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Economists, Soviet economic reforms, and the collapse

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1. Introduction

The study of the Soviet economy proceeded under a debilitating constraint on access to evidence imposed by the closed nature of the subject society. The Soviet collapse, while wiping out the subject of the study, also made possible its better understanding through freeing access to the previously hidden information. It also made possible a fresh look at the productivity of the social scientists who were laboring under the constraint to figure out the workings of a closed economy.

“The opening of the door on the CIS mining and metals industry has produced a number of surprises for Western observers. The growth of the aluminum smelting industry in Siberia has been consistently underestimated ... Production of nickel has been underestimated by some 100,000 tons ... Copper production was similarly underestimated. At the same time, the production of lead and zinc appears to have been consistently overestimated.” Humphreys, 1994, p. 9.

One way to reassess both the Soviet economy and the discipline that studied it is to focus on the collapse of the USSR. This is the most recent chapter in its history, with many participants offering their fresh testimony. It was also closely watched, producing detailed studies both there and here, benefiting from increasing openness. Another way to gain new insight on the Soviet economy is by observing the changes wrought by market forces (as done by Bell and Rostowski, 1995). Market transformation starts with capital stock, product mix, employment and settlement pattern and human capital generated by central planning. How these legacies stand the test of the market can tell us something about the system that erected them. It is as if a property that has been appraised by the experts over many decades was actually sold. What information is conveyed by the selling price? Right now, the difficulties of transition are explained by the legacies (Ericson, 1999). One may argue in the opposite direction. The notion of negative value added entered the discussion of centrally planned economies only in 1989-90 (it was in Iaremenko, 1990).

What does it mean for the estimates of the size of the Soviet economy? And, of course, normal historical research in archives on the earlier periods of the Soviet economy has become possible (e. g., Gregory, 2001).

While using new information to sharpen our understanding of the Soviet economy presents purely historic interest, the assessment of Sovietology carries potential lessons on the workings of social science in our own society.

The discipline expired together with its subject amid general dissatisfaction with its predictive capacity. Evaluate the analysis of economic phenomena that prepared the stage for the collapse. In an earlier article (Kontorovich, 2001) I did this for the treatment of the Soviet economic growth slowdown by comparing forecasts of Soviet GNP and industrial production with actual numbers, as reported later by the CIA or the Soviet statistics. Another economic phenomenon that preceded and arguably hastened the demise of the Soviet Union was a flurry of economic reforms. This paper looks at the difference between what was known about the reform by the late 1980s, and what the subsequent events have revealed.

Sovietological writings chosen to represent the discipline. I attempt a complete coverage. This means Joint Economic Committee of the US Congress compendia, textbooks, and articles by all the economists at leading universities, and many at the less prominent ones. CIA papers. They all play a different role. Textbooks attempt to summarize the perceived consensus at the time. JEC papers and CIA reports inform policy decisions. Scholarly papers and books represent an internal conversation among the experts. This distinction is important if we are to understand the workings of the Sovietological field. Each section of this paper starts by documenting the prevailing view among American and British writers of the 1970s and 1980s on a particular aspect of Soviet economic reform. Soviet economic reform was as frequently addressed by politi-

cal scientists as by the economists. For reasons of professional familiarity, I draw heavily on the latter, but also try to include the former. While I attempt to establish a majority view on a particular point, if it existed, I also cite the heterodox authors, and attempt to reconstruct the line of reasoning, methodology, or worldview, that led to a particular conclusion. Was the thing knowable at the time?

The diagnoses and predictions of Sovietology are contrasted with the new information that became available in the process of opening up and disintegration of the USSR. For the subject of this article, this new information is gleaned from the testimony of participants – politicians, managers, expert advisors – as expressed in their interviews and memoirs; surveys and interviews conducted by ???; and post mortem studies on particular aspects of reform. Most of the evidence relates to the period of 1987-91 and is drawn from the accounts of the Soviet insiders in Ellman and Kontorovich (1998), and from the memoirs reviewed in Ellman and Kontorovich (1997) and Ellman (1999).

1 Motives for reform

The prevailing view on the circumstances that could motivate Soviet rulers to undertake a bold reform was summarized by Hough (1986, p. 232): “Most Western discussion of economic reform in the Soviet Union focuses on the domestic stimuli for it ... The pressure for reform is seen as coming from the growing Soviet consumer dissatisfaction with long lines and a poor choice of consumer goods and from a decline in the rate of economic growth that threatens the steady rise in the standard of living - and with it, perhaps, the political stability of the system.”¹

We now learn that on the eve of reform the population was as quiescent as ever, and in-

¹ See also Schroeder, 1979, p. 340; Millar, 1981, p. 201; Goldman, 1983, pp. 174, 180; and Berliner, 1983, p. 365 for examples of this view.

crease in consumer dissatisfaction was impossible to detect (Shlapentokh, 1998, pp.). Memoirs of the former rulers and their advisors testify that they did not see the situation as one of domestic crisis (Ellman and Kontorovich, 1997, p. 262). The economic department of the Central Committee and Gosplan were also calm, with the latter projecting moderate growth through the end of the century (Zoteev, 1998, pp. 86, 91). Gorbachev's 'radical' reform of 1987 was adopted when the economy was not in paralysis or decline, but actually doing better than in the late 1970s-early 1980s. The decline in industrial production in January 1987 is said to have hastened the adoption of reform (Medvedev, 1998, p. 134). But surely such steps are not made on the strength of monthly data, even by a ruler as rash as Gorbachev.

The motivation for reform must lie elsewhere. There has been a minority view among Sovietologists emphasizing international political and military rivalry as a likely motive for embarking on change.² This view seems to have strengthened in the late 1980s, though the numbers are too small to be confident of this trend. Indeed, international security was one area in which Soviet rulers saw a crisis (Ellman and Kontorovich, 1997, p. 261). There is a broad agreement that the burden of military expenditures played a prominent role in Gorbachev revolution, though the sources differ on the details of what happened. Since security decisions in the USSR were made by just a few individuals, who still keep their secrets, these details are currently impossible to document (Ellman and Kontorovich, 1998, p. 14-16).

The new ruler's burning ambition, a variable familiar to historians but absent from the writings reviewed here, also proved to be important (Zoteev, 1998, pp. 92-4). Growth rates that would have been judged as sufficiently high by the previous rulers fell sorely short of Gorbachev's expectations. The outside observers generally understood that these expectations were

unwarranted, but this did not matter for the course of events inside the USSR.

Gorbachev initiated the reforms when the economy was doing relatively well and consumers were as happy as usual. Hence economic decline and consumer dissatisfaction were not the necessary conditions for reform. There may still be an argument that they could be a sufficient condition. Most authors do not spell out the mechanism by which consumer dissatisfaction would become a political force for reform. What they have in mind appears to be street riots and strikes, as in Poland in 1970 and 1979. Thus, Millar (1981, p. 185), writing about a danger of a market-type reform: “A sudden sharp rise in prices sufficiently great to preclude anticipatory spending would be certain to have serious political implications.”³

The assumption that the Soviet people will react to price increases as Poles do is analogous to the Soviet rulers’ ‘Novocherkassk syndrome’. One lesson of the last ten years is that this syndrome had little grounding in reality (Ellman and Kontorovich, 1998, pp. 12-13).

1. How reform blueprints were drawn and implemented

The process by which reform decrees were developed was rarely treated explicitly in the literature (see Table 2 for the exceptions). The view implicit in the discussions was one of ‘static full information rationality’. The rulers chose the exact configuration of reform by weighting its economic benefits against its political and ideological costs (Hewett, 1988, p. 93). Both costs and benefits of various reform schemes were known in advance. In plotting the course of reform, the rulers relied on academic advisors, who could be classified as reformers or conservatives based on their past pronouncements and institutional affiliations.

² Hanson (1981, p. 30); Bergson (1981, p. 42); Becker (1987); Bova (1988).

³ On the other hand, Berliner (1983, p. 381) was skeptical about the extrapolation from Polish to Soviet experience, while putting much stock into growth slowdown as a motive for reform.

2. Knowledge

The experts' academic and civic qualifications were taken for granted. While Soviet citizens' ignorance of how to operate in a market economy was discussed by several authors as a barrier to successful reform, the more immediate concern of the reformers' ignorance was not raised. Analyses of 'Gorbachev's economists' never mention the words 'charlatan' or 'ignoramus' (Aslund, 1987). Hanson (1992, pp.78-9), in a piece originally published in 1985, discusses career advances of the reform-minded Aganbegian and Western-exposed Gvishiani. This is the same Gvishiani who got fired from Gosplan with the label of "scholarly impotent" by Ryzhkov, himself hardly a Samuelson (Zoteev, 1998, p. ???). When western experts diagnosed a particular set of reform proposals as unworkable, they did not draw conclusions about its authors.

Structural barriers to sound economic policy decisions received somewhat more attention in the literature than personnel constraints. Gustafson (1981, p. 158) noted that the position of Soviet experts was "entirely dependent upon the goodwill and needs of political authorities". They gave their advice largely in secret, and there was "no appeal" after the decision was made. These problems cause the leaders "to proceed too fast and too far in their new policies". Hanson (1989, pp. 115-117) demonstrated the extremely limited nature of Soviet debates on economic reform. He also noted that any new Soviet ruler would lack "any highly developed ideas about a market socialist system or any clear intention of creating one. Top advisers are likely to operate within the same mental framework." (Hanson, 1992, p. 83, first published in 1985). Kontorovich (1988b) noted the process by which reformlets were generated was severely hampered by the centralized structure and the limits on rulers' attention and competence. Still, these constraints need not apply to a major, once-in-a-lifetime reforms, which could command the undivided attention of both rulers and experts.

The actual course of reform was characterized by arbitrary and inconsistent policies, the incompetence and irresponsibility of advisors and general chaos.

3. *Arbitrary decisions of the rulers*

Accounts of the Soviet economic mechanism eschewed the important role of arbitrary decisions. The focus was on the systematic, rule guided behavior: planning procedures, price formulae, bonus schemes, and economic agents' self-seeking behavior around these rules. But if the ruler was unlimited, then he could do whatever he wanted. The history of the Soviet type economies is full of the examples of arbitrary, ruinous schemes. Stalin's plan for transformation of nature; Khrushchev's voluntarism; N. Korea and China.

There must be here a gap here between history and econ books. History books clearly convey the different flavor imparted by the personality of each ruler. Econ books, aspiring to the standards of Western economics, are devoid of the role of individual.

One of the first decisions of the Politburo after Stalin's death was the cancellation of a whole set of construction projects undertaken with forced labor in harsh and remote locales, such as the railroad tunnel from the mainland to Sakhalin and "Dead" railroad in the north of West Siberia (). This suggests that Stalin was the one who favored these projects against the wishes of the rest of the Politburo. Deputy Chairman of Gosplan N. Lebedinskii (1994, pp. 4-) charged party officials with violating investment plan by authorizing extra investment projects. Location of the truck plant in Naberezhnye Chelny (Lebedinskii, 1994, p. 8). Anti-alcohol campaign (Lebedinskii, 1994, p. 5).

What does recognition of arbitrariness mean for analysis?

Gorbachev and his advisors ignored the need - well understood by the Soviet rulers for decades - to balance cash flows with flows of consumer goods and services. This had ruinous

consequences for the economy (Ellman, 1999). Programs without merit were implemented over the objections of influential critics. Thus, acceleration strategy was imposed on Gosplan (Zoteev, 1998, p. 93-4), Central Committee Economic Department (Belik, 1998, p. 127), and industrial ministers (Mozhin, 1998, p. 129) through sheer pressure and appeal to party discipline. Politicians arbitrarily chose and picked parts of supposedly 'systemic' packages, such as the '500 days' and the government program in the fall of 1990 (Ellman and Kontorovich, 1997, p. 264).

Once adopted, programs were not seen to completion, but rather retracted and supplanted with new ones (Freinkman, 1998, pp. 189). The 'large scale experiment' was extended to the whole industrial sector in January 1987, and already in June 1987 it was announced that it will be supplanted by the 'radical' reform (Yun', 1998, p. 116). Once the latter was introduced, the rulers' interest shifted elsewhere, and its implementation got little attention (Mozhin, 1998, pp. 151-2). Switching from one program to another reflected impatience and search for a quick fix (Mozin, 1998, p. 122; Yun', 1998, p. 112-14).

Hanson (1992, p. 83) prudently conjectured that lack of understanding of the market on the part of the rulers and their advisers should make them move cautiously. Yet ignorance, combined with other human weaknesses, actually resulted in the opposite behavior. The leaders with ambitious goals had no idea how to accomplish them (Mozhin, 1998, p. 121). They consulted the official economists who had no idea either, but nevertheless advised bold action (Zoteev, 1998, p. 142; Yasin, 1998, p. 144). Once the rulers were sold on the proposal, it was pushed through without a discussion, virtually overnight. Objections of other experts were ignored, as had been the case with the 'radical' reform (Yun', 1998, p. 140). "Gosplan ... was powerless against the arbitrary actions of politicians and the onslaught of dilettante economists with their miraculous prescriptions." (Zoteev, 1998, p. 142).

It was not just the public debate that was severely constrained. We now know that internal discussions were hardly any more free. A discussion of retail price policy at Gosplan Research Institute in the late 1970s was banned by the superiors (Kirichenko, 1998, p. 119). “Timid attempts to question the rigid centralization” in a working group of top officials in 1985 met with rulers’ resentment (Mozhin, 1998, p. 121). There were no discussions of 1986 foreign trade reform proposals among the experts in the field (Kurierov, 1998, pp. 277-278). Most importantly, the issue of the military burden was not being discussed even at the level of the Central Committee (Medvedev, 1998, p. 96; Mozhin, 1998, p. 121).

The constraints on deliberation were not entirely ‘external’. Ideas which were not allowed to be articulated really did not occur to people (Nekipelov in Abalkin et al., 1995, p. 119). This is probably what is meant by the frequent saying that in the mid-1980s “the country was not ready” to the discussion of the market (Abalkin et al., 1995, p. 19; Medvedev, 1998, p. 123). “Self-censorship assured that for the most part only acceptable changes were proposed.” (Yasin, 1998, p. 229). Pro- or counter-reform inclinations, ideological taboos, and the bounds of allowed discussion did not remain static. One step led to another, with barriers being constantly probed by all the actors. This learning process was the slippery slope, which Communists feared (Yasin, 1998, p. 144-5).

In 1989-90, when Soviet political institutions and ideology had fallen apart or weakened greatly, the debate over economic reform had become much more public, and the set of players has been broadened. However, the problem of unacknowledged ignorance deepened, since the subject now was not fiddling with the existing system, but its wholesale replacement with something about which these players did not understand. The younger and better educated economists remained at a distance from the advice-giving industry (Mozhin, 1998, p. 228).

The combination of arbitrariness of rulers' decisions, advisers' opportunism, and lack of feedback created a condition similar to the 'fog of battle' when even the participants or close observers cannot explain why a particular step was taken (Yun', 1998, p. 154; Yasin, 1998, p. 169).

4. Why reforms of the Soviet economy failed

5. Bureaucratic resistance

The experience of 1965 reform strongly colored the Sovietologists' views on the prospects for the future in the 1970s and 1980s. The prevailing interpretation attributed the failure of the 1965 reform to sabotage by various Ministry and lower-level officials.⁴ Thus, "The gradual derationing of producer goods that was a part of 1965 program has not occurred, if for no other reason than that it would obviate the need for the bureaucrats who were supposed to carry it out." (Schroeder, 1979, p. 324).

Hence the expectation that the introduction of market socialism "would be fiercely resisted by the state bureaucracy, where jobs, careers, and political influence would be at stake, as well as by the Party bureaucracy, whose jobs and control over resource allocation would be threatened .." (Schroeder, 1979, p. 340). The regional party officials and the 'military-industrial complex' were thought to be the two most powerful interests opposing a radical reform (Amann, 1986, p. 127). Besides sabotaging the reforms they did not like, outraged officials would present unspecified political risk to the reforming ruler.⁵ For the latter to push through a Hungarian-type reform would only be possible after gaining as much personal power as Stalin had (Berliner,

⁴ See Schroeder, 1971, pp. 37-43; Hardt, 1982, p. XIV; Dyker, 1985, p. 151-2; Nove, 1986, pp. 323-325.

⁵ Hanson, 1981, pp. 32-33; Nove, 1986, p. 326.

1983, p. 388). A less formidable ruler like Gorbachev would have to engage in a protracted, many sided “struggle for economic reform”, weaving his course around the various important groups and strata (Colton, 1987, p. 169).

The idea that bureaucratic resistance is the main obstacle to a reform’s success was shared by the Soviet authors, as stated in the sensational ‘Novosibirsk paper’ by Zaslavskaja in 1983 (Hanson, 1992, p. 59).⁶ It became a cliché during Gorbachev time, when ‘enemies of *perestroika*’ and ‘forces of deceleration’ took the place of wreckers as scapegoats for everything that went wrong with reform measures (Ellman and Kontorovich, 1992, p. 26-7 and 1997, p. 266).

‘Bureaucratic resistance’ as the explanation of failure of an organizational innovation is meaningful only if the innovation itself is workable and the authorities make an effort to implement it.⁷ The few concrete instances of bureaucratic resistance cited for the last round of Soviet reform do not appear to fit the bill.

Two elements of the 1987 reform - state orders and planning norms - provided cover for continued centralized direction of enterprises instead of furthering decentralization. Medvedev (1998, p. 153) charges bureaucratic resistance with this violation of the intent of the authors of reform. Yet detailed analysis of each of these measures shows that they could not work as intended because of design flaws and the incompatibility with the rest of the economic mechanism (Yasin, 1998, pp. 146-49; Freinkman, 1998, pp. 211-13, 215-18). Besides, the rulers were not actually pushing hard to implement these measures (Mozhin, 1998, pp. 151-52). Iarenenko argues that proposals for housing reform including rent increases and privatization in the late

⁶ Hence the label ‘Nove-Zaslavskaja theory’ (Ellman, 1992, p. 179).

⁷ Colton (1987, p. 161) employs a broader definition of bureaucratic resistance, including a reaction of befuddled functionaries who do not understand what is required from them and therefore stick to the old procedures.

1980s were ignored because of bureaucratic resistance (Abalkin et al., 1995, p. 137). But there was no push for privatization or price raises of any kind from the top leadership at that time, so the administrative apparatus had nothing to resist.

While solid evidence of bureaucratic resistance is absent, that of bureaucratic capitulation abounds. In 1987-90, all the supposedly powerful bureaucracies had their privileges taken away, their functions curtailed, and some of them were outright disbanded, without a word of protest. Sectoral ministries, the alleged redoubt of special interests, were merged, had their staffs cut and lost their power over the enterprises (Yasin, 1998, pp. 149-50). While planning as they knew it was being abolished, "... some bureaucrats [in Gosplan] avoided assuming an active role in the reform. However, since the reform was 'blessed' by the Party and the government, they simply carried out the decisions of the superior organs." (Yun', 1998, p. 113).

Party officials were told to keep out of economic management, and the economic departments of the Central Committee were abolished (Mozhin, 1998, pp. 164-5). "Complying with Party discipline, the departments' staff and heads went along with the restructuring while cursing the authors of these reforms in confidential discussions with colleagues." (Belik, 1998, p. 167). Regional Party committees gave up most of their economic functions in an equally disciplined fashion (Kuznetsov, 1998, pp. 197-200). The most powerful of sectoral lobbies, the military industrial complex, did not put up any resistance to the ill-conceived conversion (Belanovskii, 1998, pp. 257-9).

Under different conditions, the Soviet functionaries were not so disciplined. Faced with difficult, unpleasant, or outright impossible orders, they would try to fake performance, spin the wheels, interpret ambiguous statutes in their own favor, and do anything else they could get away with. Gosplan faked its achievements in freeing resource distribution by juggling the num-

bers (Freinkman, 1998, p. 219). Enterprise directors took advantage of the merry-go-round of organizational changes: “Old rules could be ignored since they were officially revoked, and the new ones need not be followed because they were expected soon to be changed or forgotten.” (Freinkman, 1998, p. 190). Looting of state property proceeded without the prodding of the rulers, though in the niches created by the latter’s decrees (Yasin, 1998, p. 151). However, such behavior does not qualify as bureaucratic resistance though.

An even stronger test of the bureaucratic resistance hypothesis took place in the political arena, where the power of the Central Committee itself was severely curtailed, and eventually transferred to the presidential apparatus. The reigning ideology was demolished, and the legitimacy of the Soviet system was attacked from every angle, while imperial assets were abandoned. The individuals involved, while personally displeased by such a turn of events, never took any collective political action (Ellman and Kontorovich, 1997, pp. 272-3). Plenums of the Central Committee and other gatherings adopted unanimously or by large margins resolutions destructive of the regime, even though the significant number of those voting, if not the majority, were clearly against them (Medvedev, 1998, p. 163-4; Belik, 1998, p. 167). The staff of the Central Committee apparatus was confused and perplexed as the system was being destroyed, but did nothing about it (Belik, 1998, pp. 301). One of the most active destroyers of Marxism worked at the Central Committee, and was treated well there, since no “instructions had come from above to condemn” him (Tsipko, 1998, p. 184).

Ironically, it was Gorbachev’s political liberalization that allowed the enterprise directors to organize a semblance of opposition to economic reform at their congress in December 1990. “... prior to that time and then till August 1991 [Gorbachev] had not really been confronted by any organized opposition.” (Yasin, 1998, p. 299).

This behavior is consistent with the observation that bureaucratic resistance is just “the playing out of delegated powers of state agencies, which ... can be granted or withdrawn on short notice.” The most carefully drafted document enjoying the support of all the interested bureaucratic bodies “may be reversed at a moment’s notice by the leadership’s sudden decision, without possibility of public appeal or countervailing action.” (Gustafson, 1981, p. 158)⁸ Lessons of the Gorbachev reforms are well known from Soviet economic history. The abolition of sectoral ministries by Khrushchev in 1957, considered politically the most radical change of the Soviet period by O. Latsis (Abalkin et al., p. 51) met no resistance (Berliner, 1983, p. 383). NEP was thought up by Lenin and introduced overnight. This dismayed much of the Party, but it mounted no effective resistance (Nove, 1992, pp. 78-81). One lesson then would be that this was still the same system as under Stalin and Khrushchev, despite the higher educational level of the rulers and the ruled.

6. Systemic incompatibility

An alternative explanation exists for the failure of 1965 reform, with clear implications for other reforms of the Soviet economy. Kornai (1959, p. 225) in his analysis of a 1954 reorganization of Hungarian industry, argued that centralized planning is a coherent system, and piecemeal changes to it, such as less detailed plans or more discretion left to the enterprises, are bound to hurt performance. Granick (1959, p. 123-4) noted that even minimal use of money and quasimarket institutions in the classical Soviet economy (*khozraschet*) conflicted with central planning. Grossman (1963, pp. 117-121) demonstrated that ‘command principle’ could not co-exist with market mechanism in a stable way. This reasoning allowed him to correctly forecast

⁸ Wiles (1988, pp. 217-218) made a weaker argument seemingly to the same effect.

the fate of the 1965 reform, even as it was being initiated (Grossman, 1966b, p. 54).⁹ This rare coup went unnoticed, and Grossman's ideas were edged out of professional use by the 'bureaucratic resistance' theory. Could its rise be connected to the rise of the pluralistic theories of the Soviet society?

In the 1980s, a few writers claimed that reform of 1965 clashed with the established economic system, making it work worse, rather than better.¹⁰ The bureaucrats who prevented particular reform planks from taking effect were thus doing everyone a favor. Systemic incompatibility and bureaucratic resistance need not be mutually exclusive. Indeed, Dyker (1981, p.), while advancing the former explanation for the demise of 1965 reform, also subscribed to the latter, and many adherents of bureaucratic resistance were not averse to showing the incompatibility of certain reform measures with a command economy (Nove, 1986, p. 326).

The 'radical' reform of 1987 provided a wealth of evidence on incompatibility of the 'command principle' and decentralizing, market-like arrangements. The attempt to plan only part of the output included in the state order was exactly the type of unstable mix about which Grossman had warned twenty four years earlier (Yasin, 1998, pp. 146-7; Freinkman, 1998, pp. 215-218). The election of enterprise directors by their employees, "probably the most destructive" aspect of the 1987 reform (Yasin, 1998, p. 145), clashed with the remaining responsibilities of the ministries. Fixed prices disabled 'wholesale trade in means of production'. Direct international cooperation among the CMEA enterprises was incompatible with the national 'command principle' of member countries (Ladygin, 1998, pp. 288-90).

⁹ Analysis of reform in Poland by Zielinski (1973) provided rich evidence on systemic incompatibility between central planning and elements of market.

¹⁰ Dyker (1981), Kushnirsky (1982, chapter 2), Berliner (1983, pp. 354, 365), Kontorovich (1988a), and Ickes (1989).

These contradictions, combined with earlier policy errors, started visibly depressing the economy in 1989. The government took a series of ad hoc measures effectively rolling back some of the most disastrous provisions of reform in 1988-90. The scope of state orders was broadened by the Council of Ministers resolution (Freinkman, 1998, p. 217). Rigid licensing was imposed to reign in the excesses of liberalized foreign trade by the enterprises (Kurierov, 1998, p. 283). And election of enterprise directors by their employees was repealed (Yasin, 1998, p. 299 note 1). Such a recentralization, described in Grossman's 1960s writings, in the past would repair the failures of reform and eventually restore the status quo. This time, the concurrent changes in politics and ideology made this defensive reaction piecemeal and thus ineffective.

7. What to expect from market reform

Systemic incompatibility view of reform failure implies that introducing elements of market is counterproductive. Bureaucratic resistance view suggests that piecemeal reforms could help, if only pushed through decisively. Yet even some advocates of bureaucratic resistance theory were skeptical about about the effectiveness of piecemeal reform (Schroeder, 1979, pp. 339).¹¹

Western economists recommended market socialism instead. A section in Schroeder (1979) was entitled "What is to be done?", with Hungarian- or NEP-type reform as the answer. Nove (1980, p. 14-15) wrote that "The alternative *must* be in the direction of " Hungarian-type reform. Both NEP and the Hungarian model were known to do poorly in terms of growth, efficiency, and technical change, but outperformed the standard Soviet model in providing for consumer needs.

¹¹ Berliner, 1983, pp. 375-80 and 1987, p. 82-3) is an anomaly? Systemic incompat. & benefits of piecemeal reform.

So this recommendation only made sense if one also believed that the Soviet leaders' primary concern in reforming the economy would be to improve consumer welfare, and that market socialism was as far as they might conceivably go. These were exactly the prevailing views among the experts, as shown above. Market socialism itself did not survive the dissolution of the Communist system, and has not been durably adopted anywhere.

Bergson (1967, p. 672): "market socialism, where introduced, will tend to be more efficient than centralized planning might have been in similar circumstances but not as much as is often assumed." And "could easily be inferior" to capitalism.

Hanson (1979), Bornstein (1985) skeptical about prospects for real decentralization.

While the experts argued about how much market reform would improve performance, almost no one saw the prospect of it making things worse, except for the short-run disruption in adjusting to the new order.¹² It also did not come up in the minds of the Soviet reformers until 1990, when the damage was already too huge to ignore (Yasin, 1998, p. 233).

'Radical' reform and its attendant policies in 1985-88 caused the contraction in many sectors of the economy in 1989 and a decline in official GNP in 1990. Repressed inflation resulted in bare shelves, angering the newly enfranchised subjects. The lesson here is rather mundane but important. Large and complex projects are subject to design errors, and the ones planned as described in section 3 above are bound to be full of flaws.

The second round of damage was inflicted by the 'transition to market' after 1991. The depth of 'transformation recession', and its persistence in Russia and other ex-Soviet republics

¹² Bergson (1981, p. 42) mentions "Difficulties in adjusting to a new scheme ... that the government can now ill afford." See also Berliner, 1983, pp. 374-5.

proved a surprise.¹³

Only very few economists saw the legacy of inefficiency as a barrier to market transformation which is bound to make things worse before making them better, among other things because market prices would make much of the existing production unsustainable (Table 2).¹⁴

Western economists generally overlooked the fact that Soviet economy was on a military footing (Kontorovich, 1998). Perhaps for this reason they never addressed the issue of how military industry would fare under market reform, a point first raised by Iaremenko (1990).¹⁵

Until very recently, most economists have been professionally deaf to the issue of honesty in general and in centrally planned economies in particular. The experience of transformation changed that. Corruption and plunder that set in once totalitarian controls were lifted taught an important lesson about the importance of morals for market economy. Another lesson is that the Soviet system created a 'moral vacuum' (Shlapentokh, 1984). It mattered little for command economy. "Control over the use of state property based on noneconomic coercion did not require elaborate formal procedure or legislation. Under the new conditions of 'the expansion of democracy' and relative protection from blatantly arbitrary actions of superiors, experienced directors had the opportunity to extract personal profit from the primitive condition of business law, the accounting and taxation system." (Freinkman, 1998, p. 189).¹⁶

8. Compatibility of market and the Soviet system

As early as 1921, liberal-left Russian émigrés like P. N. Miliukov saw the New Economic

¹³ For the magnitude of the recession, see the table in *Economics of Transition* vol. 6, no. 1, p. 251.

¹⁴ Shroeder (1982, p. 88) noted - without spelling out the implications of this fact for the course of reform - that over the course of fifty years, Soviet "physical production plant has been put out of kilter throughout the entire production-distribution chain".

¹⁵ Dyker (1985, p. 138) does touch on this issue.

¹⁶ Amann (1986, p. 131) mentioned this a barrier for market reform.

Policy as the beginning of the regime's evolution towards democracy. P. B. Struve, on the other hand, objected that the system could not evolve, and that attempts to bring economic vitality to it would spell the end of Bolshevik rule.¹⁷ This view had some support later on, with Gerschenkron (1968 (1962), p. 312) stating that "... the dictatorship must be as it is or not be at all. Its long-run changeability appears limited indeed." However, the Sovietologists of the 1970s and 1980s were, for the most part, Miliukov's heirs (see the beginning of the previous section). It were the Soviet party officials at that time who behaved as if they read and believed Struve.

Post-1968 Hungarian reform seemed to indicate that market economy is compatible with Soviet-type rule (Kornai, 1986, p. 1693). However, it was the Soviet, not the Hungarian government that was ultimately responsible for the maintenance of the socialist system in Hungary. So the Soviet Union would have faced greater risks on the path of market reform than Hungary did (Hanson, 1981, p. 33). On the other hand, NEP, for whatever it was worth as a market system, posed no inherent (i. e., excluding the case of catastrophically ill-designed policies) problem of political stability.

Because the Soviet system collapsed at the time when market reforms were underway, the two events are sometimes thought of as effect and the cause. "... the debate between the proponents of the market (*tovarniki*) and its opponents went on for decades. It is clear today that the foes of the market were correct in the scientific sense, since socialism (at least in its Marxist version) is actually incompatible with market economy." (Nekipelov in Abalkin et al., 1995, p. 119).

This is a much stronger conclusion than can be supported by the Soviet collapse. The Soviet political system had been wrecked by political and ideological changes long before the economic reforms had a chance to undermine it. The disintegrating political system also hurt the

¹⁷ Pipes, 1980, pp. 315-19. Dmitry Shlapentokh pointed this out to me.

economy, but it is hard to detect any harm done to the Soviet socialism by the nascent market in 1989-91. The debate between *tovarniki* and *anti-tovarniki* will forever remain without a conclusive empirical answer.

9. How far can reform go?

Western writers of the 1970s and 1980s assumed that the Soviet political and ideological system would remain intact or change slowly.¹⁸ The only future reforms worth discussing were those that fit these constraints. This limited the analysis to centralizing changes and administrative reshuffling, which were quite frequent in the 1970s and 1980s; decentralizing reforms marrying elements of market with central planning, like that of 1965; and market socialism, like NEP and the post-1968 Hungarian economy.

The entirely new lesson is the fact that the Soviet Union collapsed, even though expert opinion East and West did not believe such turn of events possible. It has been argued that Sovietologists should not be blamed for failing to forecast the collapse itself, and I myself make arguments to this effect (Kontorovich, 2001, p. ??). Based on what we knew then, it was correct to write: “If by systematic reform of the Soviet economy is meant its transformation into something diametrically opposed - a textbook capitalist economy with private ownership and unfettered markets - then there is no chance that it will [happen]. But this is not what we should be puzzling over, any more than we should ponder why Ronald Reagan has not nationalized heavy industry and instituted a Gosplan of the United States.” (Colton, 1987, p. 148). Early in Gorbachev period, Philip Hanson compared some of the more daring pro-market publications to socialist

¹⁸ “We can be sure that Mikhail Gorbachev will want to perpetuate the essence of the Soviet order - its Leninist ideology, single-party system, and state-owned economy. All well-anchored political systems, East and West, rely on leaders and elites who remain committed to certain of the system’s central and irreducible features.” Colton (1986 p. 129).

writings appearing in *Village Voice* and *Le Monde Diplomatique*, and suggested that they had as much chance of being implemented (Hanson, undated, p. 6).

Even as the CIA was issuing its lowest ever growth forecast, it declined to consider catastrophic scenarios for the USSR (Rowen, 1982, p. i). Predicting the imminent collapse of a social and political system just on the basis of inexorable economic trends would have been a correct prediction, but for the wrong reasons.¹⁹ The forces underlying the long run slowdown could not be expected to operate forever (Ellman, 1986, pp. 531-33). And even if the trend were to lead to zero growth, this would not necessarily mean a collapse. A functioning political system is capable of counteracting the ill effects of economic trends, as the Soviet recovery from the 1979-82 downturn demonstrated (Hanson, 1981, pp. 33-40; Kontorovich, 1985). It was the political system that would eventually crumble and pull the economy down with it.

Sovietologists never discussed a possible ‘transition to capitalism’ in the USSR, or anywhere else in the Communist world, before it actually started.²⁰

10. Conclusion

It is difficult to learn something entirely new in social sciences. One’s discoveries turn out to be already known to an adjacent discipline. One lesson of Gorbachev reforms is that far-reaching policy decisions are often taken without the clear view of consequences and are based on myths, half-baked ideas and wishful thinking. But historians already know this (Denzau and North, 1994, p. 3)

It was a system with extremely concentrated power. So the ruler’s personality played an extremely important role. The fact that the General Secretary preferred international affairs to

¹⁹ Kontorovich (1989b), written in early 1985, suffered from this.

domestic economy, and the Chairman of the Council of Ministers entrusted with economic affairs had a very limited understanding thereof mattered much more than the position of this or that social stratum or state bureaucracy.²¹ Even the most influential institutions obediently went along with the most absurd schemes when these were pushed energetically from above. Like the much derided automata of the totalitarian model, when told by the ruler to self-destroy, they did.

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²⁰ Soviet economists writing in *samizdat* did (Naishul', 1985; who else?).

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²¹ On Gorbachev, see Ellman and Kontorovich, 1997, p. 264; on Ryzhkov - Yun', 1998, p. 115, and Valentin Pavlov's oral communication.

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Table 1. The shape of the consensus

Part A. Textbooks, readers, non-technical surveys

Source	Motives for future reform	Causes of past failure/ potential barriers to future reform	Effects of piecemeal reform	Recommen- dation
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Nove, 1961, p. 241

Bureaucratic resist. (weak)

Krylov, 1965

Sherman, 1969

Spulber, 1969

Cohn, 1970

Gregory&Stuart, 1974

Millar, 1981, p. 201	Cons. diss.			
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Hutchings, 1982

Goldman, 1983,172-80	Cons. diss.			Market social.
Dyker, 1985, 151-2		Bureaucratic resist.		
Nove, 1986, 323-325		Bureaucratic resist.		

Gregory & Stuart 1986

Buck & Cole, 1987

Roeder, 1998,p. 335-7¹

Cons. diss.

Bureaucratic resist.

Ineffective

Market social.

Part B. Articles in Joint Economic Committee volumes

Source	Motives for reform	Causes of failure/po- tential barriers to re- form	Effects of piecemeal re- form	Recommen- dation
Schroeder, 1979, 340	Cons. diss.	Bureaucratic resist.		Market social.
Hardt, 1982, p. XIV		Bureaucratic resist.		
Berliner, 1987, 82-3				Piecemeal????

Part C. Articles, books, and reports

Source	Motives for reform	Causes of failure/ potential barriers to reform	Effects of piecemeal reform	Recommendation
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Bergson, 1964

Ames, 1965

Grossman, 1966b, 54		Systemic incompat.		
Ward, 1967, pp. 175-6		Systemic incompat		
Schroeder, 1971, 37-43		Bureaucratic resist.		
Zielinski, 1973		Systemic incompat.		
Abouchar, 197?	GrowthSlow	Systemic incompat.		
Nove, 1980, 14-15				Market social.
Dyker, 1981		?????		
Hanson, 1981, p. 30	International			
Kushnirsky, 1982, ch. 2		Systemic incompat.		
Berliner, 1983, p. 365	Cons. dis., GrowthSlow	Systemic incompat.		Piecemeal????
Bornstein, 1985, 23-24		Systemic incompat.	Ineffective	
Hough (1986, 232) ¹	Cons. dis. / International			
Amann, 1986, 127 ¹		Bureaucratic resist.		
Colton, 1987, 161 ¹		Bureaucratic resist.		
Becker, 1987	International			
Hewett, 1988				

Kontorovich, 1988a		Systemic incompat.		
Bova, 1988 ¹	International			
Wiles, 1988, 217-18		Irresistible		
Ellman, 1989				
Ickes, 1989		Systemic incompat.		

Notes. ¹ Political scientist.

Table 2. The prescient few.

Source	Reform Design Process			Market will make mat- ters worse	Transi- tion to capitalism
	Knowl- edge	Structural barriers	Volun- tarism		
Gustafson 1981,158 ¹			vvvvv		
Birman, 1983				vvvvvv	
Dyker, 1985, p. 144				vvvvvv	
Naishul', 1985					vvvvv
Kontorovich, 1988b		vvvvvv			