On the importance of individual versus impersonal causes in problem definition, see: David A. Rochefort and Roger W. Cobb, 'Problem Definition: An Emerging Perspective', in David A. Rochefort and Roger W. Cobb (eds.), *The Politics of Problem Definition* (Lawrence: University of Kansas, 1994), 15-17.

Who was to take the blame for the failure of the enterprise law leads to a second purpose of policy evaluation. For Lasswell, to 'identify those who are causally or formally responsible for successes or failures' is in fact the principal purpose of evaluation (which he labels appraisal).[108] It was this aspect of policy evaluation to which reformers devoted their energies. The contradictions of the enterprise law could in principle have worked in favour either of the relatively radical framework of the Basic Provisions or the non-reform blueprint of the packet of decrees; it quickly became apparent that it would be the latter. At an early stage academic reformers, many of whom had been active in writing the Basic Provisions, disclaimed any authorship of the enterprise law and laid the blame on the administrative system which had dominated both the drafting and implementation of concrete reform measures. Subsequently, as economic problems accumulated, reformers added to their conviction that the policy process was intrinsically faulted. Reformers began pressing for more substantial measures on ownership and marketisation which went well beyond anything that had been outlined in June 1987. On both fronts, the policy and the policy process, evaluation was a political tool for the advocacy of policy succession.

One of the first criticisms was also among the harshest. Denouncing *khozraschet* as defined in the enterprise law as a 'sham', Boris Kurashvili called for a new enterprise law as

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[108]Harold D. Lasswell, 'A Pre-View of the Policy Sciences' (New York: American Elsevier, 1971), 29.

early as October 1987, using language which left little doubt about his views on the compromise nature of the adopted version. Kurashvili likened the compromise of the enterprise law to the treaty of Brest-Litovsk, with reformers cast in the role of the Bolsheviks and the opponents of reform in the administrative system playing the part of the German High Command.[109]

Other reformers came to similar conclusions, if in less strident language, and there was wide agreement that the quality of legislation was unavoidably poor because of the drafting process of reform legislation. The second point was the theme of a revealing round-table discussion sponsored by the journal *EKO*.[110] The discussion was ostensibly devoted to improving the juridical integrity of economic legislation, and while there were pointed words exchanged between the jurists and economists who attended (one legal specialist noted that 'it must be said bluntly that economists have a poor understanding of law'), most criticisms were levelled at the administrative agencies for dominating the drafting process of reforms which they implemented, and from which they stood the most to lose.

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[109]B.P. Kurashvili, 'Perestroika i predpriiatie', *EKO* 10 (October 1987), 3-30, 14.

[110]'Normy prava i praktika khoziaistvovaniia', *EKO* 1 (January 1988), 24-46. Although the date of the round-table is not given, on the basis of the time-lags indicated by other round tables where dates were provided, this discussion probably took place in the early autumn of 1987, that is, shortly after the enterprise law and the packet of decrees had been adopted.

The comments made reveal as much about the nature of Soviet policy-making as they do about the obstacles to writing reform legislation during *perestroika*. (Some of the observations relate specifically to the enterprise law, and have been cited in the previous chapter; most commentary, however, was on the policy process in general). These remarks included:

- drafts should be written by temporary working-groups of economists and jurists
- specialists were brought into scientific sections of commissions as 'decoration', while the reforms themselves were written by apparat workers - who had been spending years trying to prove that economic reform was not necessary
- anyone whose presence was 'uncomfortable and disagreeable' was excluded from the commissions
- commissions formulated draft laws without the 'stamp of approval' of all members of the commission
- economic laws typically include a phrase to the effect that 'agencies are to issue normative acts in accordance with their area of competence', but the area of competence itself is not defined
- secrecy is used by the bureaucracies writing normative acts to prevent criticisms of the acts as they are drafted as well as of the drafting process itself.
- draft laws should require the approval of all members of a commission

The picture of the policy process painted by the comments in the round-table discussion is one of bureaucratic political sub-systems holding a monopoly over their respective spheres of activity within a highly fragmented political system.

The prescriptions centred on reducing fragmentation, but in order to improve the synoptic quality of the policy process, not to change the methodology to which Soviet policy-making had long aspired. The expertise of the functionaries

within mutually indifferent bureaucratic policy sub-systems was to be replaced by that of academics engaged in system-wide policy formulation. Political reform in the making of economic policy was to be an instrumental means of taking control of the policy process, but not of removing the technocratic core of the Soviet version of the 'rationality project'. This was a specific recommendation made by Abel Aganbegian in his wide-ranging critique of the policy process of the initial measures of *perestroika* which enunciated many of the same themes as those expressed at the *EKO* round-table discussion. Citing the RAND Corporation as a model to be emulated, Aganbegian concluded that 'there must be a procedure for the discussion, evaluation, and adoption of decisions. And that is connected with the political system.'[111]

Academic reformers saw the link between political reform and economic reform not only in the formulation of policy, but also in its implementation. Another round-table discussion, this one sponsored by *Voprosy ekonomiki* in June 1987 and chaired by Leonid Abalkin, concluded that 'deep transformations in the *upravlenie* of the economy cannot be implemented without corresponding changes in the political system'.[112] Here too the central barrier was identified as the administrative bureaucracy; transferring power to individuals through democratisation was decisive in overcoming that obstacle. As the TsEMI economist N. Shukhov argued, between

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[111]A.G. Aganbegian, 'Prakticheskie dela ekonomicheskoi nauki', *EKO* 9 (September 1989), 17-29, 28-29.

[112]*Voprosy ekonomiki* 2 (February 1988), 55-79, 79.

the leadership and the workers was an 'inert, viscous socio-economic' bureaucratic layer which

> fears any changes, any kind of socio-economic transformations in our society. This bureaucratic 'layer' is the main obstacle in the path to of consistent democratisation of our society, and it is necessary to mount an uncompromising struggle with it.[113]

If these discussions took place before the formal implementation of the enterprise law had begun - and only recently made legitimate areas of inquiry by the January 1987 Plenum - such convictions became stronger with time.

With the benefit of several months of experience from the implementation of economic reform, academics at a round-table discussion held shortly before the 19th Party Conference took the opportunity to confirm the predictions that they had made. This discussion was devoted specifically to the relationship between political and economic reform, with the general consensus, as expressed by the TsEMI economist B. Rakitskii, being that there was a need to 'rehabilitate politics as a factor in social and economic development'.[114] Doing so, as the TsEMI economist K. Mikul'skii observed, went to the foundations of the political system: to transform the role of politics (and the political system) from a means of blocking the market (or, as he phrased it, 'a "commercial" approach to

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[113]*Voprosy ekonomiki* 2 (February 1988), 55-79, 62.

[114]B. Rakitskii in 'Vozmozhna li ekonomicheskaia reforma bez perestroiki v politike', *Voprosy ekonomiki* 6 (June 1988), 3-22, 8. The date of this round-table is not given, although it appears to have been held soon after the February 1988 Plenum.

the resolution of economic tasks') to a force for implementing radical economic reform.[115]

Democratisation and reform of the political system were the central issues of the 19th Party Conference; it was also a formal venue at which judgement was passed on the progress of economic reform. While adding his voice to the chorus of criticisms of the ministries and planning agencies for attempting 'to preserve their dictatorial ways' and deviating from 'the letter and spirit of the Law on the Enterprise' during the implementation of reform, Gorbachev nonetheless stated that 'we have managed to halt the country's slide towards a crisis in the economic, social and spiritual spheres'.[116] That was not a conclusion universally shared, with Leonid Abalkin giving a very different assessment:

> ...it is important to emphasize in no uncertain terms that no radical breakthrough has occurred in the economy and that it has not emerged from a state of stagnation.[117]

Abalkin, exceptionally at the 19th Conference, rejected the thesis of reducing the problems encountered in economic reform to the resistance of bureaucratic agencies and officials: criticising the growth policies of *uskorenie*, Abalkin argued that the twin goals of increasing production and pursuing economic reform were incompatible; it had to be one or the other.

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[115]K. Mikul'skii in 'Vozmozhna li ekonomicheskaia reforma bez perestroiki v politike', 3-4.

[116]*Pravda*, 29 June 1988, 2-7.

[117]*Pravda*, 30 June 1988, 3-4, 3. In this same speech Abalkin more famously directly disagreed with Gorbachev's proposals that the same individual occupy the top Party and state posts.

At a venue dominated by Party secretaries and attended by enterprise officials, the ministries proved to be the more popular target. The suggestion to abolish the ministries altogether made by the enterprise director Kaibadze was seconded several times. Nearly a dozen of the speakers specifically addressed the progress of the enterprise law: it was not working and it was the administrative agencies who were blocking reform by exploiting the contradictions in the reform. K.Z. Romazanov, a steelworker from Karaganda, was representative:

> The new Law on the State Enterprise has simply not worked out at all; it got enmeshed in ministerial instructions, recommendations and orders. Even before the ink on the law had dried, numerous restrictions negating economic independence had appeared.[118]

The pace of economic reform, however, was eclipsed by the reform to the political system set in motion by the 19th Party Conference.[119] Eighteen months passed between the Law on Cooperatives, adopted in May 1988, and the Law on Leaseholding of November 1989. When economic reform regained prominence on the reform agenda in the summer of 1989, it was at the venue of the first sessions of the new Congress of People's Deputies

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[118] *Pravda*, 1 July 1988, 10.

[119] The political uses of crisis instigation associated with *uskorenie* were placed in abeyance as genuine crisis began to emerge, and the final resolution of the 19th Party Conference stated that 'the country's slide towards economic and socio-political crisis has been halted'. *Pravda* 5 July 1988. See Gaidar's sharp criticism of the failure to move on the economic front: 'A characteristic feature of the beginning of 1988 was the growing discrepancy and dissonance in the assessment of the economic situation between the leadership on the one hand, and society on the other hand.' *Pravda* 24 July 1990.

and the reformed Supreme Soviet. In between, several important changes had occurred within the debate on economic reform.

First, the issues of reform became thoroughly redefined. Ownership rights and marketisation became the principal language of reform. The course of this debate is well-documented but the principal conclusions on marketisation were that product markets cannot emerge successfully without the concomitant development of other markets, including capital and labour markets. If the market was to be the main method of coordinating all activities in the economy, ownership rights became the first line of defence for agents within the economy.

In his study of centrally-planned economies, Janos Kornai identifies a 'main line of causality' of socialist systems consisting of five mutually reinforcing 'blocks'.[120] In descending order, these blocks include: (5) forced growth policies and a shortage economy; (4) plan bargaining and a soft budget constraint; (3) a preponderance of bureaucratic coordination; (2) a dominant position of state ownership; and (1) the undivided power of a Marxist-Leninist party and a dominance of the official ideology. Attempts to undertake change in any one of the blocks will be thwarted as the system reasserts itself on the basis of the lower, more fundamental blocks. For instance, shortages persist because of plan bargaining, which in turn is resistant to reform if bureaucratic coordination remains paramount, and so forth. The

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[120]Janos Kornai, *The Socialist System* (Princeton: Princeton University Press, 1992), 360-365.

policy changes of the Brezhnev era fell into blocks 4 and 5. The enterprise law and the reform blueprint of June 1987 belong to the level of block 3. While it will forever remain an open question how far reform within this block could have proceeded, after the 19th Party Conference economic reform shifted to block 2, and political reform to block 1. Indeed, within the schema of Kornai's 'main line of causality', Gorbachev's own advocacy of political reform at block 1 went deeper and faster than that of economic reform at block 2: the 'leading role' of the Communist Party was deleted in March 1990, yet Gorbachev voiced opposition to private ownership (specifically over private large-scale land ownership) as late as November of that year.[121]

Secondly, as the bureaucratic apparatus was slashed and economic problems intensified, reformers argued that what had happened was that the economy was caught in limbo between the plan and the market: the new problems which had emerged as a result of any expansion of decision-making rights at the level of the state enterprise was beyond the ability of the traditional command-administrative system to contain. As Iasin phrased it in late 1989, the 'administrative clamp has been weakened, but the economic stimuli, which should have replaced it, have not been activated'.[122] At the 19th Party Conference, Abalkin had posed the question: either growth or reform. Eighteen months later, Gaidar - quickly emerging as a key

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[121]*Pravda*, 28 November 1990.

[122]Iasin, 'Sotsialisticheskii rynok ili iarmarka illiuzii?', 55.

figure in the reform debate - could present the dilemma in starker terms: with control of the economy rapidly deteriorating, the government either had to deepen reform or retreat to the command system.[123]

Thirdly, the deteriorating economy and the development of a new language of economic debate made the reform blueprint of June 1987 obsolescent. The failure of the enterprise law in implementation, reformers argued, had completely undermined its theoretical foundations. If the enterprise law could be viewed as providing the basis of economic reform well into 1988,[124] that was dependent on corresponding changes to the system as a whole. Seliunin observed that the reform was 'not a fantasy', but warned that the 'wonderful regulations' contained in the enterprise law were being 'revoked or at least limited' by various other provisions in economic legislation.[125] By the next year, that blueprint was widely regarded as a failed fantasy. Gavriil Popov concluded that 'the model of economic reform adopted in 1987, based on normative *khoziaistvennyi raschet* has not lived up to expectations ... and in the future not much may be expected from this version of *perestroika*'.[126] Boris Mil'ner argued that no changes had occurred in the administrative system from top

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[123]Gaidar, 'Trudnyi vybor', 23.

[124]See, for instance, Vladimir Laptev in *Sovetskaia Rossiia*, 10 July 1988, 3.

[125]Vasilii Seliunin, 'Usloviia nashego rosta', *Znamia* 7 (July 1988), 155-167, 163.

[126]Gavriil Popov in 'Arendnyi podriad - osnova korennoi perestroiki ekonomiki', 35.

to bottom - including the state enterprise - and new arrangements continued to be blocked by that system.[127] Nikolai Shmelev was categorical that '*samoupravlenie*, *samookupaemost'*, *samofinansirovanie*, market [economic] levers, increasing the role of economic stimuli to labour - all of this has lost any real meaning by now.'[128] Generalising about the Soviet experience together with the changes which were taking place in eastern Europe, Abel Aganbegian noted that 'the *khozraschet* model preserves the unchanged logic of the administrative-command system'.[129] Gorbachev himself had acknowledged that

> one must state bluntly that the economic mechanism of *khoziaistvennyi raschet* and *samofinansirovanie* has still not been completely thought out and worked out, and this is detracting from, if not undermining, the basic principles set out in normative acts.[130]

The principles of economic reform in the enterprise law had certainly been undermined.

In the autumn of 1989, a series of conferences was held under the direction of Leonid Abalkin, promoted to chair the government's Reform Commission that July, to reformulate policy on economic reform. The judgement Abalkin gave of the

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[127]B. Mil'ner, 'Problemy perekhoda k novym formam organizatsii upravlenii', *Voprosy ekonomiki* 10 (October 1989), 3-14, 3.

[128]N. Shmelev, 'Ob ekstrennykh merakh po predotvrashcheniiu razvala sovetskoi ekonomiki', *Voprosy ekonomiki* 1 (January 1990), 19-25, 19. The article is based on a speech Shmelev gave in October 1989.

[129]A. Aganbegian, 'Ekonomicheskaia nauka - praktike zakonodatel'noi deiatel'nosti', *Voprosy ekonomiki* 2 (February 1990), 3-12, 8.

[130]*Pravda*, 27 April 1989, 1-2, 1.

enterprise law in his keynote address summarised the failures of the 1987 enterprise law:

> ... the distinguishing features of the decisions that were adopted was their half-heartedness - the compromise they struck between established notions about the principles of a socialist system of *upravlenie*, on the one hand, and the objectively necessary new approaches, on the other hand. This was most vividly seen in the Law on the State Enterprise (Association). Practical implementation of it very quickly revealed its internal contradictions and the declaratory nature of many of its provisions. Moreover, creating a fundamentally new economic environment did not prove possible, and the few changes in planning were unable to compensate for the failure to put our financial house in order and for the shortcomings in the previous system of price formation.[131]

It was out of these conferences that the 'Abalkin programme' emerged. A new configuration of problems, alternatives, and participants was beginning to emerge within a reformed institutional framework, of which the Abalkin programme was only one of many variants which began to emerge. By this time, the termination process of the enterprise law was well under way; replacing the enterprise law, however, proved to be as time-consuming as its initial formulation.

Termination by Half-Measures

In Brewer and deLeon's definition, termination is 'the deliberate conclusion or cessation of specific public sector functions, programmes, policies or organisations'.[132] The reasons for termination may range from the adjustment of dysfunctional or outdated practices to the outright cancellation of policies because of either their failure to

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[131]*Ekonomicheskaia gazeta* 43 (October 1989), 4-7.

[132]Brewer and deLeon, *The Foundations of Policy Analysis*, 385.

resolve a set of objectives or their success to do so.[133] Termination is rarely included explicitly in the initial formulation of a policy, and despite recommendations to do so,[134] fixing an end-point within a policy is problematic. As goals change, the purposes of a policy may be reformulated; organisations tend to prove creative in redefining their functions as events eclipse their original tasks (the post-Prohibition US Bureau of Alcohol Tobacco and Firearms and the post-Soviet Union North Atlantic Treaty Organisation being two excellent exemplars). An explicit statement of termination within a policy may also reduce short-term uncertainty while increasing long-term ambiguity about how things will be done after the conclusion of a policy. There is also the simple logistical problem that new policies are typically easier to introduce than they are to cancel, particularly when a policy is accompanied by the creation of an institutional framework - such had been the Soviet experience in post-Stalin economic reforms.

Indeed, the failure of the enterprise law was not so much that it could not be successfully implemented, but that the previous policies, programmes and organisations which had governed economic activities failed to be terminated. Policy

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[133]Garry D. Brewer, 'Termination: Hard Choices, Harder Questions', *Public Administration Review* 38:3 (July-August 1978), 338-344; Brian W. Hogwood and B. Guy Peters, *The Pathology of Public Policy* (Oxford: Clarendon Press, 1985), 146-159.

[134]Robert Biller, 'On Tolerating Policy and Organizational Termination: Some Design Considerations', *Policy Sciences* 7 (June 1976), 133-149; and Robert D. Behn, 'How to Terminate a Public Policy: A Dozen Hints for the Would-Be Terminator', *Policy Analysis* 4:3 (Summer 1978), 373-413.

termination signals the beginning of the policy process as much as it does the end.[135] That the administrative system emerged virtually intact during the implementation of the enterprise law, then it was not only the enterprise law which had to be terminated, but also those past practices which the enterprise law had failed to displace.

As the specialist on termination processes Eugene Bardach has observed, when termination does take place it occurs 'with either a bang or a very long whimper'.[136] The latter characterised the termination of the enterprise law. Policy termination, as noted in the previous section, was for reformers about policy succession, and it was the difficulties in formulating a new policy response to the deepening economic crisis that permitted the enterprise law to limp along for many months. Summarising the literature on policy termination, Brewer and deLeon identify five types of termination: (1) replacing something old with something new to meet roughly the same need; (2) consolidating existing arrangements and streamlining; (3) splitting one element to create a separate entity; (4) decrementing through marginal adjustements to account for the evolution of systems and arrangements; (5) and replacing something old with something new to meet different objectives.[137] The purpose of terminating the enterprise law

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[135]Brewer, 'Termination: Hard Choices, Harder Questions', 338.

[136]Eugene Bardach, 'Policy Termination as a Political Process', *Policy Sciences* 7:2 (June 1976), 123-131, 125.

[137]Brewer and deLeon, *The Foundations of Policy Analysis*, 396-398.

was to replace it by something else with new (or considerably deeper and wider) objectives. The process, however, was 'decremental'.[138]

The first set of reforms to the political system to take place in the wake of the 19th Party Conference was within the Party. In the autumn of 1988 major reductions were made in the staff of the Central Committee which, at around fifty per cent, were on the same scale as those of the ministerial apparatus. Unlike the case with the ministerial system, these reductions were accompanied by a radical reorganisation which, taken together, weakened Central Committee influence over policy-making, particularly in the sphere of economy. The organisational structure of the Central Committee was both reformed, with the creation of six commissions on specific policy areas, and streamlined, with the number of departments cut from twenty to nine. Nikolai Sliunkov, who had been the head of the economic department and a full member of the Politburo, was made head of the new Commission on Socioeconomic Policy. His former deputy in the economic department, Vladimir Mozhin, was subsequently promoted to head the corresponding department on socio-economic policy into which most branch departments had been amalgamated.[139]

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[138]The term 'decremental' - a play on Lindblom's 'incrementalism' - has been developed principally by Daniel Tarschys. See, for example, Daniel Tarschys, 'Rational Decremental Budgeting: Elements of an Expenditure Policy for the 1980s', *Policy Sciences* (December 1981), 49-58.

[139]On the reorganisations to the Central Committee see: Archie Brown, 'Power and Policy in a Time of Leadership Transition', in Archie Brown (ed.), *Political Leadership in the Soviet Union* (London: Macmillan, 1989), 163-217, 205-208; and on the impact on economic policy specifically, see: Anders

Sliun'kov's commission met infrequently and by his own account had little impact on policy-making;[140] at least in the short run, the ministerial and planning agencies' hold on economic policy was strengthened. Ryzhkov maintained day-to-day control over economic affairs with the Council of Ministers, and under the able leadership of its chair (and candidate Politburo member), Iurii Masliukov, Gosplan was recovering from the loss of prestige under Talyzin. The reform commission which Talyzin had formerly chaired was itself reinvigorated and renamed the Commission on Improving the Economic Mechanism at the beginning of 1989, with Masliukov as its chair. As its continuing deputy chair Stepan Sitarian indicated, the commission saw its task as one primarily of implementing existing reform measures, not introducing deeper reforms.[141]

That was a mandate which did not sit well with the academic reformers who were pressing for more substantial efforts. It was no surprise, therefore, that a series of proposals put forward by the Academy of Sciences was rejected.[142] In its resolution after the meeting at which the proposals were discussed on 4 January 1989, the presidium of

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Åslund, 'The Making of Economic Policy in 1989 and 1990', in Ed A. Hewett and Victor H. Winston (eds.), *Milestones in Glasnost' and Perestroyka: The Economy* (Washington: Brookings, 1991), 335-359, 347-349.

[140]*Pravda*, 25 June 1990. Sliun'kov was removed from the leadership in July 1990.

[141]*Pravda*, 5 January 1989, 2.

[142]For a review of the discussion of the proposals, see: *Izvestiia Akademii nauk SSSR. Seriia ekonomicheskaia* 3 (March 1989).

the Council of Ministers agreed that the economic situation was deteriorating, but 'could not agree' with either the problem definition or the suggested alternatives.[143] In his speech, Ryzhkov admitted that 'three years ago we did not imagine how difficult it would be to implement economic reform ... we [now] find ourselves in a complicated situation',[144] but the policy he outlined was one of frank admission of the problems combined with continuity in the application of the solutions:

> We see mistakes and see processes which have got out of control. As concerns required measures, the government is now tackling the matter, and will adopt appropriate decisions. But the most important thing is to hold on to the strategic line and not depart from it.[145]

In other words, Ryzhkov saw the government's task as putting out the fires which had been lit by the implementation of economic reform, but not of changing the scope of economic reform itself.

The processes which 'had got out of control' were located on the margins of the administrative system, and a series of emergency measures were formulated in an attempt to impose administrative control, eventually resulting in a formal revision to the enterprise law that summer. In February, a decree set limits to prices for producer goods and restricted price increases for most 'new' consumer goods to a fifteen per

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[143]'V Prezidiume Soveta Ministrov SSSR', *Voprosy ekonomiki* 3 (March 1989), 3-4, 3.

[144]*Voprosy ekonomiki* 3 (March 1989), 5-8, 6.

[145]*Voprosy ekonomiki* 3 (March 1989), 5-8, 7.

cent mark-up.[146] In March, another decree instructed the ministries to establish new normatives for state enterprises[147] - which was more a recognition that economic normatives had been arbitrarily applied and their original intent had been lost than it was a violation of the provisions in the enterprise law for long-term, stable normatives.

It was political reform which improved the atmosphere for moving forward on economic reform, as well as improving the fortunes of academic reformers to engage in sustained reform advocacy. After the March 1989 elections to the new Congress of People's Deputies, many found themselves in the role of political decision-makers, with new deputies including such notable figures as Leonid Abalkin, Oleg Bogomolov, Nikolai Petrakov, Pavel Bunich, Gavriil Popov, Vladimir Tikhonov, Gennadii Lisichkin, Nikolai Shmelev, and Tat'iana Zaslavskaia.

In his speech as the newly elected chair of the inner parliament the following May, Gorbachev detailed for the Supreme Soviet the economic situation. While retaining optimism about the prospects of economic development, Gorbachev was open in acknowledging that reform itself had stalled in language which could have implied that more vigorous efforts of the same reforms was required:

> It is impossible to extricate the economy from the quagmire without radical economic reform, without

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[146] *Pravda*, 3 February 1989, 1-2.

[147] 'O merakh po finansovomu ozdorovleniiu ekonomiki i ukrepleniiu denezhnogo obrashcheniia v strane v 1989-1990 godakh i v trinadtsatoi piatiletke', *Izvestiia TsK KPSS* 5 (March 1989), 19.

> shifting all economic units to compete *khoziaistvennyi raschet* and *samofinansirovanie*...[148]

The framework within which the terminology was embedded, however, was very different. Remarking on the sharp debates under way on economic reform, Gorbachev endorsed both the market and rethinking ownership (if not yet private ownership of state industry):

> Life has convincingly shown that economic reform is simply impossible without a radical updating of relations of socialist ownership and the development and combination of its various forms... The only condition that must be set in this context is that there be no exploitation of workers and no alienation of workers from the means of production. Another decisive area of economic reform - the formation of a fully-functioning socialist market - is linked inseparably to this approach to ownership. Needles to say, the market is not omnipotent. But humankind has not devised any more effective and more democratic mechanism of economic management.[149]

Notably lacking was any mention of work-place democracy at a forum which represented the culmination of *samoupravlenie* in Soviet political reform. The separation of economic and political functions in the administrative structure was no longer to be pursued through the enterprise law at the single venue of the state enterprise. Instead, political functions were being transferred to political institutions; economic reform was to be strictly about economics. As for the enterprise law itself, Gorbachev characterised it (together with the Law on Cooperation) as an important step but only a first step in economic reform, one that was in need of

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[148] *Pravda*, 31 May 1989, 1-3, 2.

[149] *Pravda*, 31 May 1989, 1-3, 2.

'improvement',[150] thus marking the formal beginning of the termination process.

A new 'Law on the introduction of changes and additions to the USSR Law "On the state enterprise (association)"' was adopted by the Supreme Soviet in August.[151] The draft had been prepared by the Gosplan commissions,[152] but was presented by Leonid Abalkin in his new capacity as deputy prime minister and head of the new government commission on economic reform. There was a clear, if limited, reformist stamp on the draft which was submitted. As the chair of the Supreme Soviet committee on law and legislation Sergei Alekseev remarked in his endorsement, the changes and additions were such that the old enterprise law 'was already being replaced by another law'.[153]

The new law on the enterprise law said nothing about *samoupravlenie* - it was not until December that electing management was made 'optional'.[154] On the economic side, the radicalising elements rested uneasily with the continuing restrictions. A major component recognised the importance of capital market formation by granting an enterprise the right to issue stocks and securities. An enterprise was also empowered to withdraw from associations independently; to

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[150]*Pravda*, 31 May 1989, 1-3, 2.

[151]*Pravda*, 11 August 1989, 1-2.

[152]Interview with V.V. Laptev, Institute of State and Law, Moscow, 26 October 1992.

[153]*Verkhovnyi sovet SSSR. Pervaia sessiia*, 181.

[154]*Trud*, 14 December 1989.

choose which form of *khozraschet* to adopt or to shift to leasing; to sever connections altogether with ministries and territorial agencies if it had shifted to leasing; and to engage in independent foreign trade.

Notwithstanding the strengthening of the legal status of the state enterprise as an independent agent in the economy, changes had yet to be made to the economic system as a whole. In recognition of the ineffectiveness of the temporary measures passed the previous year to reduce the size of state orders, the revisions to the enterprise law limited state orders to 100% of an enterprise's output - that is, state orders were not to account for above-plan production. On the positive side, at least on paper, Gosarbitrazh was specifically instructed to handle disputes over state orders. There was a reformist argument against fixing a lower ceiling on state orders (given by Abalkin when he presented the draft revisions): some enterprises had far less of their production taken up by state orders, and setting a limit of sixty per cent, for instance, could induce planning and ministerial agencies to treat that figure as a maximum, not a minimum, proportion.

However, even the partial movement forward of the other measures was soon overtaken by additional emergency measures. In November foreign trade in raw and consumer goods was curtailed,[155] and in an open recognition of the unintended consequences of profit-steering in enterprise decision-making, the fulfilment of state orders in light industry was to be

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[155]*Ekonomicheskaia gazeta* 52 (December 1989), 11.

judged by gross production, not profit.[156] Complicating the situation was a revision to the wage formation discussed concurrently with the new law on the enterprise law, and issued as a separate decree, which attempted to address two problems at once: the financial imbalances deriving from accelerating wages and the shortages of goods in the consumer market.[157] The growth in wages and bonuses was not to exceed 3% of the levels of the previous year, with severe penalties for exceeding this limit - except for activities associated with the production of consumer goods. Given this loophole, enterprises easily avoided the Draconian restrictions on wages - often with ministerial assistance which exploited the confusion of defining which activities related to consumer goods (for example, according the Ministry of Finance's clarification, an enterprise even in heavy industry could be exempt so long as its production was important for the provision of consumer goods) - and both wages and prices continued to spiral upwards through 1990.[158]

All of these measures were provisional and reactive, a fact underlined by Abalkin when he presented the revisions to the enterprise law in August: the Supreme Soviet had already instructed the government to draft completely new legislation on economic reform by the following month, including the laws amending the enterprise and cooperation laws and new laws on

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[156]*Izvestiia*, 12 November 1989, 1.

[157]'O nalogooblozhenii fonda oplaty truda gosudarsvennykh predpriiatii (ob"edinenii)', *Pravda*, 11 August 1989, 1.

[158]Litwack, 'Discretionary Behaviour and Soviet Economic Reform', 266.

land, ownership, leasing, the tax system - and on the 'socialist enterprise'; the revisions to the current enterprise law were to be strictly transitional.[159] The state enterprise proper no longer held centrality in the formulation of reform legislation; most of the issues of enterprise reform were in fact dealt with in the other laws on ownership and leasing, and it was over those issues that conflict in the reform debate centred. Over the next ten months[160] economic reform was subjected to the great sequencing debate, a parade of reform programmes, and increasingly organised opposition. More importantly, the failure of economic reform made control of the economy, and state enterprises, an issue of prime importance in the political struggle between the centre and the republics which itself was rapidly eclipsing all other considerations.

By the time that the new 'Law on Enterprises' (the qualifier 'socialist' having been dropped) in June 1990,[161] it was but a footnote in the reform process. This formal termination, however, provided the basis for an attempted revival of the provisions of the enterprise law that had been

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[159]*Verkhovnyi sovet SSSR. Pervaia sessiia*, (Moscow: 1989), 176 and 183-184.

[160]Draft laws were presented to the Supreme Soviet in September, but were remanded for more work in October. *Izvestiia*, 3 October 1989, 1.

[161]*Izvestiia*, 5 June 1990, 1. With implementation scheduled to begin in January 1991, whatever importance it might have had was undermined with the promulgation in December 1990 by the Russian Federation of its own law on 'Enterprises and entrepreneurial activity' as part of a package of legislation on the market.'O predpriiatiiakh i predprinimatel'skoi deiatel'nosti', *Zakony RSFSR o perekhode k rynku* (Moscow: Mosgorpechat': 1991), 29-49.

the most radical and the least implemented: *samoupravlenie*. The new enterprise law had done away with the councils of the labour collective altogether, replacing them with an 'enterprise council' of equal numbers of representatives from an enterprise's owner (usually its ministry) and labour. As Hogwood and Peters observe, policies slated for termination often generate renewed vigour among supporters - what they call the 'Lazarus strategem'.[162] That is what happened with the labour collective councils, or STKs. After the adoption of the 1990 enterprise law, a movement emerged of people who supported reform, but not privatisation - advocating instead that workers be given control of factories. At the First All-Union Conference of Representatives of Labour Collectives and Workers' Committees at the end of that summer, the new enterprise law was denounced as undemocratic for not being subjected to public discussion in draft form as well as for excluding labour from enterprise management, and an appeal was issued to the Supreme Soviet that the new law be suspended to take account of their grievances, but without effect. In December, the movement began to turn into a more overt political organisation by holding the founding congress of what became the Union of Councils of Labour Collectives.[163] Not surprisingly, this movement included Boris Kurashvili, who wrote a draft law as an alternative to the privatisation law in which workers' self-management was a central plank and

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[162]Hogwood and Peters, *The Pathology of Public Policy*, 157-159.

[163]Filtzer, *Soviet Workers and the Collapse of Perestroika*, 92.

presented it to the Supreme Soviet in June 1991. This draft was blocked from reaching even the committee stage by the chair of the Supreme Soviet, Anatolii Luk'ianov, on the grounds that the privatisation law had to be passed,[164] despite the support the STK movement had given him.[165] It was around the issue of privatisation that the STK movement was in fact organised, the labour collective councils, and their official dissolution, merely providing an institutional framework on to which the STK movement's alternative views on ownership could be grafted. The principles of the enterprise law had opened up the ownership issues by, symbolically, providing the basis for two contradictory interpretations of enterprise ownership; one led to privatisation, the other was the one supported by the STK movement. The role of the enterprise law in stimulating the ownership debate is discussed in the next section.

Ownership, The Enterprise Law, and the Reform Process

The Council of Ministers' July 1987 packet of decrees drafted by the ministries and planning agencies each 'contained a bomb that would destroy the positive elements' of the enterprise law.[166] The enterprise law itself, however, carried a bomb of its own which would help to destroy the economic

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[164]Interview with B.P. Kurashvili, Institute of State and Law, Moscow, 25 March 1992.

[165]Filtzer, *Soviet Workers and the Collapse of Perestroika*, 92.

[166]Grigorii Khanin, 'Economic Growth in the 1980s', in Michael Ellman and Vladimir Kontorovich (eds.), *The Disintegration of the Soviet Economic System* (London: Routledge, 1992), 73-85, 82.

administrative structure in which the ministries and planning agencies were embedded. That bomb was the issue of ownership, and the fuse was lit by *khozraschet* and *samoupravlenie* - but at the level of republics, not of enterprises. This section analyses the relationship of the enterprise law to these events. The literature on the subject of ownership and ownership rights in socialist systems is immense, and summarising these treatises is a daunting task which fortunately goes beyond the bounds of this study.[167] Here only a summary of the essential points on ownership and ownership rights will be attempted.

Soviet law laid greater emphasis on ownership than on the right of ownership. According to Marxist theory, legal phenomena were relegated to the superstructure, being derivative of economic phenomena at the basis of society. Ownership rights, consequently, were treated as the juridical expression of ownership forms as fixed by production relations in the economy.[168]

However, identifying those production relations, and therefore permissible ownership forms, was a profoundly

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[167]A number of works within this literature have informed this section, including: Włodzimierz Brus and Kazimierz Laski, *From Marx to the Market: Socialism in Search of an Economic System* (Oxford: Clarendon Press, 1989); Ellen Comisso, 'Property Rights in Focus', *Acta Oeconomica* 4 (1989), 210-216; D.M. Genkin, *Pravo sobstvennosti v SSSR* (Moscow: Gosiurizdat, 1961); Janos Kornai, *The Socialist System* (Princeton: Princeton University Press, 1992), chapter five; and A.V. Venediktov, *Gosudarstvennaia sotsialisticheskaia sobstvennost'* (Leningrad: Izdatel'stvo Akademii Nauk SSSR, 1948).

[168]S.A. Zinchenko, 'Pravo obshchenarodnoi sobstvennosti v usloviiakh perestroiki sistemy khoziaistvovaniia strany', *Sovetskoe godsudarstvo i pravo* 3 (March 1988), 78-85, 78.

political act. Soviet law recognised three ownership forms. The first of these, individual, granted full ownership rights to citizens over their personal property; the use of that property for economic purposes was severely limited. It was the other two forms, state and cooperative, which in a 1932 decree written personally by Stalin were made the basis of the Soviet system.[169] While both state and cooperative forms were classified as 'social ownership' (and theft of which constituting a crime against the Soviet system), the former was given priority; cooperative ownership was to be gradually superseded by state ownership.

As discussed in Chapter Three, the definition of *khozraschet* which accompanied the construction of the hierarchical centrally-planned system granted state enterprises limited decision-making authority in order to fulfil the goals and tasks set by the central planners. Ownership rights were then defined *post hoc* partly as a means of linking the various formal decision-making prerogatives of state organs in the economic system with state ownership over

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[169]Venediktov, *Gosudarstvennaia sotsialisticheskaia sobstvennost'*, 524. The decree did make a distinction between cooperative ownership and collective farm ownership which in practice was blurred; 'socialist ownership' was more customarily defined, for example by Denisov and Kirichenko, as having 'two forms. Cooperative and kolkhoz ownership, as well as state ownership, is social (*obschestvennoi*) ownership.' A.I. Denisov and M.G. Kirichenko, *Sovetskoe gosudarstvennoe pravo* (Moscow: Gosiurizdat, 1957), 80. The 1977 Constitution also grouped cooperative/*kolkhoz* and state ownership together as social ownership. Compare Schroeder: 'Socialist countries traditionally have recognised three forms of legal ownership - *social (state or collective)*, *cooperative*, and private. Gertrude E. Schroeder, 'Property Rights in Economic Reforms in Socialist Countries', *Studies in Comparative Communism* 21:2 (Summer 1988), 175-188, 176-177. Emphasis added.

the means of production. Relating ownership rights to the Soviet economic system was developed most influentially by A.V. Venediktov with his concept of 'operative *upravlenie*', which was set forth in detail in a 1948 volume.[170] This concept and its basic theory dominated subsequent Soviet theoretical and legal treatments of ownership rights,[171] and was accepted throughout eastern Europe in the late fifties and early sixties.[172]

In common with both Anglo-Saxon and Continental legal traditions, Soviet civil law was based on the Roman Law 'triad' of ownership rights: possession (*usus*, or *vladenie* in Russian) of an object; use (*fructus* or *pol'zovanie*); and disposition (*abusus* or *rasporiazhenie*). In Venediktov's definitions, these rights determined, respectively, the physical possession of an object; the use of that object and 'its fruits'; and the juridical fate of that object including alienation, letting, or physical destruction.[173] According to Venediktov's theory, ownership rights over state enterprises were held by the state in the name of the people; different aspects of these rights were exercised by state organs in the fulfilment of their tasks. Operative *upravlenie* referred to

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[170]Venediktov, *Gosudarstvennaia sotsialisticheskaia sobstvennost'*.

[171]S. Bratus', A. Makovskii and V. Rakhmilovich, 'Pravovoe regulirovanie khoziaistvennoi deiatel'nosti', *Kommunist* 8 (May 1988), 95-103, 96.

[172]T. Sárközy, 'Problems of Social Ownership and the Proprietary Organization', *Acta Oeconomica* 29:3-4 (1982), 225-258, 234-235.

[173]Venediktov, *Gosudarstvennaia sotsialisticheskaia sobstvennost'*, 14-15.

that portion of ownership rights which a state enterprise exercised in order to meet plan obligations. The ownership rights of enterprises, in other words, existed only in order to meet the plan; once the plan was met, those rights expired and were superseded in accordance with the new plan. The same rights were simultaneously exercised by other state organs supervising the economy in accordance with their respective functions, including the Supreme Soviet, local soviets, the Council of Minsters, and the individual branch ministries.[174] The 1965 decree on the production enterprise, as a relevant example, stated that:

> The enterprise exercises the rights of possession, use, and disposition over property (*imushchestvom*) in its operative *upravlenie* and the right of use of land allotted to it within parameters set by law and in accordance with the goals of the enterprise's activity, plan tasks, and the purposes of the property.[175]

These rights were defined with respect to the decision-making authority of the enterprise according to *khozraschet*, however, and just as *khozraschet* in practice was little more than a method of book-keeping, enterprise ownership rights were without content.

To the degree that ownership rights could be said to have existed, the winners from this ambiguity were the ministries. As state organs, enterprises were extensions of ministries; possession - and control - was exercised by the ministries. Residual income deriving from the ownership right of use

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[174]Venediktov, *Gosudarstvennaia sotsialisticheskaia sobstvennost'*, 323-349.

[175]*Svod zakonov SSSR*, Volume 6 (Moscow: Izvestiia, 1988), 341.

accrued to the ministries, who redistributed profits among their enterprises, as well as playing a key role in defining the methods by which residual income was generated through wage, price, and tax policy. Entry and exit was controlled by the bureaucracy (although strictly speaking, the right of disposition did not exist, as state property could not be alienated from the state).

The legalistic fudge of operative *upravlenie* also lost any consistency it might have held during the forty years following the publication of Venediktov's volume. The relevant legislation governing operative *upravlenie* was fragmented horizontally in all-Union and republican law,[176] as well as vertically in civil, administrative, and other law.[177] Despite periodic calls to clear up confusion of this sort by codifying the relevant rules in a separate branch of economic law,[178] there was never a clear delineation either of what the rights of use, possession and disposition entailed, or of who was entitled to exercise them,[179] thus 'artificially' creating problems and confusion over the demarcation of ownership

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[176]M.I. Braginskii, W.E. Butler, and A.A. Rubanov, *The Law on Ownership in the USSR (The Butler Commentaries)* (London: Interlist, 1991), 4-5.

[177]Genkin, *Pravo sobstvennosti v SSSR*, 80.

[178]For instance, see the continuing efforts of V.V. Laptev in *Predmet i sistema khoziaistvennogo prava* (Moscow: Gosiurizdat, 1969), and 'Zakon o predpriiatii i kodifikatsiia khoziaistvennogo zakonodatel'stva', *Sovetskoe gosudarstvo i pravo* 12 (December 1987), 67-75.

[179]S.N. Bratus', 'O sootnoshenii sotsialisticheskoi sobstvennosti i prava operativnogo upravleniia', *Sovetskoe gosudarstvo i pravo* 3 (March 1986), 19-26, 23.

authority.[180] The failure to so delineate facilitated the arbitrary interference of ministerial officials in enterprise operations, undermining any notion of enterprise independence.[181] So long as administrative methods predominated in managing the economy, the exercise of ownership rights by the enterprise was limited and largely formal, entangled by assorted prohibitions.[182] Regardless of the intentions of its original formulator, operative *upravlenie* had the effect of 'sanctioning the unlimited interference' of branch ministries in the economy.[183]

The early economic reforms of *perestroika*, culminating in the enterprise law, were predicated on a redistribution of decision-making authority in favour of the state enterprise; this involved a *de facto* redefinition of ownership rights, if not clearly *de jure*. The prevailing conceptions of ownership rights reflected by the term, 'operative *upravlenie*', defined with respect to *khozraschet*, were not consistent with the emerging definition of 'full' *khozraschet*.[184] As had been the

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[180]A.A. Klishin and N.F. Sharaftdinov, 'Obshchenarodnaia sobstvennost' i sotsialisticheskoe samoupravlenie: Politiko-pravovye aspekty', *Sovetskoe gosudarstvo i pravo* 10 (October 1988), 90-96, 91.

[181]V.P. Mozolin, 'Pravo gosudarstvennoi (obshchenarodnoi) sobstvennosti v usloviiakh sovershenstvovaniia sotsializma', *Sovetskoe gosudarstvo i pravo* 5 (May 1987), 37-45, 38.

[182]Bratus', Makovskii and Rakhmilovich, 'Pravovoe regulirovanie khoziaistvennoi deiatel'nosti', 96.

[183]L.S. Iavich, 'Ekonomika, pravo i upravlenie', *Sovetskoe gosudarstvo i pravo* 5 (May 1988), 14-22, 18.

[184]Iu.G. Basin, 'Pravovaia model' polnogo khoziaistvennogo rascheta', *Sovetskoe gosudarstvo i pravo* 4 (April 1988), 50-57, 54.

case fifty years earlier, this reassessment of ownership was undertaken in the political realm. In his speech to the Central Committee's conference in December 1984, Gorbachev signalled his intent to address ownership in traditional Marxist terms which nonetheless went to the heart of prevailing ideological conventions:

> the correlation of production relations and productive strengths does not reproduce itself on its own, but requires constant and purposeful work to perfect the entire economic system of socialism.[185]

Passages such as these (at least in the unexpurgated version) were taken as a signal by reformers that Gorbachev would undertake serious changes if he were to be the successor to Chernenko.[186] When he became general secretary, Gorbachev began to give a clearer indication of what he was advocating. As he told the 27th Party Congress, implying how production relations and therefore ownership rights would relate to economic reform:

> It is important to carry out steadfastly the principle according to which enterprises and associations are wholly responsible for the unprofitability of their work. And the state should not carry responsibility for their obligations. This is where the essence of *khozraschet* lies. You cannot be the master (*khoziain*) of your country if you are not the real master in your factory or *kolkhoz*, in your shop or farm.[187]

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[185]Mikhail Gorbachev, 'Zhivoe tvorchestvo naroda', *Izbrannye rechi i stat'i*, Volume 2 (Moscow: Politizdat, 1987), 80.

[186]Otto Latsis, *The Second Russian Revolution Transcripts*, Roll A67, Page 5.

[187]Gorbachev, 'Politicheskii doklad tsentral'nogo komiteta KPSS XXVII s"ezdu kommunisticheskogo partii sovetskogo soiuza', *Izbrannye rechi i stat'i*, Volume 3, 219.

At the January 1987 Central Committee Plenum, Gorbachev went still further to argue that the notion of ownership had essentially undergone a Soviet version of the 'tragedy of the Commons':

> There has been a serious weakening of control over who and how it [socialist property] is managed. It has often been corroded by departmentalism and localism, as if it were 'no one's', without cost, devoid of any master (*khoziain*)...[188]

In his speeches during this time, Gorbachev spoke frequently of being a 'master' and of the 'feeling of mastery' (*chustvo khoziaina*).

The thrust of these circumlocutions was to place an emphasis on the right of use to be held by the labour collective. Here an important linkage between *samoupravlenie* and full *khozraschet* emerged regarding ownership rights and the state enterprise. Ownership rights over the state enterprise, Gorbachev implied, should be vested with the labour collective specifically, and not with the Soviet people as a whole. In this way, the labour collective could itself guarantee the decision-making authority of its enterprise granted by full *khozraschet*. The role of the state as the owner would remain unchanged.

Gorbachev's statements were more ambiguous - at other times he emphasised the centre's prerogatives of ownership rights - and the enterprise law, predictably, did not go that far; but it did go half-way. On the one hand, the enterprise law continued in the tradition of previous legislation that

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[188]Gorbachev, 'O perestroike i kadrovoi politike partii', *Izbrannye rechi i stat'i*, Volume 4, 303.

the state enterprise was a juridical person which 'exercised' the rights of possession, use and disposition - without making a firm delineation between how those rights applied to the state enterprise as a commodity-producer and how they applied to the state as owner. On the other hand, the state enterprise was explicitly recognised as a commodity producer - and therefore not merely an extension of the state administrative system - which 'possesses' (*obladaet*, an equivocal verb on ownership) a 'specific part of social property'. The labour collective, for its part, was recognised as the 'fully-empowered master at the enterprise'.

The lack of clear-cut juridical statements on ownership meant that what the enterprise law did say on the subject failed to resolve the ambiguity; what the enterprise law did not say added to the ambiguity: the term 'operative *upravlenie*' did not appear. In one of the small but significant modifications to legal practice introduced by the enterprise law, during the drafting process legal reformers successfully argued that operative *upravlenie* had lost any meaning, and enterprise jurisdiction over property should be defined in a different way[189] - without establishing what should replace operative *upravlenie*. Although the absence of operative *upravlenie* from the text of the enterprise law was taken as proof that it had been repudiated,[190] the category

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[189]Iu.Kh. Kalmykov in 'Pravo gosudarstvennoi (obshchenarodnoi) sobstvennosti v period perestroiki', *Sovetskoe gosudarstvo i pravo* 5 (May 1988), 55-64, 58.

[190]Z.M. Zamengov, 'Material'no-tekhnicheskaia baza i sredstva predpriiatii', *Khoiaistvo i pravo* 11 (November 1988), 22-28, 27.

continued to remain on the books in civil law; the distribution of ownership rights remained unresolved.[191]

Two potential reformist solutions to the debate emerged. Vladimir Kudriavtsev, then the director of the Institute of State and Law, began what became a heated round table discussion of ownership issues in January 1988 sponsored by *Sovetskoe gosudarstvo i pravo* with the observation that:

> It seems to me that the conception of ownership in the present situation, where the Law on the enterprise is in force, has an especial practical significance... How can the rights to property be defined for enterprises which are going over to *samofinansirovanie*, *samookupaemost'* and *khozraschet*? Has a new form of ownership appeared or can Venediktov's theory that the right of collective *upravlenie* of state property [still] be considered in force?[192]

What was needed, Kudriavtsev suggested, was a 'Law on ownership'. Under the first option, social ownership was entrusted to the labour force of the enterprise concerned. While ultimate title would remain with the state, this line of reasoning discerned a new form of ownership in the enterprise law, which derived from the provisions on full *khozraschet* and *samoupravlenie* - the labour collective exercised ownership right over the enterprise directly, rather than indirectly as citizens through Soviet state structures. The term used most widely for this ownership form, distinct from state or

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[191]V.P. Gribanov, 'Pravovoe obespechenie novogo khoziaistvennogo mekhanizma', *Vestnik Moskovskogo universiteta*, Seriia 11, Pravo 6 (1988), 3-11, 3.

[192]V.N. Kudriavtsev in 'Pravo gosudarstvennoi (obshchesnarodnoi) sobstvennosti v period perestroiki', *Sovetskoe gosudarstvo i pravo* 5 (May 1988), 55-64, 55.

cooperative ownership, was '*khozraschet* ownership'.[193] Broadly speaking, that was the alternative favoured by the STK movement discussed in the previous section. At the round-table discussion, this option was promoted by the Gosplan economist Iu. Kalmykov, who argued that the state, as owner, distributes its property among many organisations and that the state enterprise, as one such organisation, effectively exercised the triad of rights over the property assigned to it; the situation should be recognised as a new form of social ownership. As to the disagreements which emerged between the state enterprise and ministries (who could act in the name of the owner, the state) over the application of these rights, a special organ should be established to arbitrate.[194]

Under the second option, the state retained ownership, delegating certain ownership rights to the enterprise. As Kudriavtsev commented, such a position was popular with 'conservatives', but there was also a reformist reasoning for its continuation in principle. Anatolii Sobchak argued that operative *upravlenie* was richer in its original formulation than in its application and Venediktov could not therefore be characterised as conservative. All depended on how operative *upravlenie* was defined: 'It can be given a purely administrative status or it can be given a civilised status,

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[193]See, for instance: Iavich, 'Ekonomika, pravo i upravlenie', 19; and V.P. Mozolin, 'K razrabotke zakona o sobstvennosti v usloviiakh radikal'noi ekonomicheskoi reformy', *Sovetskoe gosudarstvo i pravo* 10 (September 1988), 73-78, 78.

[194]Iu.Kh. Kalmykov in 'Pravo gosudarstvennoi (obshchesnarodnoi) sobstvennosti v period perestroiki', 58.

which has not yet been done.' The state, as owner, could delegate greater or lesser degrees of ownership rights to the enterprise. The ability of enterprises to exercise any ownership rights was dependent on releasing the hold of the administrative system on enterprises.[195]

The fundamental philosophical points in this debate pointed to two very different directions for reform. The question was whether the 'form of ownership' or the 'right of ownership' would prevail in the organisation of the economy. The debate went to the ideological centre of the economic system under reform. Ownership forms emerged from production relations; *khozraschet* ownership would require a radical revision to ideology, but it would be undertaken on Marxist principles. The right of ownership according to Marxist ideology was derivative of ownership forms; transferring primacy to the right of ownership could undermine the ideology itself.

The failure of the enterprise law forced the issue. With the advent of leasing, enterprises were given the right of possession over a fixed period of time. For proponents of *khozraschet* ownership (and similar terms), this presented a problem, in as much as the enterprise law had already been given the right of possession, as well as of use and disposition. One year after the *Sovetskoe gosudarstvo i pravo* round-table discussion, Kalmykov grappled with this situation by arguing that leasing went beyond either operative

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[195]A.A. Sobchak in 'Pravo gosudarstvennoi (obshchesnarodnoi) sobstvennosti v period perestroiki', 60-61.

upravlenie or collective ownership; enterprises already had the right of possession: leasing, he suggested, gave them the right of 'absolute possession'.[196] The revisions to the enterprise law in 1989 granted enterprises the right to opt for leasing independently and to withdraw from ministerial control; this was taken by some reformers as amounting to the recognition of 'private, group ownership'.[197] Nevertheless, ambiguity remained. First, 'group' did not necessarily mean 'social' as advocated by the proponents of '*khozraschet* ownership': enterprises were also permitted to issue securities; ownership would not be exercised by the workers of an enterprise alone. With the effective elimination of *samoupravlenie* in December 1989, the fortunes of those who saw a new ownership form based on production relations receded yet further. The 1990 Law on ownership was formulated in the context of multiple forms of social (and other) ownership, but did not include *khozraschet* ownership as one of those forms.

If social ownership no longer appeared to be a viable option at the level of the enterprise itself, the role of the state as owner at the national level, the second ambiguity,

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[196]Iu.Kh. Kalmykov, 'Znachenie i pravovaia priroda dogovora na arendu predpriiatii', *Sovetskoe gosudarstvo i pravo* 3 (March 1989), 73-78, 77. The debate over the two alternatives did continue in scholarly circles. See, for instance (and G. Egiazarin's contribution in particular) the round-table discussion in 'Arendnyi podriad - osnova korennoi perestroiki ekonomiki', *Voprosy ekonomiki* 3 (March 1989), 35-53.

[197]A.M. Ermin, 'Sobstvennost' - osnova ekonomiki, vsego obshchestvennogo stroia', in V.G. Aliev, V.N. Bobkov, and A.A. Sergeev (eds.), *Al'ternativa: Vybor puti. Perestroika upravleniia i gorizonty rynka* (Moscow: Mysl', 1990), 146-185, 163.

remained. The 1989 revisions to the enterprise law did not alter the status of the state as ultimate owner; it was ownership rights which were being transferred through leasing. Under the 1990 Law on ownership, state enterprises continued to exercise the rights of possession, use and disposition - but the state remained the owner; no demarcation was made between the respective jurisdictions of the state and the state enterprise.[198] The role of state ownership as an 'absolute monarch' in the economic system, as one reformer termed it,[199] continued if in forms increasingly difficult to describe as 'socialist'. This was a question which was ultimately resolved by privatisation; privatisation however, came after the break-up of the Soviet Union. For the state enterprise, this became a matter not of what ownership rights it exercised with respect to the owner, but who the 'owner' was. The answer to that question, in part, derived from the same agenda-setting process which produced the enterprise law.

Regardless of the struggles over definitions during the agenda-setting process of the enterprise law, the central themes of the reform found echoes in many other issues. *Khozraschet* and *samoupravlenie*, as concepts, were not restricted to the state enterprise. In a broad sense, *khozraschet* addressed economic power and responsibility over property, and *samoupravlenie* referred to the democratic

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[198]Braginskii, Butler, and Rubanov, *The Law on Ownership in the USSR*, 13.

[199]A. Auzan, 'Pliuralizm sobstvennosti i modeli sotsializma', *Kommunist* 17 (November 1989), 36-44, 39.

organisation of political authority. Both terms found a wide application.

Even though *khozraschet* was understood by reformers to be applicable only to the producers of goods and services - ie, the state enterprise - many institutions were soon placed on *khozraschet*. This included scientific institutions, social organisation, ministries, republics, and local regions. The same was true for *samoupravlenie*. In the leading articles of *Sovetskoe gosudarstvo i pravo* during 1986 the term *samoupravlenie* competed with *demokratizatsiia* and a redefined democratic centralism as the concept to express political reform. *Samoupravlenie* itself was carried into the context of 'local self-government' (a definition which it retained in Russian political discourse). The notion of 'self-government', regardless of the formal term - with *demokratizatsiia* ultimately being the concept of choice - spread through the political system in all-Union, republican, and local soviets. The principle of electivity found expression in many places, including not only state enterprises and government bodies, but also school rectors and police department heads.

A way of understanding this dynamic is through one of the concepts of garbage-can theory. As noted in Chapter Two, Cohen, March and Olsen identified three 'access structures' specifying rights to participate in a decision situation.[200] These structures may be defined with respect to participants,

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[200]Michael D. Cohen, James G. March, and Johan P. Olsen, 'People, Problems, Solutions and the Ambiguity of Relevance', in James G. March and Johan P. Olsen (eds.), *Ambiguity and Choice in Organizations* (Bergen: Universitetsforlaget, 1979), 24-37, 29-31.

problems, or solutions. In an unsegmented participation structure, all solutions have equal 'access' to all choice opportunities; in a specialised participation structure, each solution may be attached to only one choice opportunity; and in a hierarchical participation structure, important solutions have access to all choice opportunities. *Khozraschet* and *samoupravlenie*, broadly defined, had access to all choice opportunities in a hierarchical participation structure.

These two solutions came together for two critical sets of problems: the state enterprise and republics. With the failure of the enterprise law, control over state enterprise - and by extension economic reform - became a central issue in the struggle between the centre and the republics. Thus, Leonid Abalkin, academic reformer and politician, opposed republican *khozraschet* precisely because that would lead merely to a transfer of ownership over the state enterprise without guaranteeing its independence.[201]

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[201]L. Abalkin in 'Respublikanskii khozraschet: problemy i perspektivy, *Voprosy ekonomiki* 4 (April 1989), 33-50, 35.

Conclusion

A Policy of Compromise

The enterprise law was caught time and again between countervailing tendencies, from pre-decision through termination. If there is one word which captures the essence of the enterprise law, it is compromise. That was a theme which comes out clearly from whichever angle the enterprise law is examined. Sometimes such was the intent; more often it just happened. There was, in every sense of the word, a policy of compromise.

The first compromise was in the underlying principles of the enterprise law, that between plan and market. This was a theme which recurred many times in Soviet economic thought and in the occasional reforms which the leadership undertook; regardless of any possible theoretical validity of combining the two, discounting the New Economic Policy (which arguably made an accommodation with market principles but which predated the 'Plan'), it was the plan which sooner or later prevailed. Prior to *perestroika*, the last such attempt had been in 1965 in which the marketising elements in that reform scarcely penetrated the economic system. For the next thirty years, those expecting another chance adapted to political winds as necessary and refined their thinking both in public (to the degree permissible) and in private. By the time that Gorbachev and Ryzhkov began to gather together reformers and reformist ideas, there was a relatively clear conception of the contours of what the Soviet economic system might look

like after reform, if as yet no clear strategy specifying the details of the reformed economic system or the route by which it was to be achieved.

The essential points were relatively simple: devolve operational decision-making to the state enterprise, reducing the role of the centre to that of grand strategist, which would manipulate the economic environment in which enterprises adopted decisions such as would conform with central goals. From the perspective of the system as a whole, the sub-optimising tendencies inherent in enterprise-level decision-making would be countered by adjusting price, wage, tax and other policies of indirect, economic levers. The role of the market was limited to the exchange of products: enterprises would conclude agreements with one another through wholesale trade. Workplace democracy, while not originally a part of the reformist thinking of most of the economists, nonetheless in theory could be grafted on to the framework without altering the essentials; *samoupravlenie*, after all, in the context of the design of the reformed economic system would affect operations within the enterprise, not the function of the enterprise within that system. *Samoupravlenie* offered the added virtues of shifting accountability of enterprise directors to the workers below, within the enterprise, rather than those above through *nomenklatura* appointment.

While these ideas were very much part of a synoptic framework - the concept was of an integrated economic system, not of the individual components - the introduction of these ideas in practice was dependent on incremental politics and

piecemeal reform; this involved a second kind of compromise. Before the enterprise law, measures were introduced incrementally, often initially in the form of experiments which would then be applied more widely. There were virtues to the strategy. Reforms could be introduced gradually, militating against opposition to deeper and swifter measures while locking-in new practices at relatively modest levels. Gradualism provided a learning experience to contribute to working out the details and strategy of reform. Any shortcoming encountered during experimentation could be invoked as an empirical reason for more substantial efforts.

By 1986, these reformist ideas had been given the imprimatur of a new leadership under Gorbachev and constituted the dominant themes in policy discourse. Here, however, another compromise was to be found - between the demands of the agenda and the possibilities of the system. On the one hand, reformers had succeeded in making the policy-making process work to their agenda. Towards the end of 1986, disagreements among reformers had given way to a relatively clear consensus of what was to be done. Many reformers had moved into positions of authority from which these ideas could be converted into binding decisions. On the other hand, reformers had at best only partially penetrated the institutions of policy-making, and specifically the branch ministries. Ministries were in the position not only of controlling their respective enterprises, but of drafting and implementing the reform legislation which affected them. Moreover, the agencies which wrote the programmatic reforms

adopted in July 1987 operated more or less independently; the ideas of an integrated system of economic *upravlenie* went through a fractured decision-making process.

Given the situation of an unreformed policy-making apparatus, anti-reformers were well placed to mount concerted opposition. The need to do so, however, was essentially obviated by the compromise which emerged on the timing of changes to the economic system. This was symbolised at the political level by Gorbachev and Ryzhkov and at the policy level by the enterprise law and the two blueprints for reform. The critical difference between the two for the course of the enterprise law lay with Ryzkhkov's firm conviction that economic reform should be introduced gradually. The major issue, of course, was price reform - a central tenet of full *khozraschet*, which Gorbachev had come to endorse by the end of 1986. Within the drafting process of the enterprise law Ryzhkov's reticence effectively brought about a definition of *khozraschet* which did not go beyond the bounds of operations within the state enterprise. The moderates' belief in piecemeal marketising reform became alloyed with opposition to any form of the market.

The counter-mobilisation of reformers led by Gorbachev and concentrated in the Central Committee's dacha at Volynskoe led to an attempt to assert primacy over the obstructionist efforts of the government and Gosplan commissions. The position of the reformers became strengthened as a result of the pressure which could be brought to bear on the unsatisfactory draft of the enterprise law through public

discussion and by the formulation of an alternative blueprint for reform; in both cases, however, to the degree that reformers gained a victory, it was over the agenda of reform, not the details of decisions. Overarching principles were added to the enterprise law which the substantive sections in the body of the text contradicted. The Basic Provisions which the Central Committee approved at the same time as the enterprise law were a statement of intent; the packet of decrees drafted by the planning and government agencies and adopted the next month dealt with the immediate activities of the administrative system.

The enterprise law represented a compromise, or a mid-point, between the 'Basic Provisions' and the packet of decrees. The course of reform could have gone in either direction. The success of implementation, however, was undermined even before the enterprise law was scheduled to go into effect. First, the reformist consensus began to break apart. Far more vigorous advocacy of market reform was being voiced, bolstered by the patent failure of *uskorenie* to arrest economic decline. With the first policies of *perestroika* failing to deliver material benefits to consumers, the political dangers of price reform grew more acute. A retreat from the issue was facilitated by the fact that reformers began to question the wisdom of undertaking price reform; the failure of *uskorenie* had also exacerbated other problems in the economy, such as imbalances and the budget deficit, which many reformers deemed to be of greater need of attention. Secondly, the administrative system was able successfully to

create adverse initial conditions for the implementation of the enterprise law: the five-year plan was sacrosanct and for its duration enterprise production had to conform to those predetermined needs; there was no enterprise self-planning in 1988.

In implementation, the old way of doing things came into direct conflict with the new. In nearly every instance, the structures of the system were able to reject reform. The much-vaunted reformist expectation of an alliance between those at the top (the Party leadership and the central planning agencies such as Gosplan) and those at the bottom (workers in labour collectives) against the ministries in the middle failed to materialise. If any alliance did form, it embraced planning officials in Gosplan at the top, enterprise directors below, and the ministries in the middle. In practice, workers had little say in enterprise decision-making. Fiscal discipline at the enterprise did not improve, symbolized by the limited adoption of the second model of full *khozraschet*. Economic levers either were converted into administrative levers, as with economic normatives, or were never used as economic levers, as with state orders. The officially sanctioned administrative levers of control figures were to have been non-binding; they were made obligatory. It soon became clear that the administrative system would preserve its primacy.

One of the direct causes of the open economic crisis which emerged at the end of the enterprise law's tenure was to be found where changes had occurred. The limited discretion

enterprise directors had in altering production led to the intensification of shortages of goods for which the profit margin was low, as production shifted into higher-cost items. As a result, shortages of consumer goods intensified and hidden inflation continued apace. The partial deregulation of wages made a direct link between levels of pay and enterprise profits. As enterprise profits increased, so too did wages. The pressure to boost wages was further increased by the fact that prices for consumer goods in particular accelerated upwards which was a new factor complicating reform efforts, even if the rate of increase was modest by post-Soviet standards. A wage-price spiral was established, which was driven by the logic of the enterprise law. With the supply system and nominal wholesale price levels continuing to be controlled bureaucratically, much enterprise income did not go to self-financing its operations, but accumulated in its bank accounts. These facts, together with the continuation of enterprise subsidies and the social spending programmes, led to severe budgetary deficits. It was not incidental that these changes made themselves felt outside of the structures of the administrative system: living standards and the financial system. There was a monetarisation of the economy, but not where it had been intended: enterprise decision-making on production. When the enterprise law began to be formulated, Gorbachev deployed a rhetoric of crisis to push the reform agenda; during the implementation of the enterprise law, the economic system was entering genuine crisis.

The room for manoeuvre to adopt new reforms to supplant the enterprise law consequently became more limited. On the one hand, the failure of the enterprise law discredited the most radical ideas which had been gestating in the Soviet Union for thirty years and more, as well as demanding new approaches - if reform were to be continued - which went well beyond the framework of those ideas. Gorbachev had initially staked his general-secretaryship on reversing economic trends; that this had not happened increasingly made the character of economic policy reactive rather than proactive. On the other hand, therefore, the ability to move reform forward was complicated by the need to deal with the immediate problems. Termination of the enterprise law was a compromise between these two imperatives. Emergency measures to address the deteriorating economic situation were combined with fitful efforts to expand enterprise reform. All of this was undertaken in an *ad hoc* fashion while new reform programmes were developed and political reform was consolidated. By the end of 1989, it was not one reform programme which emerged, but a multiplicity of competing proposals. When the enterprise law was finally succeeded by a wholly new 'law on enterprises' in the summer of 1990, it had to address essentially the same problems as the 1987 law, plus the new ones which had since emerged.

Finally, the 1987 Law on the State Enterprise, as a policy, represented a compromise between the old and the new, between the plan and the market, in a wider sense. The enterprise law was the last concerted attempt to reform the

centrally-planned economy. The plan, if redefined, retained primacy. Public ownership over the means of production remained the backbone of the economy. The enterprise law conformed, in a phrase Gorbachev often invoked, to the 'socialist choice'. At the same time, the very fact that it was a law on the 'state enterprise' meant that it introduced new concepts which were to be central in post-Soviet reform. Although it was formulated in the context of an 'integrated system of *upravlenie*', the reformed system itself was defined with respect to economic production at the state enterprise. As a recognised 'commodity producer', the state enterprise was not merely an extension of the bureaucracy but an autonomous agent in the economy. The prerogatives of the economic system as a whole were to be defined with respect to the needs and rights of the enterprise. The enterprise was empowered to appeal against decisions taken by regulatory agencies with which it disagreed. The concepts of a freedom to engage in any activities not expressly prohibited by law and guarantees for enterprise rights were the enterprise law's direct legal legacies for a market economy.

The enterprise law was a spectacular failure. It was the reverse of a 'super-optimum' solution, exceeding everyone's worst expectations. Had such been the intent, it would have been difficult to conceive of a more destructive policy for the Soviet economy. But that, of course, was not the intent. The enterprise law was about reform, and as a reform its purpose was to improve the system, not fatally destabilise it. All of the grand ideas which went into the enterprise law were

laden with supreme optimism about what was possible. Indeed, there is a case to be made that it was not the ideas which were wrong, but their application. The enterprise law was formulated in isolation from reform of the economy as a whole, and the ideas which it reflected were correspondingly only half-adopted. In implementation, these ideas were split again, with very little of the reform finding an application remotely resembling the design. This is a fate which many, if not most, large-scale policies share, and it is not enough to blame politics for the failure of economic reform.

At the operational level there was an inherent weakness in the enterprise law: too much was being expected from a single reform. The enterprise law was not about one single issue, but many highly contentious issues. Consensus, to the degree that it did exist, was brittle and could not withstand the pressures of implementation. This meant that the multiple goals of the issues in the enterprise law could not be pursued simultaneously, and questions of priority - the purposes of reform - came to the fore. Was the major purpose of *samoupravlenie* to give workers a say in enterprise management, to increase their interest in productivity and efficiency, or to improve discipline in the economy? Similarly, was the principal aim of *samoupravlenie* and full *khozraschet* to force fiscal responsibility on enterprises, to improve technological progress and quality, to alleviate chronic shortages and increase balanced production, or to introduce a flexibility and adaptive capacity in the economy through the activities of its basic unit? As for economic reform itself, was its purpose

to increase growth or improve central control over the economy, or was it about transferring power from the administrative system to the political authorities? The issues of enterprise reform encompassed all these goals, and by pursuing all, none was achieved. What had seemed complementary on paper was contradictory in practice.

Some theorists suggest that policy termination be explicitly included in policy design; perhaps policy failure should also. Large-scale policies not only contain thresholds which must be met for success of any goals, they also contain multiple goals not all of which may be reconcilable with one another. The problem is that anticipating where the contradictions may arise is determined not only by the policy itself, but by the changes in political priorities which proceed independently. Many of the problems of the enterprise law were, as reformers were quick to point out, built into the text itself. But its fate was sealed even before it came into force, and here the issue of price reform was central both for the environment of implementation and as an opportunity for reform which was lost. Sustained policy advocacy must address a wider context than that of a policy itself.

At least as important as the design of reform are the initial conditions of its implementation. All reformers gave emphasis to the importance of at least making revisions to price levels; the failure to do so meant that independent enterprise decision-making would be irrational by the logic of the enterprise law itself. Leaving the existing price system intact had the effect of removing one of the basic economic

levers which were to have been at the disposal of the centre. Given that the enterprise law came into force at the mid-point of the unbalanced five-year plan, efforts to ensure enterprise compliance with the five-year plan could only be done administratively. The issue of prices also draws attention to the importance of recognising critical choice opportunities. While reformers debated amongst themselves the proper sequencing of reform, the chance of inaugurating price reform at all was lost. If there was one lesson which had been learned from all the previous efforts at economic reform, it was that piece-meal, incremental policies guaranteed that reformist expectations would go unfulfilled. The enterprise law, in this sense, was merely the last in a long string of failures.

For all the changes which the enterprise law was to bring about in the economic system, there was one area which remained unquestioned. The synoptic approach to economic reform shared the all-encompassing aspirations of the defenders of unadulterated central planning; if the goals were different, there was a shared philosophy of control. The recommendations of reformers evaluating the policy process of the enterprise law, after all, tended to come down to two items: that the policy process itself conform more closely to the sequential stages of gathering information, discussing, deciding and implementing; and that they be the ones in charge. This technocratic and authoritarian impulse, far from being unique to either decision-makers or policy experts of the Soviet Union, need not necessarily be taken as indicative

of wider political values. It is inherent in the paradox of joining predictability in policy-making with the unpredictability of politics.

In previous economic reforms in the Soviet Union, when implementation yielded results which did not meet expectations, leaders opted for predictability and retreated from reform. What separates the enterprise law from these earlier efforts more than anything else, therefore, was that the introduction of reform was not followed by retreat. While it was true that the authorities introduced emergency measures which attempted to regain control of the economy, these were consistently accompanied by an expansion of enterprise reform. This was most clear in the 1989 revisions to the enterprise law which both introduced policies to curb wage increases and gave enterprises the right, among others, to withdraw from ministerial control. That these measures did little to affect enterprise behaviour is beside the point; the design of reform had not departed from the principle of focusing on the sphere of enterprise decision-making. At the same time, massive reductions were made in the state and Party administrative bodies, thereby weakening the ability of the centre to reassert power over enterprises had it chosen to reverse reform completely. Most importantly, as the ideas of the enterprise law proved unsatisfactory, for whatever reason, the scope of reform widened. The reason the enterprise law was terminated was not because it had gone too far, but that it had not been radical enough. When a choice had to be made between the security and predicability of previous policies

and the uncertainty of new political opportunities, reform leaders, and principally Gorbachev, chose the latter.

As critics of the 'model' of sequential policy-making would expect, this case-study of the policy process of the enterprise law found little evidence of phased stages. Agenda-setting was not particularly marked by a search for new alternatives, but by official endorsement of alternatives which were already there. The decision process did not so much weigh the merits of those alternatives as attempt to combine them and to introduce them within the constraints of the system. Simultaneously, implementation of the enterprise law in many respects began before it had been adopted. To the degree that these processes were linked during the policy-making of the enterprise law, it was not by any dynamic inherent in the policy process, but by the demands of deadlines set by the political leadership.

However, as a descriptive device, the separation of policy-making into individual functions remains valid. There are two reasons. First, regardless of how the policy process proceeds in fact, in the case of the enterprise law Soviet authorities promoted the view that the formulation of the enterprise law followed a course of sequential stages; this sequencing was not without impact. Setting the agenda for enterprise reform prior to 1986 could have led to adopting corresponding decisions in a variety of forms, both juridically as decrees or laws and operationally in the context of the administrative system (as had been done before) or of the state enterprise itself. The announcement of the

drafting of the enterprise law, therefore, filtered out many approaches which had been possible. How to graft the ideas of enterprise independence on to the existing system was a question which was never adequately resolved; however, with the adoption of the enterprise law attention shifted from that theoretical question to the practical issues of implementing reform.

Secondly, within these processes, whether focused specifically on the formal drafting of the enterprise law or on the wider context of enterprise reform, there were important dynamics influencing the course of policy-making which did not necessarily carry over from one to another aspect of the policy process as a whole. The role of specialists, for instance, was critical in the generation of the agenda, and it was a role which became increasingly organised. However, what specialists were advocating did not remain static. To view specialist activity as constituting 'demands' to be converted into binding decisions, therefore, misses the point: the demands changed. The consensus among academic reformers which had emerged in December 1986 began to break down six months later when the enterprise law was adopted; at that time reformers also dropped one of their central 'demands': price reform. Searching for a dynamic link driving the policy process forward, consequently, runs the risk of minimising the importance of the dynamics of different aspects of the policy process. What emerges from this case study is an endorsement of Lasswell's - pre-positivist -

original framework of policy functions which do not necessarily occur sequentially or share any intrinsic links.

As an organising framework, Lasswell's policy process functions can also accommodate the importance of policy coalitions. These coalitions have memberships cutting across institutional lines and operate over long periods of time. For all the disagreements among reformers on the specifics, there had been agreement on the need for reform in principle, as well as on the general principles. A loose policy coalition emerged under Gorbachev and Ryzhkov, with Andropov's support, by 1983; it was through the efforts of that coalition that the ideas which were to be sanctioned by the enterprise law began to gain wider acceptance. It was both the vigorous support of Gorbachev as General Secretary for economic reform during *perestroika* and his sustained advocacy and that of other reformers (which began even prior to *perestroika*) which made the enterprise law possible. The reasons why the enterprise law was unsatisfactory illustrate the limited success of the policy coalition led by Gorbachev in penetrating the system by which decisions were made. The disagreements among reformers on the sequencing and depth of reform were critical, but not defining. The institutional arrangements by which decisions were made were. It was not the energy of reformers nor the ideology which limited reform efforts, but the architecture of the system.

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