

## GORBACHEV'S ECONOMIC STRATEGY

John P. Hardt\*

At the Party Plenum in January 1987, Mikhail Gorbachev repeated and elaborated on his plans for reorganization and transformation, *perestroika*. For Gorbachev, *perestroika* means changing the institutional framework of the centrally planned economy at a rapid pace, *uskoreniya*, within the party controlled system.<sup>1</sup> Within this political-economic framework — the centrally planned economy guided by the party — he has developed specific strategies to make a transition to a new stage of development by the end of the century. As he pursues these strategies for transformation and revitalization of the Soviet political economy, Gorbachev is drawing lessons from the Leninist and Khrushchevian past and his framework for transformation reflects these lessons:

Leninist "Commanding Heights": Ideologically, Gorbachev's new approach resembles that of Lenin during the New Economic Policy of the early 1920s, which emphasized a withdrawal of central planning to the "commanding heights," a more decentralized system based on increased top leadership guidance and oversight. By repeatedly invoking the style of Lenin, he is attempting to rekindle the perceived revolutionary elan that is said to have previously imbued many Soviet citizens and leaders alike with enthusiasm, discipline and optimism. His policies of socialist democracy and openness reflect his selective use of Leninism. Managers, workers, peasants and the intelligentsia are being given more voice and information within a wider framework of debate and are being promised a more equitable system of returns.

Institutional Reform of the Ministerial Bureaucracy and Local Party: Politically, Gorbachev appears to have learned a lesson from the failure of Nikita Khrushchev and thus may not suffer Khrushchev's fate; he seems rightly concerned about making significant changes irreversible. Instead of effectively addressing the systemic problems of transforming the economic bureaucracy and the party role in the economy, Khrushchev aggravated them. He himself, though technically ill-equipped to deal with the problems of modernization, became the prime party intervenor in economic management. Indeed, he reverted to the Stalinist "cult of the personality" in implementing his corn production and chemical fertilizer programs. While reviving the party and expanding the economic bureaucracy, Nikita Khrushchev did not ensure that these key institutions were irreversibly committed to the changes he advocated; rather, they remained threatened by change. When the Berlin and Cuban crises ended a period of foreign policy success and accommodation, i.e., a "breathing space" that helped Khrushchev cap defense growth, and when economic slowdown reduced the share of resources available to all claimants, all key institutions suffered, and the opposition to Khrushchev coalesced.

Unlike Khrushchev in his attempt to implement economic restructuring, Gorbachev seems to be striving for institutionalized changes in the economy. Institutional and systemic changes are given precedence over reform in the economic mechanism to assure reduction of bureaucratic control and set the institutional framework for development of market forces.<sup>2</sup> To achieve the transformation of the economy and make it irreversible, Gorbachev has four specific strategies:

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\*Dr. Hardt delivered this paper at the Eighteenth Annual Earle T. Hawkins Symposium of International Affairs, Towson State University. He is a research scientist for the Congressional Research Service at the Library of Congress.

<sup>1</sup>The Plenary session of the CPSU Central Committee that began with a speech of Gorbachev's on 27 January 1987 was devoted to "the question of restructuring the Party's cadre policy." See reports by TASS and *Pravda*, 27 January 1987, translated in FBIS Daily Report, U.S.S.R., 28 January 1987, pp. R2-R49.

<sup>2</sup>Zaslavskaya, Tatiana. "The Social Mechanism in Economic Development." In R.V. Ryvkina (ed.), *Puti sovershenstvovaniya sotsial, nogo mekhanizma razvitiya sovetskoi ekonomiki*. Novosibirsk: IEiOPP, December 1985, tirage of 295. Cf. Bornstein, Morris. "Improving the Soviet Economic Mechanism." *Soviet Studies*. Vol. XXXVII, No. 1, January 1985, pp. 1-30. Koirnai, Janos. "The Hungarian Reform Process." *Journal of Economic Literature*. Volume XXIV, number 4, December 1986, pp. 1687-1737.

1. Renewal and reform of central planning and decentralized management by mobilizing and energizing the nation's institutions and cadres.
2. Intensification (restructuring the economy) — a Soviet "economic miracle."
3. A Soviet technological-information revolution — creating a civilian-military, SDI-like technological base for the future.
4. Creation of a more open and interdependent foreign economy.

### LESSONS FOR GORBACHEV FROM KHRUSHCHEV<sup>3</sup>

Khrushchev, like Gorbachev, recognized the need to modernize the economy and provide incentives to managers, workers and peasants. However, the systemic changes made by Khrushchev, as well as his economic strategy, differed from those envisioned by Gorbachev.

#### Systemic Changes

Gorbachev is centralizing and politicizing the key economic decision making in the institutional framework of the Secretariat and Politburo of the CC CPSU; the Council of Ministers and the new "super ministries," such as the State Agro-Industrial Committee (Gosagroprom) and the State Commission for Foreign Economic Contacts, are being given a larger role at the expense of the ministerial bureaucracy.

Khrushchev, however, used the old ministerial bureaucracy of the Stalinist period, including the Gosplan, in implementing his plans, and continued the personal intervention method of storming in priority programs such as the "new lands," corn production, and chemical fertilizer programs. Personal sovereignty (in effect, a cult of personality) in planning left Khrushchev responsible for the success of key programs, not the top party leadership.

Gorbachev calls for decentralization of responsibility and accountability from the central ministerial system to the localities including industrial enterprises and agricultural brigades. Local units are to have more decision making power, more information and more accountability for success or failure. The tight control by party authorities over personnel decisions (nomenklatura) seems likely to be confined to the central level, no longer extending to local soviets and enterprises, except for those of strategic/defense importance.

In contrast, Khrushchev called for the revival and restructuring of the party at the local level and even on the production lines, but he bifurcated the party by separating it into agricultural and industrial committees. In this attempt to enhance the role of the party at local levels, Khrushchev restored inappropriate party intervention in the economy and also alienated many party supporters.

In addition to reorganizing economic responsibility, Gorbachev is opening the system to wider debate, ensuring that more critical information is available to fuel productive discussions. In this way, Gorbachev hopes to broaden democratic centralism to stimulate the "human factor," expanding the participation of the labor force and the intelligentsia in production, research and distribution decisions. The incentive system, *prodnoloz*, in agriculture, self management/self financing in industrial enterprises, and openness, *glasnost*, in cultural life and the media, all contribute to the new environment for fostering the human factor. Structured debate may also serve to prod the bureaucracy toward change and to evaluate its performance. Thus, widened democratic centralism-democratization may be intended to ensure that institutional change occurs and reinforces the central lines of Gorbachev's policy.

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<sup>3</sup>Zdenek Mlynar, Secretary of the Czechoslovak CP Central Committee during the ill-fated 'Prague Spring,' which was ended by the Soviet-led invasion of August 1968, studied in Moscow, where he formed a close friendship with another rising young official named Mikhail Gorbachev. Now an exile, Mlynar has written two articles on the new Soviet leader, for the Italian CP's newspaper, and an Austrian magazine. Gorbachev, he suggests, is a pragmatist who may be expected to recognize the need both for reforms in the Soviet system and for different communist regimes to follow their own paths of development." Kevin Devlin in "Some Views of the Gorbachev Era," *Radio Free Europe. Background Report* 57, June 28, 1985.

Khrushchev, too, opened the media, literature and interpretation of history, but primarily as they fit into his deStalinization strategy for meeting the challenges to his power. Faced with serious opposition in the top leadership from rival lieutenants of Stalin, he sought to discredit them and exonerate himself from Stalinist sins in order to secure his leadership position. Thus, openness in the agricultural sphere was employed to discredit Stalin's collectivization, not to encourage a wide-ranging debate on modernization of agriculture and the broader consequences of the Stalinist strategy for agriculture.

Taken together, Gorbachev's systemic changes are designed to create new institutional groups, new lobbies for change: to place in the top party leadership the responsibility, previously held by the ministerial bureaucracy, for strategic planning; to give local enterprises new rights and responsibilities that replace the economic intervention role of the local party *obkoms*; to encourage the media to provide a more productive dialogue, a channel for participation and shared responsibility for administration of policies.<sup>4</sup> Moreover, by publicly praising successful managers, Gorbachev is setting up new role models for the more decentralized system. A point of no return in institutional change may be reached when the classic Leninist question "Kto Kovo?" (who wins) can be answered with those new institutional groups, operating under new performance criteria which reinforce their self interest in preserving the process of transformation, *perestroika*.

Khrushchev's changes did not create a new constituency for change either at the central level or local level. Moreover, he personally took responsibility for key controversial programs. When his political base was weakened by failure, the primary constituent to defend the changes was Khrushchev himself and he was removed without adversely affecting a wide new constituency.

### Economic Strategies

In comparing Khrushchev's and Gorbachev's specific economic strategies, it is also important to look for changes that are not easily reversible. In energizing the economy, Gorbachev is purging the old Brezhnev bureaucracy; new cadres are important and role models may be changed and reinforced by stimulated debate within limits set by the central leadership. More concretely, the restructuring of the economy through renovation of hundreds of plants in European Russia will create a basic change in capital structure that will also reinforce systemic changes and may not easily be reversed. Although Khrushchev's new lands program, bringing areas of West Siberia and Kazakhstan under cultivation, was not reversible, most of his other programs, corn production for example, were reversed with modest cost.

To make the economic changes he deems desirable, Gorbachev, like Khrushchev, is looking to changes in resource allocation priorities. As a centerpiece in his intensification strategy, Gorbachev appears to favor renovating industry with new plants and equipment while deferring military procurement. By noting in the Plenum speech that the machine building program had been discussed repeatedly in Politburo meetings with inputs from many sources, Gorbachev demonstrated his interest in building a consensus for his policy, rather than attempting to impose changes in resource priority single-handedly. Khrushchev, when faced with the question of resource allocation, favored an increase in the growth of consumption over heavy industry and defense — his famous "steel eaters" analogy. Like Khrushchev, Gorbachev must be concerned that aggregate growth stays high so that claimants whose relative shares may fall as a result of reallocation do not face a loss of resources in absolute terms. Establishing a "breathing space" in

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<sup>4</sup>Fedor Burlatskiy in *Literaturnaya gazeta*, October 1, 1986, used a fictional dialogue between two oblast Party chairmen — one just removed and the other his replacement — to illustrate how the inflexibility of an old style local party leader restricted the effective application of the new agricultural incentive systems of Gorbachev and led to the party chairman's removal. Moreover, it is argued that if the party chairman had brought into the open the difficulties in accommodating to cooperative efforts to produce more fruits, vegetables and flowers, the problems could have been resolved without his removal.

international affairs may create the opportunity to shift resources to civilian investment (machinery output and manpower allocations from military to civilian modernization), but a revival of foreign concerns — as experienced by Khrushchev in the U-2, Berlin, Cuban missile, and Sino-Soviet relations crises — may threaten the rationale of reorienting resource allocations to domestic modernization. In addition, a slowdown in overall growth, especially a poor harvest, may put a special pinch on modernization programs. But, if Gorbachev is able to institutionalize systemic change and institutionalize his economic strategies, he may be able to weather foreign policy setbacks and urgent claims on reorienting the resource allocations.<sup>5</sup>

## GORBACHEV'S ECONOMIC STRATEGIES

### Renewal and Restructuring of Planning and Management Institutions and Cadre:

Under Gorbachev's strategy, centralized planning is to be enhanced using Lenin's "commanding heights" as the model — more control over general planning and strategy will be held by the responsible political leaders at the top, while responsibility for day-to-day decision-making will be decentralized to the local level, to the farms and factories. The initial models for institutional restructuring are found in agricultural and foreign trade: The State Agro-Industrial Committee (Gosagroprom) and the State Commission for Foreign Economic Contacts. Gosagroprom has already been credited with some results in the favorable grain-fruit and vegetable harvest performance of 1986. In addition, bureaus intended to combine ministerial responsibility within broad sectors such as energy and machine building have been formed at the Council of Ministers level; in the future, these may be converted to committees or commissions as indicated by forthcoming statutes on ministries and state committees. Inherent in this Leninist-Gorbachevian approach is the assumption that central planning of the framework of development at the top is not only compatible with the development of market forces at the decentralized management level of farms and factories, but a necessary condition as it assures bureaucratic acceptance of local self-management, self-financing, and autonomy. If economic performance improves, that would be persuasive evidence to Gorbachev and those who support him of the validity of his view.

Through self management, self financing and decentralized control over enterprises, Gorbachev's strategy generates more participation of managers, workers and peasants in economic decision-making. More participation in the political process through *glasnost*, social awareness and a freer, more accurate media may serve to stimulate productivity and creativity. The role of literature, too, has always been important in Russian tradition and for the ethnic national minorities that make up the Soviet Union. This "human factor" is Gorbachev's key variable in improved productivity.

Opening, *glasnost*, would be more significant in energizing the cadres in a revised system if basic information were made widely available for professional analysis and popular understanding. In this regard, it may be noted that Stalin's censorship and policy statements, basically in conflict with evidence and logic, contributed to the apathy and conservatism of the Soviet economic and political bureaucracy. Boris Pasternak, in the epilogue of his suppressed epic *Dr. Zhivago*, had his principal character very graphically make this point of the linkage between information policy and economic activity:

I think that collectivization was an erroneous and unsuccessful measure and it was impossible to admit the error. To conceal the failure people had to be cured, by every means of terrorism, of the habit of thinking and judging for themselves, and forced to see what didn't exist, to assert the very opposite of what their eyes told them. This accounts for the unexampled cruelty of the Yezhov period, the promulgation of a

<sup>5</sup>For useful insights on the Khrushchev era, see Linden, Carl A. *Khrushchev and the Soviet Leadership 1957-1964*. Baltimore, Maryland: Johns Hopkins Press, 1966. Cf. Hough, Jerry F. "Gorbachev Isn't Khrushchev, Yes He's a Reformer; But No, He Isn't Going To Be Dumped." *Washington Post*, February 22, 1987, p. C2.

constitution that was never meant to be applied, and the introduction of elections that violated the very principle of free choice.

And when the war broke out, its real horrors, its real dangers, its menace to real death were a blessing compared with the inhuman reign of the lie, and they brought relief because they broke the spell of the dead letter.

It was felt not only by men in your position, in concentration camps, but by absolutely everyone, at home and at the front, and they all took a deep breath and flung themselves into the furnace of this mortal, liberating struggle with real joy, with rapture.<sup>6</sup>

The tasks Gorbachev faces may indeed be challenging. To take power from Gosplan and change its *raison d'être* and operating procedure is necessary but difficult. To make top party members and staff of the Politburo and Secretariat responsible, accountable and effective is difficult. To shift to the localities the powers of the entrenched central ministerial bureaucracy and regional-local party runs against tradition, party interests and the *nomenklatura* system. Gorbachev's resolution of the dilemma of reversible change may require the creation of a new class of planners and managers, a task that demands time and perspective, but understandably draws Gorbachev's impatience, expressed in his desire for an acceleration of change — *uskoreniya*.

### **Intensification (Restructuring the Economy) — A Soviet Economic Miracle**

Capturing the essence of the Western "economic miracles," Gorbachev wants to create a more efficient economy, one that will use material and human resources better and will generate output that approaches the world level of quality. This strategy appears to take as its model the transformation of the post-war Western industrial economies in which efficient technological systems were introduced to significantly increase the productivity of energy, agricultural resources, manpower and other inputs to production. The rationale is clear for replacing the extensive, albeit wasteful, system with processes that show a modicum of efficiency and quality, as Gorbachev noted in his party congress speech: "A national economy which possesses enormous resources has run up against a shortage of them."

But the simultaneous objectives of growth in output and improvement in efficiency appear to be incompatible. The need to close factories to restructure them is in conflict with the expectation of more and better output in the same time period; the need for a reorientation of society, by transformation and restructuring, likewise seems to conflict with energizing the economy for more rapid growth. Qualitative growth — Gorbachev's resolution of the growth and quality dilemmas — is a formula for tension, though it may be constructive tension. Difficult as simultaneous growth and quality improvement may be, both might be viewed as politically necessary. More resources are needed to lubricate change, and an early, irreversible commitment to change is necessary to assure political stability.

The fundamental change in the plant and equipment of many of the leading enterprises of European Russia to make them more efficient in terms of energy, metals and labor productivity, and quality of output will create a major irreversible change in an important part of the Soviet capital stock. Such a transformation, once achieved, cannot easily be reversed. While attainment of world levels of efficiency and quality may be beyond the U.S.S.R.'s early grasp, positive and significant change over time seems likely.<sup>7</sup>

<sup>6</sup>Pasternak, Boris. *Doctor Zhivago*. (English Translation) New York: Pantheon Books, Inc., 1958, p. 422.

<sup>7</sup>See Noren, James. "Soviet Investment Strategy Under Gorbachev." Paper presented at AAASS meeting in New Orleans, November 1986.

### **A Soviet Technological Information Revolution — Creating a Civilian-Military SDI-like Technological Base for the Future**

Computer applications, micro-electronics, the use of lasers and robotics are all part of the dramatic change occurring in the economies of the Western industrial nations. Gorbachev has stressed again and again that the Soviet Union must not fall further behind in this new frontier of science, technology and economic development. For the Soviet Union, given these shortcomings in the economy, the serious threat of the Strategic Defense Initiative (SDI) may be in its technological message. Civilian technological dynamism drives U.S. SDI research programs and, whether or not the military defense vision of President Reagan is credible or attainable, its technological components are. Thus, SDI symbolizes a further, potentially serious erosion of Soviet claims to being an economic superpower; because of its qualitatively weak economic base, the Soviet Union may become a more technologically inferior military power. It is possible that the recent apparent upsurge in military-industrial espionage reflects a heightened perceived need to catch up technologically. In taking this approach, however, the Soviets fail to address the long-term economic requirement for a broad, modern, and technologically dynamic research and development establishment of their own.

However, the climate needed for scientific inquiry, communication and rapid technological progress is antithetical to one in which the closed, controlled state influences key sector developments — clearly the mind sets of the security chief Chebrikov and the dissident scientist Sakharov are at variance. The unleashing of Soviet scientific capability, the full utilization of its technical talents requires a more open, equitable system. Furthermore, the end of the self-induced “brain drain” caused by restrictive nationality and ethnic opportunities may liberate more productive reserves.<sup>8</sup>

### **A More Open and Interdependent Foreign Economy**

Gorbachev's economy, if it is to make progress in this new technological revolution, must at least selectively join the world market. Recognizing this, Gorbachev calls again and again for openness and controlled interdependence with the West. Reform of the Soviet foreign economic institutions must promote direct contact and cooperation between Soviet enterprises and those of their trading partners in Eastern Europe and the West. In this way, non-competitive enterprises can be renovated and new technologies developed.

Western machinery imports are to play a significant role in the planned technical progress of the Soviet economy. Premier Ryzhkov has noted that the U.S.S.R. sees “considerable potentialities” for cooperation with developed capitalist states, including all kinds of relations — “commercial, scientific, technical, finance, and credits.” In his party congress speech, Ryzhkov called for reorganization of Soviet foreign trade institutions and opening of relations with the West, providing a green light for joint ventures. The institutional instrument for this change is the newly-created State Commission on Foreign Economic Contacts.

The effective transfer of needed foreign technology into the Soviet economy will require greater openness and foreign involvement in the internal workings of the Soviet economy. Furthermore, the financing of imports will require a shift in priority toward export orientation and acceptance of increased dependence on foreign imports. The export sector may thus challenge the military industrial complex for priority; Gorbachev notes that the major task of the economy is to start putting out goods of world standard quality.

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<sup>8</sup>The loss of the scientific talents of “refuseniks” withdrawn from productive work may be significant. According to Gorbachev's Plenum speech, in which he criticized both anti-Semitism and Zionism, discrimination based on “narrow national and ethnic views” should be stopped.

## RESOLUTION OF DILEMMAS

The full implementation of these four strategies — restructuring of planning and management, economic intensification, scientific and technological progress, and opening to the world economy — will require major changes throughout the Soviet system. It is within the Leninist framework of one party and central planning that Gorbachev views his political imperative to change the system of political-economic power and implement institutional reform:

Modern Leninism: Gorbachev seeks to place control of economic policy at the summit of power while delegating management to local enterprises and farms and keying local responsibility, authority incentive systems to productivity. Short term success and increased power of Gorbachev are needed to develop a constituency for the new modern, Leninist system: a new bureaucracy and intelligentsia.

Institutional Reform: [New Wine in New Bottles]<sup>9</sup>

The lesson of Khrushchev demonstrates that campaigns for modernization and reform by decree tend to build resistance within the old ministerial and party bureaucracies. The reallocation of power (authority and responsibility) and changes in performance criteria require sufficient change in cadres to be irreversible. To take the approach of the Paris Commune and of State and Revolution — that is, to destroy the Institutions of the old regime — would be politically impossible and unnecessary; however, “radical reform” within the centrally planned, one party system is necessary and possible. Reaching the point of no return in bureaucratic, institutional reform is essential to Gorbachev's success.

Successful performance will require good choices among the tradeoffs inherent in planning and resource allocation, and a sufficient change in the key cadres to develop the capability for successful change and a constituency for that change. Furthermore, the populace — workers, peasants and citizens — must accept and respond to the change toward productivity criteria. A little luck in good weather, a favorable market for oil and gas, and the absence of natural disasters and accidents would all be helpful conditions.

If enough systemic change can be put in place so that decentralization and incentive systems can be expected to produce a response, for example in increased rural output and services, then a constituency for further change may be in place to weather any downturn in Gorbachev's political and economic fortunes. Moreover, more investment may be necessary to fulfill the industrial intensification programs and to provide for needed extensive development in water for the South and production and extraction projects in East Siberia and the Far East. An accommodation that permits a stretch out in military procurement would enhance the chances that sufficient investment resources will be available for growth, and will not be preempted by the military.

<sup>9</sup>Often in Western discussions of Soviet reform one hears references to “new wine in old bottles,” but with careful reading of the Biblical passage to which this alludes, attention is drawn to the uncertainties inherent in Gorbachev's reforms and personnel changes unless thorough-going changes are made. “Nor do people pour new wine into old wine-skins, else the skins burst, the wine is spilt, and the skins are ruined. But they put new wine into fresh skins, and both are saved.” *New Testament*, Matthew 9:16-17.

