

Russian Roulette

The Soviet economy is in a desperate state. The reforms have conspired only to worsen the situation. **Charlie Leadbeater**, recently returned from Moscow, explores the depth of the crisis and the potential scenarios. What will triumph: Great Russian nationalism or social democracy?

The Soviet Union is engaged in a desperate race between reform and disintegration. The most obvious aspect of the disintegration is the growing nationalist threat to the fabric of the empire. But that is linked to an economic crisis which has been underestimated in the West. The republics seeking independence hope they will be able to exert more control over their economies and escape the crisis. They are unlikely to succeed.

The most obvious symptoms of the economic crisis are the acute shortages of consumer goods. Tales of shortages and queues are familiar clichés of economic inefficiency in the USSR. But the economic life of the ordinary consumer and worker has worsened under perestroika. A recent official survey found that only 106 of almost 1,000 staple goods were in regular supply. The commission for economic reform estimates that for every rouble in circulation there are only 0.18 roubles-worth of goods to buy. Quality has also deteriorated sharply. In 1985 about 900,000 tape recorders a year were returned for repairs during their guarantee period. In 1988 the figure was 1.2m, about a

fifth of annual output.

The growing shortages are not just a symptom of past under-investment and the continuing inefficiency of the planning system. They have been promoted by the reform programme itself. Reform is feeding a crisis of economic discipline, incentive, authority and cohesion. The old planning system has been undermined ideologically and practically but without anything to replace it.

The clearest example is the way that the introduction of self-financing at enterprises has changed the framework they operate within. Enterprises have been given limited freedoms to engage in foreign trade and to keep more of the profits they make from producing above planned levels of output. The trouble is that the Soviet economy is dominated by inefficient monopolies. Indeed its greatest problem is not so much planning of markets but monopolisation. The monopolies have moved quickly to exploit these freedoms.

Partly as a result, the state's ability to maintain discipline in the economy is being undermined. Rumours of enterprises simply refusing to accept unprofitable state orders are rife.



Large suppliers are refusing to supply smaller enterprises whose contracts do not offer sufficiently large profits. Consumer goods producers have switched from making low profitability goods, for instance for children or pensioners, and are exploiting limited pricing freedom for new products to make goods on which they can earn much higher margins. Every enterprise says it wants to expand its sales abroad, to earn foreign currency, exacerbating domestic shortages. Self-financing, thus, has promoted a sort of civil war between ministries, enterprises and their customers.

Neither of the other two main industrial reforms - joint ventures with foreign companies and co-operatives - has helped much to modernise the economy and ease the shortages.

Joint ventures as yet form only a very



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thin line of internationalised companies around an economic core that remains largely isolated. Only about 7% of the 1,300-1,400 ventures so far registered are in production. Few of them are engaged in manufacturing. The whole approach to joint ventures, which is being reviewed, is encouraging them to form small industrial islands protected from the economic chaos around them rather than spreading Western management and technology. Sustained foreign investment will probably require the introduction of private property and a convertible rouble to allow companies to repatriate profits.

Co-operatives have provoked widespread hostility. They have acted entirely rationally by filling the most profitable gaps in the market and charging high prices, often in foreign currency.

They have brought little comfort to the average Soviet consumer.

Reform is undermining what little discipline and authority there was in the economy. But it has not introduced significant incentives to improve efficiency. Profits are still too limited to offer much of an incentive for innovation or efficiency. Tax rates vary to even out the profitability of different enterprises, with the aim that nobody should go out of business and nobody should make a big profit. Anyway, why bother to invest in improving productivity and quality when there is so much pent-up demand that virtually anything made can be sold?

If the incentives for investment are negligible, the rewards for higher labour productivity are non-existent. Pay

flexibility and differentials are limited. There is widespread criticism of the injustices of wage levelling, which means people get paid very similar salaries for very unequal efforts and skills. But even if people could earn more by working harder it would be virtually worthless. What is the point of earning more roubles if there is nothing to spend them on?

Enterprises are finding a way round this by providing their workers with privileged access to consumer goods at the factory. Increasingly they are giving their workers goods in kind, via plant shops or mail-order catalogues rather than additional wages. Increasingly, the best way to get hold of a car or flat is through the enterprise which employs you. But this means that goods are siphoned off before they reach the

open market and so the shortages worsen.

At the grass roots of the economy, reform is turning into a desperate struggle for survival. Everyone is searching for an escape route from the crisis. Enterprises are seeking to become part of networks of amalgamations, industrial fiefdoms, which can secure supplies for one another and together withstand the gathering chaos. They are also grasping lifelines to the West through joint ventures to keep them afloat.

Consumers are seeking to bypass the core economy through the black market, personal contacts, consumption at the workplace and imports of foreign goods through mail order. Leningrad has just imposed a ban on non-city dwellers from purchasing large amounts of goods in the city. A similar move is also being suggested in an attempt to protect Moscow consumers. Such urban sectarianism is likely to promote resentment in outlying districts without easing shortages of city-dwellers.

The republics are seeking independence to escape the chaos. Even in relatively placid places like Byelorussia there are growing pressures for economic independence. About 80% of the televisions and fridges made in Byelorussia are exported to the rest of the USSR. The Byelorussians have declared that they want to keep all the growth in output over the next few years for their own consumers. Senior officials within the mainstream of the party in the republic warn that if perestroika unravels into economic chaos the republic will have to seek its own solution by orienting itself more towards the West European economies. The Baltic states are looking towards closer links with a united Germany and the Scandinavian states. In the Ukraine, which is the bread basket of the USSR, nationalist economists argue they could prosper by selling to the West rather than feeding the other republics.

Reform is provoking economic and social dislocation. The problem is that worse is sure to come. The economy will only be revitalised with much more far-reaching restructuring which will entail even more social costs, threaten more violent unrest and provoke increasing fragmentation.

Hyper-inflation is waiting in the wings. Most enterprises say they could double or treble their prices. Billions of roubles are sloshing around the economy in personal savings or enterprise accounts. Any swift moves towards an unregulated consumer-goods market and inflation would start to roar through the economy.

Waiting in the wings on the other side of the stage is unemployment. Most enterprises think they could get rid of 20-30% of their workforce. As yet very few enterprises have gone out of business. But they will have to if restructuring is going to work. Senior party economists in Moscow believe that be-

tween 20% and 30% of all enterprises are bankrupt.

The prospect facing the ordinary Soviet worker is this. They have spent years paying for the inefficiencies of the planning system and the ailing monopolies by accepting queues and lower living standards than the West. They are now being asked to pay for their inefficiency again with inflation and unemployment. Restructuring will create a potent mixture of inflation, growing inequality and more poverty. The prospect for the Soviet state is an immense crisis of authority.

What are the political implications of this economic crisis, which is like a huge centrifuge just starting to whirl into motion? If restructuring is to be carried out successfully the political system needs two central characteristics.

It must be dynamic. It must recognise the scale of the economic problems and unleash enough energy in society to transform the way the economy works.

And whichever mechanisms are used to restructure the economy, there will be enormous social costs. The political system must be strong enough to ensure that the costs are borne without derailing restructuring, provoking social disorder or threatening the foundations of the political system.

What are the prospects for a political system emerging with this mixture of dynamism and stability? There seem four main options.

The *first* is a re-Brezhnevisation of the economy. It would be based on a recognition that the main obstacle to reform is not the conservatism of the bureaucracy, great though that is, but the decrepit state of the economy. Economic control would be recentralised as the only way to tame the monopolies. Periodic crash programmes to improve production would disguise a tacit retreat into lower expectations and stagnation, but without the corruption which marked the Brezhnev years. In effect it would be an attempt to preempt the crisis by winding the whole thing down.

The one thing going for such an approach is its realism. But it is not a viable strategy. The politics of the past have been so vilified it would be virtually impossible for a political leader to be associated with recidivism. Most importantly, it would simply not deliver the goods for the Soviet consumers or other customers like the military.

The *second* option is that a version of Soviet social democracy will emerge like a Menshevik phoenix. This would be based on multi-party democracy, a market-led economy, a plurality of forms of ownership, integration into the world economy and a welfare system to cope with social costs. It would be a passage from state planning to social-democratic corporatism.

Such a system would unleash political and social energy by freeing people from the state, the party and the plan.

'Nationalism would combine spirituality and naked self-interest, unite state and society'



Civil society, public spaces in politics, culture and the economy would gradually fill with people taking independent initiatives. The distribution of the social costs would be agreed through a democratic political system which was capable of forming some sort of consensus.

This is the most attractive future for the Soviet Union. But it would be a miracle if there were a smooth transition to social democracy. There is no strong social-democratic tradition. More importantly, there are no strong tripartite social-democratic institutions, representing industry, workers and government, which are capable of striking and implementing a bargain over the costs and benefits of restructuring. Political pluralism is growing, but at the moment is in disarray. Multi-party politics does not yet have a stable basis. For that to emerge the Soviet Communist Party would have to split openly.

Social-democratic bargains work best when oiled by economic growth. Not only are the internal economic conditions for sustained growth lacking, so are the external conditions. Postwar social democracy flourished amid world growth. But international markets have become more volatile and growth more uncertain.

The well-springs of social democracy in Soviet society are very limited. In contrast the well-springs of authoritarianism are diverse. The *third* option is an authoritarian restructuring. It might be a dynamic mixture of neo-stalinism and South Korea. It would be based on a reassertion of strict labour discipline and enjoy the tacit support of the military. It would focus on key sectors and enterprises as part of a state-led strategy to win positions in world markets. It would utilise familiar ideological themes - primarily the need to compete with the West - to galvanise a collective effort to revitalise the economy.

Such an approach has a lot going for it in the Soviet context. There are working models such as the Moscow Number One Watch Factory, which is a mixture of Lee Iacocca's style of management combined with socialist discipline. Most importantly, it fits with the economy's level of development. The model of the newly industrialising country - such as South Korea, Taiwan and Singapore, which have combined state-led economic policy with a commitment to compete in world markets - may be of more relevance to Soviet economic development than Sweden or France.

There are three potential bases for an authoritarian restructuring - the party, the presidency or nationalism.

The party is too slow moving, too wrapped into the corruption which is part and parcel of the inefficiency of the economy. Moreover it seems almost certain that the party will split. At the moment it is a political shell which houses at least two factions.

Gorbachev's powerful presidency stands more of a chance, although it already faces opposition because of his

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lack of a popular mandate or effective legislative checks on his power. However there would be a problem even if Gorbachev's presidency were based on a popular election throughout the USSR. What if 80% of Lithuanians, Latvians and Estonians simply boycotted the elections? What authority could a USSR president have over a Georgian republic intent on independence?

Gorbachev, even with his imperial powers, is unlikely to be able to turn back the tide of nationalism. If the union of the republics does not disintegrate, it will certainly have to be renegotiated. In such a situation the USSR presidency may have to be modelled more on the presidency of the European Commission than that of the United States.

The final basis for authoritarianism is the most potent and the most worrying. Nationalism is one of the most powerful currents in Soviet politics. Greater Russian nationalism could be the most powerful nationalism of all. Russia is overwhelmingly the dominant nation within the union. Many Russians look down on the other republics, which they believe have been pillaging Russia's wealth and culture. They feel they would be better off without many of the republics, or at least they should assert Russian national power to show the Azeris and Tajiks just where they stand. An alliance incorporating Byelorussia and the Ukraine might provide the basis for a greater Russian solution which would accept a much looser relationship with the Baltic states and the decay of the Asian underbelly.

Resurgent Russian nationalism runs with the grain of contemporary Soviet politics. It could resuscitate the fear and faith which used to make the Soviet system work and which the Gorbachev years have finally expunged. Even 10 years ago people were being told they were the future of humanity. Now they are being told they are poor and getting poorer. As the bonds which tied the old system together collapse, nationalism is the quickest force to fill the vacuum by providing a source of social solidarity. People have very little else to believe in. What other source of pride do they have in a society which has systematically stripped them of it?

It generates social energy by articulating more powerfully than any other force the collective grievance at the heart of the Soviet politics. It also seems to offer a better future. Surely with independence, republics will be able to exert more control over their own affairs, keep more of the rewards of their own labours?

Nationalism could also be the basis for reinstilling fear in 'non-nationals' through an extremely aggressive disciplinarian politics, proudly committed to competition with the West. No unfamiliar social-democratic institutions would be needed to sort out who should bear the costs. Nationality would provide the principles for the share-out. The outsiders would bear the costs -

the non-Russians, the non-Ukrainians, the Jews, the immigrants from far-flung republics.

The Soviet Union is fragmenting, the empire is dividing. Gorbachev's strategy seems to offer the Russians very little other than an orderly retreat, in the course of which they will have to make humiliating concessions to smaller republics. Resurgent nationalism would allow the Russians to grab their share of the spoils from the collapse of empire.

Nationalism would combine spirituality and naked self-interest, unite state and society. Rather than attempting to overcome social division and the collapse of the empire it would capitalise on them. Hyperinflation, unemployment and weak democratic institutions provide fertile ground for such politics.

A nationalist authoritarian solution is far from a foregone conclusion. The appetite for democracy is too developed to allow authoritarianism to reassert itself uncontested. The ties which bind the empire together will not be undone without even more economic dislocation. There are Russian minorities in most of the smaller republics which would be endangered.

Finally, because none of the first three options is assured of working, a *fourth* option must be considered. The economic crisis could become so great, the social costs so painful, the clamour for national independence so loud, the legitimacy of the political system so tenuous, that all semblance of discipline could disappear. It may be the difficulties are so intractable that they are incapable of resolution through an orderly political system. It could all explode in a sweeping, tumultuous, chaotic popular uprising.

Many of the conditions for such a movement emerging do not seem to be present. The optimism of the East European revolutions has already passed without any significant echo in the Soviet Union. Gorbachev may not be the hero he was two or three years ago, but he is not Erich Honecker. The popular movements in the USSR are a rag bag. The democratic demonstration in Moscow in February brought together racists and anti-racists, nationalists and social democrats. The democratic movement is already showing signs of fragmenting. However, the situation is so volatile, the crisis so acute that it would be wrong to dismiss the possibility of an apocalyptic political explosion.

What conclusions can we draw from this assessment of the four scenarios for the Soviet Union? Our ways of understanding what is going on in the Soviet Union are inadequate. Many in the West are still wedded to a leninist model of the society. If you can understand the general secretary then you can understand the party. The party is the key to understanding the state. As the state organises society through planning this is the key to understanding society itself.

The leninist legacy will affect what

ever emerges in the Soviet Union. But a leninist model is increasingly misleading. Gorbachev is only one source of political initiative in a more pluralistic society which is starting to flex its muscles against the state.

However, Western models are also inappropriate. Simply comparing the Soviet Union with either neo-liberalism or social democracy in the West, and measuring how far it has to go, is misleading. It forgets where the society has come from. It underestimates the problems it faces. More importantly, it underestimates the extent to which the Soviet Union is made up of nations that are not Western, indeed they may be anti-Western. These models cannot account for the deeper forces of nationalism, religion and racism. It may well be the combination of economic backwardness, growing social unrest, the role of the military and the traditions of authoritarianism mean that the Far East and South America provide better guides to the Soviet Union's future.

Whatever that future holds, it will be strongly influenced by the disintegration/renegotiation of the union between the republics. For that reason it is possible that there will not be a single overarching solution.

All four options are running through Soviet society. Much of the economy will continue to labour under the legacy of Brezhnevism. Forms of multi-party social democracy may well emerge for instance, in some of the Baltic states, if not in Moscow. Gorbachev's imperial presidency is established. But the leadership is losing public confidence and its grip on the republics. For many people perestroika no longer represents a credible or inspiring future. Gorbachev may yet succeed. But the prospects for a successful perestroika are receding fast. The main event is likely to be a race between authoritarian Russian nationalism and the calamitous collapse of all authority into the arms of popular revolt. It is these two tendencies which have the capacity to engage popular grievance, mythology and imagination.

It is virtually impossible to return from the Soviet Union without feeling exhilarated by the upheaval, hope, ideas and energy which Gorbachev has unleashed. But the feeling which has stayed with me longest is the tragedy of it all. This is a people who were slaughtered in their millions by one of their leaders, before dying in their millions to defeat Nazism. After that they endured economic stagnation, while corrupt leaders lorded it over them in the name of creating humanity's future. Now they are facing the break-up of the empire, the loss of superpower status and even harsher economic hardships. A successful transition to an orderly democracy, based on a prosperous economy, would run against the grain of Soviet history. Not just the communist grain but the tragic grain. The tragedy of the Soviet Union is far from over.