Glasnost and the Intelligentsia

Ways in which the intelligentsia affected the course of events:
1. Control of mass media
2. Participation in elections
3. Offering economic advice.

Why most of the intelligentsia became pro-capitalist:
1. Reaction against past heavy-handed control by party
2. Tendency of intellectuals, in period of social upheaval and reform, to be attracted to a radical critique of the existing order.
3. Resentment of relatively low pay and belief that intellectuals are materially better off under capitalism.
Stages of Economic Change

1. 1985-87 moderate reforms in the economic system (“Acceleration”)

2. 1988-89 radical reforms in the economic system but within a socialist framework:
   a) An expanded role for cooperatives
   b) Restructuring of central planning through the Law on State Enterprise (January 1988)

3. 1990-91 revolutionary change in the economic system
   Dismantling of central planning, turn toward private ownership of the means of production.
Figure 5.1. Growth rates of output and consumption for the Soviet economy during 1980–91

Source: See Table 5.1.
Stage 1: Acceleration 1985-87

**Aim**: improved labor discipline, increased investment, accelerated technological progress.

**Methods**: Anti-alcohol campaign, creation of 23 new scientific-technical research complexes.

**Results**: There was faster growth in 1986, then slowed again.

    Anti-alcohol campaign caused problems: shortages of sugar, growing budget deficit.
Stage 2: Radical Reform 1988-89

Laws on cooperatives → rapid emergence of new small “cooperative” enterprises, in trade finance, restaurants, and small-scale manufacturing.
Stage 2: Radical Reform 1988-89 (cont)

Law on State Enterprise, January 1988:
- Gradual shift from central determination of enterprise output to a system of “wholesale trade” over a lengthy period
- Gradual loosening of price controls for some parts of economy
- Gradual shift toward self-financing of enterprises, from retained earnings and loans from the state banking system.
- Enterprises were given power to allocate the enterprise’s income, including setting worker pay
- Election of a labor council at every enterprise, with the power to participate in some aspects of management and the right to elect and recall the enterprise director.
- Shift of oversight of the economy from the center to republican, regional, and local soviets.
- Gosplan was to shift from day-to-day management of the economy to long-term planning.
Stage 2: Radical Reform 1988-89 (cont)

Problems with the Law on State Enterprise

1. It did not create institutions to coordinate the behavior of newly independent enterprises.
   This led to serious disorder in the economy.

2. Shifting power from the center to the enterprises threatened to create imbalances in the economy.

3. Enterprise autonomy eliminated the traditional source of tax revenues (from enterprise surplus) but failed to create a new source of tax revenue.
Consequences of Radical Economic Reforms

   Goods disappeared from the shops.
   Severe shortages arose.
   It appeared production must be collapsing.
   Yet the data later showed that real household consumption rose faster in 1988 and 1989 than in previous years.
   How can this puzzle be resolved?
Crisis in the Consumer Market

Figure 5.2. Growth of household income and consumption

*Household income after taxes, not corrected for inflation.
†Real consumer spending, excluding communal consumption.
Consequences of Radical Economic Reforms (cont)

2. Loss of the power to tax $\Rightarrow$ rapidly growing budget deficit.

This contributed to the crisis in the consumer market.
Figure 5.3 The Soviet budget deficit as a percentage of GDP
Source: Joint Economic Committee 1993: 47.
Consequences of Radical Economic Reforms (cont)

3. **Collapse of investment**
   Enterprise autonomy led to a shift from investment to consumption.
   In 1988 real net investment suddenly began to fall: 7.4% in 1988, 6.7% in 1989.

4. **Emergence of a capitalist class**
   The law on cooperatives enabled a capitalist class to grow rapidly in numbers and wealth behind the facade of cooperatives.
   This occurred in domestic trade, export-import, banking.

December 1988: A decree of the Council of Ministers allowed state enterprises and cooperatives to engage directly in foreign trade.
Consequences of Radical Economic Reforms (cont)

Sources of a growing capitalist class come during 1987-89:
1. Old shadow economy operators
2. Professional class (scientists, engineers, etc.)
3. Party-state elite in some cases, even in this early stage

Effect of 1988-89 economic restructuring was to create favorable conditions for the growth of a pro-capitalist coalition.

- A growing capitalist class emerged.
- Intellectuals were starting to openly advocate capitalism.
- Worsening economic chaos made the public increasingly receptive to the argument that reform was not working and a more radical alternative must be sought.
Dismantling of the Old Economic System, 1990-91

During 1990-91 slow growth gave way to economic contraction.

The main causes were political factors, not economic factors:
- Central planning was dismantled in stages.
- The Union (central) government lost the ability to collect taxes.
- “Informal privatization” spread as insiders began to quietly privatize various state assets.
- The state banking system was largely replaced by a new private banking system.
- The growing autonomy of the republics broke long-standing inter-enterprise links.
- The USSR lost its main trading partners in Eastern Europe.
Dismantling of the Old Economic System, 1990-91 (cont)

The Leadership kept turning to groups of economists to propose new economic restructuring plans, starting in March 1990:

- March 1990 Abalkin plan
- September 1990 “Five Hundred Day Plan” of Shatalin and Yavlinsky.

All these plans called for a shift to free markets and private property, in increasing bold terms. None was actually adopted by the Union government, but they set the terms of the debate.
Shifting Terminology of Economic “Reform”

Evolution of the terminology in discussion of the desired economic coordination mechanism:

• Planned economy with some commodity-money relations
• Socialist market economy
• Planned market economy
• Regulated market economy
• Market economy
• Free market economy
Shifting Terminology of Economic “Reform” (cont)

Evolution of the terminology about property:

- Mixed economy with a dominant role for state enterprise
- Equal status for all forms of property
- Joint-stock enterprises
- Destatization
- Privatization
The Problems of Economic Reform

Could the problems created by the radical economic reforms in 1988-89 have been solved?

1) Limit the autonomy of state enterprises until coordinating institutions had been built.
2) Set limits on enterprise authority over wages.
3) Re-establish state control over investment.
4) Create a new tax system.
5) Crack down on illegal capitalist enterprises operating behind the facade of cooperatives.

Why the above did not happen is explained by political developments.
Plan for Democratization of Political Structures

1. Competitive elections in both state and party ➔ power flows up

2. Remove the party from administration, leave that to state institutions

3. Decentralize political power to increase the role of republican, regional, and local soviets.

4. Create a “law-based state” with a meaningful constitution and separation of powers among 3 branches.
Process of Democratization

1. Democratization of the Communist Party
   Little progress on this goal.

2. New democratic state institutions:
   a) Soviet Congress of Peoples Deputies/Supreme Soviet
   b) Republican and local CPD/SS’s
   c) Creation of an Executive Office of President and a system of checks and balances

3. Withdrawal of the Communist Party from its management and coordinating role in society
Effects of Communist Party Withdrawal

1. Contributed to economic chaos.
2. Created a wide-open political system.
3. Created a power vacuum.
Three Main Positions Emerged

1. Continue the reform of socialism
2. Return to the old pre-perestroika system
3. Replace the system with capitalism
Supporters of Reform of Socialism

1. Top leadership around Gorbachev

2. Some members of the party-state elite who believed in the ideals of socialism

3. Some of the intelligentsia who believed in ideals of socialism

4. A plurality or even majority of the general public
Supporters of Return to Old System

1. Part of the high-level leadership

2. Some local party leaders who feared change, especially outside major cities

3. Part of the general population that was more conservative and favored order.
Supporters of Capitalism

1. Most of the big city intelligentsia

2. Most of the economists

3. Private business owners from a non-elite background

4. Most of the party-state elite
Political Outlook of Moscow Elite, 1991

Figure 7.1. Ideological position of a sample of the Moscow elite, June 1991
Origins of Top 100 Businessmen, 1992-93

Figure 7.2. Origins of the top one hundred Russian businessmen, 1992–93
Source: Kryshtanovskaya: 1994b.
Boris Yeltsin’s Political Themes

1. Populism

2. Democratization

3. Russian nationalism

4. “Market reform”
Yeltsin’s Rise to Power in the Russian Republic

- March 1989 Yeltsin elected to Soviet Congress of People’s Deputies.
- March 1990 Yeltsin elected to seat in new Russian parliament.
- May 1990 Yeltsin wins chairmanship of Russian parliament on 4th ballot by 4 votes.
- June 1991: Yeltsin wins presidency of Russian Republic with 57.3% of vote.
Battle between Yeltsin and Gorbachev

- June 1990 Russian Republic parliament passes a sovereignty resolution
- July 1990 Gorbachev invites republics to negotiate a new union treaty
- December 1990 Yeltsin withholds 90% of the tax revenues due to the Union government
- April 1991 referendum on preserving the USSR wins with 76.4% of votes
- August 1991 attempted “coup”
- December 1991 Yeltsin and leaders of other Slavic republics announce dissolution of USSR.
China’s “Reform” as a Process of Demise of State Socialism

1. Privatization of agriculture, releasing a large floating population
2. Introduction of market relations and the pursuit of profit
3. Integration with the world capitalist market and encouragement of foreign capital
4. A wealthy class of capitalists arises partly from party and state officials, their relatives, and their friends and associates
5. Eventually a major part of the party-state elite becomes pro-capitalist as it becomes directly and indirectly enmeshed in the capitalist process
6. Eventually the leadership seeks to privatize the remaining institutions of state socialism: the state-owned enterprises

Throughout the process, the symbols of socialism are retained to maintain the legitimacy of Communist Party rule.