THE STRUGGLE TO SAVE THE SOVIET ECONOMY

MIKHAIL GORBACHEV AND THE COLLAPSE OF THE USSR

CHRIS MILLER

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Soviet Leaders and Top Officials

VLADIMIR LENIN Revolutionary communist who founded the Soviet Union. Lenin laid the groundwork for the USSR's state-controlled economy. However, when he was beset by economic challenges in the early 1920s, Lenin launched the New Economic Policy, which permitted private ownership in order to spark economic growth.

JOSEF STALIN Soviet leader from the mid-1920s until his death in 1953. Stalin's rule was marked by brutal violence. He believed that rapid industrialization was a political necessity, and built the Soviet Union's industries with breathtaking speed. The cost was a deeply inefficient industrial apparatus.

NIKITA KHRUSHCHEV Leader of the Soviet Union from the mid-1950s through 1964. Khrushchev had been a top aide to Stalin, but upon coming to power he rejected Stalin's cult of personality and sought to limit the use of violence in Soviet politics. Like Stalin, however, Khrushchev believed in the power of ideology and Communist Party organization to push forward economic growth.

LEONID BREZHNEV Soviet leader from 1964 to his death in 1982, Brezhnev presided over a period of stability and stagnation. Economic growth slowed throughout Brezhnev's time in charge, but during the 1960s and 1970s the USSR was the wealthiest it had ever been. By the early 1980s, however, many people began to believe the country had entered an era of stagnation.

ALEXEI KOSYGIN Chairman of the USSR Council of Ministers from 1964 to 1980, Kosygin was the second most influential official in the Soviet Union for part of Brezhnev's rule. He led an effort in the mid-1960s to revitalize the economy by making industries more efficient, but his efforts were stymied by ideological and bureaucratic opposition.

NIKOLAI BAIBAKOV Trained as an oil engineer, Baibakov headed the USSR's energy complex in the 1940s and 1950s before being appointed chairman of the State Planning Commission (Gosplan). As Gosplan head, Baibakov was the USSR's top economic manager, tasked with allocating resources and setting production targets. Baibakov led Gosplan until 1984.

ANDREI GROMYKO Soviet minister of foreign affairs from 1957–85, Gromyko was best known to Western audiences as "Mr. Nyet" for his frequent deployment of the USSR's veto in the United Nations Security Council. Within the Soviet Union, Gromyko was a powerful voice in defense of "orthodox" policies.

YURI ANDROPOV Soviet leader from 1982–84. A life-long communist, Andropov served as ambassador to Hungary during the time of anti-Soviet protests in 1956. From 1967–82, Andropov headed the KGB, where he hounded dissidents. Upon becoming leader of the Soviet Union, Andropov maintained his hard line on dissent but sought to shake up the Soviet Union's sclerotic bureaucracy and stagnant economy.

KONSTANTIN CHERNENKO Soviet leader from 1984 until his death in 1985, Chernenko presided over the last gasp of Brezhnev-era stagnation.

MIKHAIL GORBACHEV General secretary of the Communist Party of the Soviet Union from 1985–91, Gorbachev led the country through a tumultuous period of market-based economic change (perestroika) and democratization (glasnost).

YEGOR LIGACHEV The second highest-ranking official in the USSR during the late 1980s, Ligachev led the faction that opposed market methods in the economy and the democratization of Soviet politics.

BORIS YELTSIN A top Soviet leader who was demoted after a dispute with Gorbachev in 1987, Yeltsin returned to lead the democratic opposition to Soviet rule in Moscow. He was elected to lead the Russian part of the Soviet Union in 1990. After steadily taking power from the Soviet state, he declared the end of the USSR in 1991. He was president of independent Russia from 1991–99.

YEGOR GAIDAR Born to an influential Soviet family, Gaidar worked as an economist during the 1980s, where he explored how market mechanisms could make central planning more efficient. After the collapse of the USSR, Yeltsin appointed Gaidar prime minister in 1992, tasking him with lifting government price controls and reducing inflation.

Chinese Leaders

DENG XIAOPING China's paramount leader from the late 1970s to the mid-1990s, Deng was one of the early members of the Chinese Communist Party. He served along with Mao Zedong during the Chinese Civil War, reaching high office during the 1950s. During the radical era of the Cultural Revolution, Deng was seen as too conservative and was cast from power. He rebuilt his authority after Mao's death, and by the end of the 1980s was China's most powerful official. He used his influence to cast off central planning and to embrace a market-based economy.

MAO ZEDONG China's Communist leader from the time of the revolution in 1949 until his death in 1976. Mao was a committed ideologue who pushed for collective farming, state-owned industry, and revolutionary exhortation. He resolutely opposed moderation and market incentives. After Stalin died in 1953, Mao rejected Khrushchev's criticism of Stalin's personality cult and concluded that the post-Stalin USSR had deviated from proper Marxist-Leninist practice.

ZHAO ZIYANG A top deputy to Deng Xiaoping, Zhao managed China's economic reforms during the 1980s. As governor of Sichuan province he had led the way in adopting market mechanisms in industry and agriculture. Zhao was cast from power in 1989 after objecting to the party's decision to crush protesters on Tiananmen Square.

Gorbachev's Advisers

YEVGENY PRIMAKOV An expert on the Arab world, Primakov served as director of the influential Institute of Oriental Studies from 1977–85 and then of the IMEMO institute from 1985–89. He advised Gorbachev on international economics and world politics during the perestroika era.

FEDOR BURLATSKY A writer and intellectual, Burlatsky long advocated liberalizing reforms in the USSR. Once Beijing began adopting market mechanisms in its economy, he pushed for the Soviet Union to emulate China.

GEORGY ARBATOV Head of the Institute for the Study of the USA and Canada, Arbatov was a strong supporter of perestroika and a close adviser to Gorbachev on questions of international relations.

OLEG BOGOMOLOV Director of the Institute of the Economy of the World Socialist System, Bogomolov studied the economies of the socialist countries of Eastern Europe. Bogomolov and his associates argued that countries like Hungary and Yugoslavia successfully melded market elements within a socialist system and urged Soviet leaders to do the same.

ABEL AGANBEGYAN An economist and longtime director of the Institute of Economics and the Organization of Industrial Production, Aganbegyan was a leading advocate of market mechanisms in Soviet economics.

LEONID ABALKIN The director of the Institute for Economics from 1986–89, Abalkin was deeply involved in the formulation of perestroika-era economic reforms. He served as the deputy chairman of the Council of Ministers from 1989–90.

TATIANA ZASLAVSKAYA A leading Soviet sociologist, Zaslavskaya worked under Abel Aganbegyan, where her research examined, among other topics, why Soviet farms were so inefficient. Zaslavskaya was a leading advocate of market mechanisms in Soviet economics and advised Gorbachev even before he was appointed general secretary.

Chronology of Major Events

1917	Bolshevik Revolution. Communists take power in the Russian empire and begin constructing the Soviet Union.
Early 1920s	Vladimir Lenin launches the New Economic Policy, allowing markets and private ownership in order to spark economic growth.
1920s	Josef Stalin takes power.
Late 1920s–30s	Stalin launches a shock industrialization program, seizes privately held farmland, and forces peasants onto collective farms. The Kremlin begins to forge a centrally planned industrial economy.
1941–45	World War II devastates the USSR, but in the eyes of many Soviet citizens, victory over Nazi Germany vindicates Stalin's political and economic method.
1949	Mao Zedong's communists take power in China.
1953	Stalin dies. Nikita Khrushchev takes control after a brief power struggle.
1956	Khrushchev delivers the "Secret Speech," which denounces Stalin's cult of personality but promises to retain communist principles.
1964	Leonid Brezhnev takes power. His deputy, Alexei Kosygin, launches an array of industrial reforms to improve efficiency, but is thwarted by the bureaucracy.
1976	Mao Zedong dies.
1978	Deng Xiaoping becomes China's paramount leader and launches broad-ranging economic reforms to replace central planning with private initiative.
1982	Yuri Andropov named USSR general secretary, but ill health prevents him from achieving his objectives. He dies in 1984.

1984	Konstantin Chernenko becomes general secretary, then dies a year later.
1985	Mikhail Gorbachev named general secretary. He launches a restructuring program called perestroika, aimed at increasing economic efficiency. Gorbachev also promised glasnost, a greater openness in politics.
1986	Soviet government passes the Law on Individual Labor Activity, which expands citizens' rights to work outside of government-owned enterprises.
1987	The Law on State Enterprises is passed, enhancing enterprises' incentives to act efficiently.
1988	The Law on Cooperatives gives citizens the opportunity to start their own businesses.
June 1989	China's government crushes protestors on China's Tiananmen Square. Liberal reformists around Zhao Ziyang are sidelined and hardliners regain control over the Chinese Communist Party.
August 1991	Hardline forces in the USSR, led by the KGB, lock Gorbachev in his summer home and seize power. Yet their coup is poorly organized and Moscow citizens led by Boris Yeltsin resist. The coup collapses after three days.
December 1991	The Soviet Union is dissolved by a decree of the Russian, Ukrainian, and Belorussian leaders. Gorbachev is powerless to resist.

Note on Statistics

"Not happening! You're asking too much. The budget is off limits to you." So spoke USSR General Secretary Yuri Andropov in 1982, when Mikhail Gorbachev asked to see the Soviet budget. Gorbachev was astounded that even an official such as himself—a Politburo member, one of the top dozen political figures in the entire country—was not allowed to see the country's consolidated figures for revenue and expenditure. Only after becoming general secretary himself in 1985 did Gorbachev finally gain access to the Soviet budget. He discovered, he later wrote, that it was "full of holes."

The dire state of Soviet data presents a serious impediment to understanding the country's economy. The issue is no longer that the data are secret, but that they were widely fudged, making macro-level statistics unreliable. During the Cold War, America's Central Intelligence Agency produced detailed estimates of the USSR's GDP, inflation, wages, and the like. American spies knew that published Soviet statistics were untrustworthy, but they presumed that someone inside the Kremlin was keeping a "real" set of accounting books with accurate numbers. As it turned out, they weren't—and the CIA's estimates remain an important source for understanding the Soviet economy.

Using data produced by the Soviet government is unavoidable. I make use both of internal Soviet data and of outsiders' estimates, with full knowledge that these figures need to be treated far more carefully than comparable data from countries with more credible statistical organizations. Despite my best efforts to use only the most reliable figures, the numbers cited here should be interpreted as rough estimates rather than exact descriptions of economic reality.

The Struggle to Save the Soviet Economy

Introduction

The View from Tiananmen

Amid the thousands of protesters who assembled on China's Tiananmen Square in May 1989, just weeks before the Chinese government sent troops to crush the demonstrations, one person held a placard that declared: "We Salute the Ambassador of Democracy."[1] The envoy that this protester saluted was neither an activist, nor a dissident, nor from a country renowned for human rights advocacy. It was Mikhail Gorbachev, general secretary of the Communist Party of the Soviet Union. The type of democracy he offered was not Western-style liberal capitalism, but market socialism. Chinese students took trains from far-flung provinces just to see him.[2] Gorbachev inspired China's protesters on Tiananmen Square because the Soviet leader's struggle to refashion the USSR's centrally planned economy and authoritarian political system mirrored their efforts in China. Reformers in both countries, protesters believed, were fighting similar battles.

Gorbachev arrived in Beijing on May 15, 1989, shortly after protesters began massing on Tiananmen Square, just two weeks before the Chinese leadership's fateful decision to send in troops. The visit, which marked the restoration of normal relations between the People's Republic of China (PRC) and the USSR, had been planned long in advance. Chinese leaders intended to welcome the Soviet delegation in front of the eastern gate of the Great Hall of the People. But an unexpected influx of 200,000 protesters onto Tiananmen Square spoiled those plans.[3] Instead, embarrassingly, the welcome ceremony was held in the airport. After a two-hour delay the ceremony finally began, as a band played each country's national anthem and the army fired a 21-gun salute. It was a fitting welcome for a head of state, except for one detail: in the rush to reshuffle the ceremony, someone forgot the red carpet.[4]

That was an apt metaphor for the ambiguity with which Beijing greeted Gorbachev, the Soviet superstar. His meeting with Deng Xiaoping, the Chinese leader who was drawing China away from central planning and toward a market economy, was the first high-level summit of Soviet and

Chinese officials in many years. The visit marked a triumph for both countries' diplomacy. But it proved impossible to keep separate foreign relations and domestic politics. Chinese officials were unnerved by Gorbachev's strategy of mixing market reforms with democracy. They saw how Gorbachev's example encouraged demonstrators on Tiananmen Square to demand political change. The students on the square saw Gorbachev as a great leader and wanted China to follow the path Gorbachev was forging.

By the time of Gorbachev's visit in May 1989, the Soviet Union and China had been engaged in a detailed, decade-long conversation about how their centrally planned communist economies could be made more efficient. Few people today remember the links between Soviet and Chinese politics during the 1980s, but they were obvious at the time. This was most true during Gorbachev's visit to Beijing, on the eve of the Tiananmen crackdown. While meeting in Beijing, Gorbachev and the soon-to-be-deposed Chinese leader Zhao Ziyang shared advice about economic reforms.[5] China's protesters, 200,000 of whom assembled on Tiananmen Square, embraced Gorbachev's decision to link democratization with economic reforms. They invited the Soviet leader to speak at their universities. They asked, "Where is China's Gorbachev?"[6] One woman on Tiananmen Square carried a copy of Gorbachev's book *Perestroika and New Thinking*. "This is an excellent book," she told a journalist. "I have read it twice."[7]

In a speech in Beijing, Gorbachev told his Chinese audience that "economic reform will not work unless supported by a radical transformation of the political system." This is why, he explained, the Soviet Union had held contested elections the previous month, for the first time in generations.[8] "We are participating in a very serious turning point in the development of world socialism," Gorbachev explained, in which many socialist countries were embracing freedom of expression, protection of rights, and democracy. Hardliners in the Chinese government prevented the broadcasting of Gorbachev's speech.[9]

Scholars who study China's government have long noted how closely Beijing studied political and social changes in the USSR.[10] Yet historians have generally overlooked the central role that China played in Soviet debates about how to remake state socialism during the 1980s.[11] This oversight has obscured our understanding of why the Soviet Union embraced market-based economic policies during the 1980s. Worse, it has led to misinterpretations of the two countries' divergence after 1989 and 1991. Deng's decision to crush the protests on Tiananmen Square and to double down on authoritarian rule placed China on a path toward a market economy without democracy. The Soviet Union, meanwhile, embraced free speech and multiparty elections even as it plunged into a devastating economic depression before breaking apart into fifteen separate countries. Many people blame the post-Soviet chaos on Gorbachev's decision to democratize Soviet politics.[12] Russia's economy has since recovered from those tumults, but liberal politics did not survive. Today Russia has a market economy and an authoritarian political system. Many Russians wonder whether they would be better off had they taken China's path of authoritarian capitalism from the beginning.

Paths Diverge

By the end of the 1980s, Gorbachev had concluded that ending the Communist Party's political monopoly was the only way to implement his agenda. But Deng Xiaoping and his hardline allies in the Communist Party leadership were unwilling to give up power without a fight. As Gorbachev left Beijing, the authoritarian wing of the Chinese Communist Party was already preparing a crackdown. On June 4, Deng sent the army into Tiananmen Square, killing at least several hundred protesters, maybe many more. The lesson, Deng told a meeting of top party leaders, was simple: "The recent events show how crucial it is that China stick with the socialist road and the leadership of the Party. If we don't . . . modernization won't be easy. Only socialism"—that is, only one-party rule—"can save China and turn it into a developed country."[13] China needed to focus on its economy, Deng argued, to ensure nothing like the Tiananmen protests happened again. "The economy must keep going. We should do everything we can to spur development." The time for political experiments had ended. "China's greatest interest is stability—anything that benefits China's stability is a good thing. I never give an inch—ever."[14]

The crackdown on Tiananmen Square transformed China's politics, and it marked a turning point for the Soviet Union, too. In 1989, at the very moment China was forging anew its authoritarian system, Gorbachev was freeing the press, liberalizing political speech, and introducing competitive elections. In just two years Gorbachev tore down the Soviet autocracy and began building the foundations of a democratic polity. Yet this positive political change was accompanied by a series of tumults that undermined the Soviet state. Local elites began mobilizing ethnic minorities in the USSR's far-flung regions. The growing power of regional elites meant that Gorbachev's writ was increasingly ignored outside of Moscow. The Soviet media—newly freed by Gorbachev's reforms—took aim not only at Gorbachev's enemies, but at his own failings, too. Never since the Bolshevik Revolution had a Soviet leader been subject to such public criticism.

Gorbachev's greatest problem, however, was his country's economy. After crushing the Tiananmen protests, China suffered a brief economic slowdown in 1990 but quickly rebounded. The Soviet economy, by contrast, spiraled inexorably downward. Gorbachev implemented a series of measures to introduce market incentives and legalize private businesses in industry and agriculture. Many of these changes—at least in aim, if not in execution—were broadly similar to the economic reforms that Deng Xiaoping instituted in China. Amid these policy changes, however, the USSR faced a growing budget crisis that Gorbachev was powerless to address. Unlike in China, Soviet politics were gridlocked, and Gorbachev had little room to maneuver. The budget deficit continued to spike upward. Because the USSR had only limited access to debt markets at home or abroad, the deficit was financed by creating credit and printing rubles.[15] This caused a surge of shortages and inflation that exacerbated the country's economic difficulties and degraded the government's authority. By the end of 1991—just two years after Gorbachev's visit to China—the Soviet economy was in tatters. Factories ceased production, transport ground to a halt, and bread lines grew ever longer.

Gorbachev was powerless to resolve the crisis. The desperate economic situation meant there was no money with which to appease separatists or disgruntled ethnic groups. Meanwhile, Gorbachev's weakness vis-à-vis the military, powerful industrial groups, and the country's vast network of collective farms meant that he was unable to impose budget cuts. His only other chance of balancing the budget and defeating inflation and shortages was to hike consumer prices—as post-Soviet Russia would eventually do in 1992. But Gorbachev knew that price increases would eliminate whatever popularity he retained. Any attempt to balance the budget, either by cutting spending or raising prices, could easily cause his downfall. Political paralysis produced by the powerful forces who opposed economic reform was the ultimate cause of the Soviet Union's collapse.

Confronting these entrenched elites, Gorbachev hesitated, fearing the political forces arrayed against him and hoping that the economic reforms he pushed through would spark economic growth. This was a gamble that

Gorbachev did not win. The military coup he long feared finally arrived in August 1991. The security forces, who conspired with big industrial lobby groups, locked Gorbachev in his Crimean dacha and seized power. The coup failed after just three days, but not by Gorbachev's efforts—he remained stuck in Crimea—but because of Russian president Boris Yeltsin's skill in mobilizing Moscow against the coup. Gorbachev watched impotently from his vacation home as Yeltsin defeated the coup. In December 1991, the leaders of the Russian, Ukrainian, and Belorussian republics met discreetly in a forest lodge and declared that the USSR—the country Gorbachev governed—would no longer exist.

The abolition of the Soviet Union and the emergence of an independent Russia did nothing to resolve the country's economic problems. Boris Yeltsin, the president of newly independent Russia, inherited Soviet shortages and its gaping budget deficit. In response, Yeltsin freed prices on consumer goods, eliminating shortages but creating rapid inflation that wiped out most families' savings. Yeltsin also slashed military spending, threatening to put former soldiers and defense-sector employees out of work. Farm subsidies were cut, pushing agricultural regions into poverty. Some industries fared better, and several, such as Gazprom, the state-owned gas company, managed even to increase their influence. Yet the 1990s were, for most Russians, a period of tumult and tragedy.

Could Gorbachev Have Followed a Chinese Path?

At the time of Gorbachev's visit to China in 1989, few people would have guessed that a decade later Deng Xiaoping's policies would look smart, and Gorbachev's reckless. In the late 1980s, Gorbachev was widely hailed for his liberalizing policies. He won the Nobel Peace Prize in 1990 for reshaping the Soviet Union and ending the Cold War. Meanwhile, China's decision to crush the Tiananmen protests was not only condemned worldwide, it was interpreted as evidence of Beijing's backwardness. The *Guardian*'s editorial on the massacre referred to Deng and his allies as "a group of old men" and "the pensioners of the Chinese establishment," suggesting that as the present generation died out, authoritarian politics would, too.[16] Most other observers agreed that political change was inevitable, no matter how intently the Chinese government tried to stamp it out. The *Chicago Tribune* predicted that "what's boiling in the vast cauldron that is China cannot be denied forever."[17] And the *Times of India* insisted that "the tremors that have begun" with Tiananmen "will eventually end with the ouster of the conservative leadership, Mr. Deng downwards." It is inevitable, the paper argued, that "once the struggle for democracy is consecrated in blood, it acquires a sacrosanct dimension: bullets and bayonets do not deter the people anymore."[18]

Deng Xiaoping did not agree. By his death in 1997, he appeared vindicated, as world opinion had turned decisively in his favor. Deng saw enough of Russia's tumultuous politics to know where he stood: China was right to sacrifice political liberalization for stability's sake, because the alternative was chaos and collapse. Chinese analysts of Soviet politics continue to fault Gorbachev for abandoning central planning too rapidly and in a disorganized fashion.[19] Rather than liberalizing politics, Gorbachev should have focused on the economy. The most important conclusion from the Soviet collapse, according to one Chinese expert, was to "concentrate on productivity growth."[20] A different official Chinese report on the USSR's demise argued that the lesson was to "concentrate on economic development and continuously improve peoples' standard of living." In the political sphere, the key is to "uphold Marxism as the guiding ideology, and strengthen propaganda work and thought education."[21]

Today, top Chinese leaders cite the Soviet Union as an example of why China's Communist Party must keep its fist clenched on power, even as it casts off the last remaining vestiges of the Maoist economy. Jiang Zemin, who succeeded Deng Xiaoping as China's leader, argued in 1990 that the Soviet Union's main problem was that Gorbachev was a traitor like Trotsky, guilty of betraying Marxism-Leninism.[22] That was an ironic charge coming from the official who first formally welcomed China's business classes into the supposedly communist ruling party. Yet in December 2012, Chinese president Xi Jinping echoed this analysis. "Why did the Soviet Union disintegrate?" he asked a group of Communist Party members. "Their ideals and convictions wavered," he explained. "Finally, all it took was one quiet word from Gorbachev to declare the dissolution of the Soviet Communist Party, and a great party was gone. . . . In the end nobody was a real man, nobody came out to resist."[23] Yet it is Deng's logic that has come to dominate most interpretations of the Soviet Union's collapse. "My father," reported Deng's youngest son, "thinks Gorbachev is an idiot."[24]

In Russia many agree. Russians regularly rate Gorbachev as one of their worst leaders of the twentieth century. A recent poll found that only 22 percent of Russians perceive Gorbachev positively or slightly positively, while 66 percent have a negative impression. By contrast, Leonid Brezhnev, who presided over two decades of stagnation, is viewed positively by

56 percent of Russians. Even Stalin, who managed a murderous reign of terror, gets positive marks from half of Russians.[25] It is not surprising, then, that Deng Xiaoping's reputation in Russia has risen. Many Russians see China as a model of what their country should have done during the 1980s and 1990s. Liberal politics causes chaos and economic distress, many Russians have concluded, and only a strong hand can deliver economic growth. Vladislav Surkov, a leading adviser to Russian president Vladimir Putin, calls this approach "sovereign democracy," meaning that Russia will not follow Western models, but will instead pursue its own political development.[26] Left unstated is that Russia's path will not be democratic at all, but will combine political stability and prosperity in order to legitimize authoritarian rule.

It comes as no surprise that dictators such as Vladimir Putin should criticize democrats such as Mikhail Gorbachev. Yet many Western historians concur with the logic that Gorbachev is guilty of causing the Soviet collapse. One leading Western historian writes that "Gorbachev's policies were contradictory and politically dangerous" because they eroded "central state and party power and authority."[27] The Communist Party, many historians note, was the institution that held the USSR together; it ensured that laws were obeyed and taxes were paid. Once Gorbachev began his assault on the party's authority in the late 1980s, is it any surprise that the country fell apart? Surely, such historians argue, Gorbachev should have compromised with other Communist Party elites, letting them retain their authority in exchange for their support for economic reform. That is what Deng Xiaoping did in China. Why did Gorbachev not follow China's path?

The remainder of this book asks a straightforward question: Could the Soviet Union have taken a "Chinese path"? Would authoritarian politics have let the Soviet Union bypass the chaos that accompanied the end of state communism? These questions are frequently asked, and not only in Russia.[28] But they have not yet been addressed with reference to archival material from the period, either by scholars in Russia or in the West.[29] As a result, much of our understanding of Soviet politics during the perestroika era is based on poorly sourced media reports and untrustworthy memoirs. Many scholars have lost interest in seeking new explanations of Russia's shift from central planning to market economics, either thinking (wrongly) that documentation is hard to find, or (also wrongly) that there is nothing new to say.

Perestroika Revisited

Stalin famously criticized Soviet historians for being "archive rats" and argued that historical actors must be assessed "by their deeds, and not only in accordance with their declarations."[30] On the question of historical methodology, the Soviet dictator was only half right. The study of Soviet politics has indeed been marred by an excessive focus on declarations rather than deeds. So long as the archives were closed, historians had little insight into back room dealing and had to rely on public statements instead. Stalin rightly noted the deficiencies of such an approach. But the opening of Soviet archives after 1991 has empowered the very "archive rats" who Stalin so unfairly criticized, enabling them to rewrite Soviet history. Documents long hidden in Soviet archives cast a very different light on many familiar stories. Over the past twenty-five years, historians have reinterpreted many central aspects of Soviet history, from the country's foreign policy to, ironically, Stalin's own legacy. Yet the period of perestroika, when Mikhail Gorbachev tried to remake the Soviet system, has been all but ignored by archive-based historical research. We are only just beginning to check our presuppositions about Gorbachev and perestroika against archival facts.

The following chapters draw on documentation from six Russian archives, as well as from several archival collections in the United States that hold papers significant to Soviet history. Previous accounts of the Soviet economic collapse have not consulted records from Gorbachev's Politburo—the USSR's top policymaking body.[31] Given that the Politburo was the most influential organ in the Soviet government, this has left a gaping hole in historians' grasp of Soviet economic policy. Drawing on these Politburo sources transforms our understanding of the politics and economics of the perestroika period. Above all, they shed light on the brutal political struggle at the heart of the Soviet state—clashes that Mikhail Gorbachev, who was nominally in charge of the Soviet Communist Party, often lost.

Gorbachev himself emerges as a character whom historians have widely misunderstood. Over the past twenty-five years, he has been assaulted from all sides. The left condemns him for wrecking the Communist Party and the Soviet state.[32] Advocates of a market economy accuse him of lacking an economic vision and the backbone to see it implemented.[33] Russian *gosudarstvenniki*—those who believe in the necessity of a strong state—blame Gorbachev for tolerating dissent that tore apart a great power. Most famously, Vladimir Putin accused Gorbachev of presiding over "the greatest geopolitical disaster of the century."

The archival material presented here, however, shows that Gorbachev was just one actor among many in the fragmented Soviet political system. He was far weaker than nearly anyone realized. The policies of the perestroika era can only be understood with reference to the political forces that obstructed Gorbachev at every turn. From the USSR's massive military-industrial complex to its far-flung collective farms to its enormous industries, many of the most powerful players in Soviet politics had an interest in economic inefficiency. Their demands for handouts tore a hole in the Soviet budget, but Gorbachev lacked the power to resist. Chinese-style authoritarian politics could never have supported Soviet economic reform, because the most reactionary institutions—above all, the military—were the most opposed to the measures needed to stabilize the economy.

In the following chapters, specialists will find a new interpretation and much new information about the lessons that the Soviet Union learned from the People's Republic of China in the era of Deng Xiaoping. The first two chapters engage with histories of Soviet intellectual life and foreign policy to show that, contrary to conventional wisdom, Soviet analysts actively sought to learn from China's experience. The third chapter addresses domestic political divisions in the Soviet Union, detailing the vicious political clashes that limited Gorbachev's ability to pursue a coherent reform program, and underlining the constant threat of a military-backed conservative coup. Three subsequent chapters examine specific instances of policy learning, providing detailed case studies of economic reform programs in the Soviet Union and new evidence of Sino-Soviet intellectual linkages. Finally, financial historians will find in chapter 7 a blow-by-blow account of the decision making that led to the country's inflation crisis and financial collapse, as well as a counterfactual analysis that shows why authoritarian, Tiananmen-style politics in 1990 or 1991 could not have solved the Soviet Union's problems.

Yet this story is relevant not only to the past, but to our understanding of the present as well. The notion that politics under Gorbachev were too liberal and too disorganized for effective governance is a central plank in the ideology that undergirds authoritarian rule in Russia today. Understanding why the Soviet Union collapsed—and whether under different conditions it might have survived—requires a deep dive into the history of a country that no longer exists. We must reckon with the details of how collective farms were funded, assess how central planners allocated investment, and make sense of the Soviet government budget. Was the USSR's economic collapse in the late 1980s caused by liberalizing political reforms? Could military dictatorship have made the Soviet economy work better? Was there an authoritarian path that Gorbachev could have followed, but chose not to? New findings from Soviet archives suggest that the answer, put simply, is no.

1 Asian Pivot

The Roots of Soviet Economic Reform

"Many are asking what perestroika was, where it has taken us," wrote Georgy Shakhnazarov, one of Mikhail Gorbachev's top advisers, in his memoir. "The answer is simple: it is yet another Russian march to the West."[1] After the collapse of the Warsaw Pact, the reunification of Germany, and cuts in the superpowers' nuclear arsenals, it is easy to see why Shakhnazarov thought that perestroika heralded a new era of westernization in Russia. Some of the country's most influential tsars, such as Peter the Great, whose military prowess established Russia as a great power, and Alexander II, who freed Russia's peasants from serfdom, embraced the notion that their policies westernized Russia. As general secretary of the Communist Party, Gorbachev eagerly took up this mantle, publicly comparing himself to these famous predecessors and highlighting his westernizing credentials.[2]

Yet there is reason to be skeptical that perestroika was an attempt to copy the West, at least in terms of economics. To be sure, the liberal Soviet intelligentsia deeply admired the United States and Western Europe, and wished their country could become more tolerant, more sophisticated, and more—as they saw it—like the West.[3] A handful of these scholars and academics even published their memoirs in English, shaping the West's belief that perestroika and glasnost were an attempt at imitation.[4] But the intelligentsia constituted just one part of Soviet society. The Communist Party leadership did not support perestroika because they thought it was a westernizing project. After all, the Red Army had spent the previous forty years preparing for war with the West, and many Soviet officials believed that westernization threatened the Soviet Union with international impotence and domestic dissent. The KGB had constructed elaborate layers of protection to ward off Western influence. Many top-party leaders were deeply skeptical of Western-style political competition and continued to see Stalin as a great leader.

Yegor Ligachev, Gorbachev's second-in-command from 1985 to 1990, was typical of such conservative party leaders. Ligachev moved up the

Communist Party ranks under Stalin, eventually becoming party head in the Siberian region of Tomsk. His family had some run-ins with Stalinist repression, and his wife's father, a general, was executed during the purges of the late 1930s. Ligachev nonetheless admired Stalin's leadership. He opposed efforts to critique Stalin's legacy and stonewalled the introduction of market mechanisms into the Soviet economy.[5] Nonetheless, Ligachev and others like him supported perestroika in its initial years. Perestroika ended as it did, Ligachev later argued, not because it was intended as a westernizing project, but because it was hijacked by radical capitalists in its later stages.[6] If perestroika had been about westernization from the outset, traditionalist communists such as Ligachev would not have supported it.

In terms of its economics, however, the case for interpreting perestroika as a "march to the West" is usually seen as obvious. Surely, most historians have concluded, Soviet policymakers knew that they needed to make their economy more like that of Western countries if they wanted to approach Western standards of living. But the reality is more complex. The Soviet scholars and policymakers who shaped economic policy during the mid-1980s had a sophisticated understanding of the global economy. The Kremlin's official ideology declared that the world was divided into two political camps—the imperialist West and the democratic socialist USSR—but Soviet economic analysts in the 1980s knew that there were several varieties of both socialism and capitalism, each of which placed different emphasis on planning, markets, trade, and industrialization. The new political openness of the 1980s meant that the applicability of these models to the Soviet Union was discussed freely, often for the first time, and Soviet intellectuals cast a wide net in searching for ways to improve their economy. The most natural place to look, at least at first, was toward the six countries of the Warsaw Pact.

Eastern Europe as a Laboratory for Reform

The Soviet Union's Eastern European allies began tinkering with their centrally planned economies long before perestroika. In the first two decades after the communist takeover in the 1940s, the Warsaw Pact countries enacted economic policies modeled on the USSR.[7] That began to change in the late 1960s and picked up pace after the Prague Spring uprising in 1968 threatened the foundations of Soviet power in Eastern Europe. Most Soviet leaders did not regret using the Red Army to overthrow

Alexander Dubcek's reformist government in Prague, but even Moscow's hardliners recognized that the costs of intervention in 1968 were too high to repeat.[8] Some of the USSR's socialist allies were uneasy with deploying the Soviet military to "defend socialism," and the intervention was condemned by the West. The invasion of Czechoslovakia was no less problematic within the Soviet Union, because it definitively disproved the notion that Eastern Europeans welcomed Soviet hegemony.[9]

Soviet leaders decided that the solution to political unpopularity in Eastern Europe was economic growth, even if that meant experimenting with ideologically questionable, market-based policies. This matched what some Eastern European leaders wanted to do anyway. Market reforms went furthest in Hungary. Even before Soviet troops invaded Czechoslovakia, Hungarian economists and policymakers recognized the need to modify their command economy, both because Hungary had exhausted the economic gains from moving peasants off into factory jobs, and because the country was unable to import sufficient consumer goods and technology from the West.[10] The Hungarian government introduced a series of policy changes in 1968. State-controlled prices were increased, making them closer to where they would have been in a free market. By providing greater incentives for enterprises to supply goods, Hungary's more market-based pricing system began to reduce the shortages of consumer goods that plagued all centrally planned economies.

At the same time, the Hungarian government cut the number of indicators it used to control enterprises. Hungarian leaders decreased the role of central planning, forcing enterprises to respond to market forces, which they were better able to assess than bureaucrats in Budapest.[11] The basic effect was to move Hungary toward a market economy without formally jettisoning communist ideology. The results of these efforts were positive, at least in the 1970s. Other Eastern European countries followed with attempts to shake up their own economies.[12] Hungary's experience—and that of Yugoslavia, another leader in harnessing markets toward socialist aims—inspired those in the Soviet Union who hoped that their country might also embrace market mechanisms.[13] Some Soviet economists believed that the market-based methods that Hungary used in agriculture, for example, could be implemented in the USSR and would increase output.[14]

By the late 1970s and early 1980s, however, when Soviet leaders began seriously searching for lessons about making central planning work, Eastern Europe looked far less impressive. The Warsaw Pact countries that embraced market socialism faced a pair of new challenges: debt and political upheaval. The two problems were linked. To deal with populations unhappy with their relative poverty, Eastern Europe's governments began borrowing heavily to pay for imports of Western technology and consumer goods. When the bill came due and Eastern European governments tried to implement austerity measures, their populations pushed back, sometimes taking to the streets. Even more generous benefits were needed to placate protesters.[15] Hungary, Poland, Romania, and East Germany soon all found themselves deep in debt. Between 1975 and 1980, East Germany's net debt increased from $3.5 billion to $11.7 billion, while Poland's jumped from $7.7 billion to $23.4 billion.[16] Each country had to implement harsh austerity programs and reschedule debt payments to balance their books.

Soviet analysts watched with horror as Eastern Europe's debt crisis began to spiral out of control during the 1980s. Soviet research institutes, most notably the Institute of the Economy of the World Socialist System, which focused on Eastern European affairs, conducted a series of reports on the subject for top policymakers, noting that even Hungary, one of the best-governed Warsaw Pact countries, was mired in debt.[17] Other Soviet researchers examined the role of Western banks in creating Eastern Europe's debt crises.[18] The outlook was worrisome. In dollar terms, Poland accumulated twice as much foreign debt as the Soviet Union, even though the USSR's population was many times larger.[19] Poland's debt burden was not unique: East Germany and Hungary had even higher levels of debt per person.[20]

Eastern Europe's debt load increased despite the massive energy subsidies the Soviet Union provided during the 1970s and early 1980s, which at market prices amounted to a transfer of tens of billions of dollars each year.[21] But many Eastern European countries borrowed so much from the West that they had to spend a third of their export earnings on interest payments.[22] This was unsustainable. Poland defaulted on its debt to Western banks in March 1981, and Romania restructured several months later.[23] Even the countries that did not default had to implement strict austerity programs to balance their budgets. The whole of Eastern Europe cut imports from the West by 25 percent between 1980 and 1983, squeezing consumers and reducing investment.[24] Even then, Soviet analysts knew, Western banks would not be going away. One group of New York bankers told a top Soviet official in January 1982 that, regardless of the rescheduling of Poland's debt, they had no plans to write off loans, and expected their $13 billion to be repaid.[25]

Soviet analysts understood the risks.[26] Eastern European leaders regularly reminded Soviet interlocutors of their debt problems, hoping that Moscow might provide aid to stave off default. Hungarian leader Janos Kadar warned Soviet officials that "a financial crash in Hungary . . . would carry an extremely negative propaganda significance; it would sharpen still more the problem of cooperation between East and West; it would create diplomatic difficulties for the entire [socialist] camp."[27] Other Hungarian officials relayed a similar message, requesting expanded Soviet subsidies, especially in the form of cheap energy. Jozsef Marjai, vice president of Hungary's Council of Ministers, insisted to Soviet colleagues that the threat was grave: "We are talking about the fate of the socialist system."[28]

Soviet officials did not need a reminder of the risk. From the beginning of Eastern Europe's economic experiments, Moscow worried that economic crisis might cause political liberalization. Loosening central planning, after all, threatened the core of the Soviet economic system. If communists didn't keep a firm grip on the commanding heights of the economy, how could they control politics? After Karen Brutents, a top Soviet bureaucrat, visited Hungary, he told his friend and fellow bureaucrat Anatoly Chernyaev that the political ramifications of Hungary's economic liberalization were deeply worrisome. "Impressions: vigorous economic activity, the store shelves are full of goods, the prosperity is evident and obvious. But the 'middle class' and intelligentsia profit from it mostly, the workers much less so. The gap is growing, as are internal tensions. Ideological 'debauchery,' though they clamped down on the striptease joints. The apparatus and in the higher echelons of the party are already dividing into 'we' (the healthy forces) and 'they,' for whom 'Moskvich' and 'Volga' cars are no longer enough, they want Mercedes. There are forecasts that 'quite something' will happen if this continues for another year–year and a half," Brutents predicted.[29]

Brutents's timing was off, but his prediction of political strife was not inaccurate. Political tension in several East European countries continued to mount. The situation was most acute in Poland, which by 1980 reached a tipping point. The government drastically increased consumer prices in an attempt to balance the budget, but the population was unwilling to pay.[30] An independent labor union, Solidarity, soon emerged as a leader of a protest movement against price hikes. As the protesters realized how much power they wielded, their demands widened to include political change.[31] This was Moscow's worst nightmare: a replay of Prague in 1968. Soviet officials responded aggressively. *Pravda*, the flagship Soviet newspaper, criticized the Polish opposition's "narrow nationalist positions" as an attack on "socialist practice," implying that Moscow would not tolerate a change in Poland's government.[32] The Red Army conducted exercises on Poland's border and in the Baltic Sea, threatening to invade unless the Polish leadership cracked down on protesters.[33]

Warsaw's communist leaders staved off Soviet intervention by declaring martial law, cracking down on the opposition themselves. But Soviet officials realized this was only a short-term fix. Poland's strategy of borrowing money to fund imports of consumer goods and to increase industrial investment was a failure. After the Polish crisis, Soviet hardliners concluded that Poland suffered from "the separation of the vanguard from the masses," because the vanguard was distracted by Western capitalism.[34] The sin of "capitulationism"—giving in to popular demands for better living standards—was condemned across Moscow's hardline media outlets.[35] Soviet advocates of market reforms were dismayed too. Yegor Gaidar, a leading economist who became prime minister in the 1990s, wrote that Poland's failures underlined the danger of "financial destabilization" and concluded that "the emphasis should be on financial stability."[36]

The broader lesson that Soviet policymakers drew from Poland's crisis, however, was that Eastern Europe had not found a clear path out of socialist stagnation. It was not entirely fair, of course, to lump all of Eastern Europe together, particularly because those countries tried such different policies. Some, such as Hungary and Yugoslavia, sought to embrace market mechanisms in the domestic economy; others, such as Poland and Romania, simply borrowed from abroad to fund a spending binge. Not all of Eastern Europe suffered deep depressions like Romania, nor did all experience Polish-style political revolts that threatened communist rule. But not a single Eastern European country posted impressive economic results in the 1980s. Even the best performers barely limped forward. Hungary, once admired by would-be market reformers in the USSR, saw its economy stagnate in the mid-1980s, even as inflation spiked.[37] Yugoslavia suffered inflation of 200 percent per year, and its foreign debt reached $21 billion by 1987.[38] Economic malaise caused Soviet analysts to turn away from Eastern Europe. Some of the USSR's western neighbors,

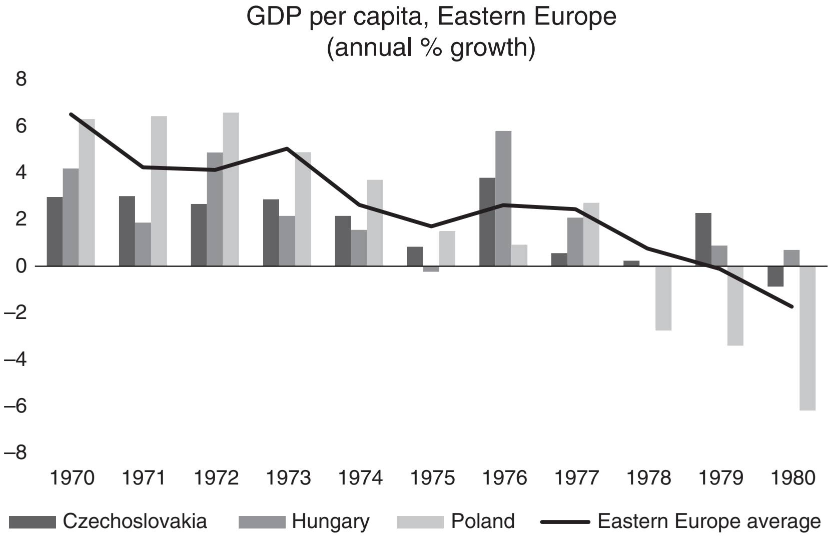

CHART 1 Eastern Europe's economies performed badly during the 1980s, making them poor models for Soviet reforms. Source: Angus Maddison, *Historical Statistics for the World Economy* (Paris, France: Development Centre of the Organisation for Economic Co-operation and Development, 2006).

particularly Hungary and Yugoslavia, remained sources of comparison, but after the debt crises and political upheaval of the late 1970s and early 1980s, no one in Moscow believed that these countries had found a sustainable path forward. In their search for models of reforming state socialism, Soviet scholars and economists began to look elsewhere.

The West as a Model

Just as the experiments in the Soviet Union's Eastern European laboratories began to go awry, Soviet scholars were also beginning to question whether the capitalist economies of the West held lessons for the USSR. For most of the postwar period, most Soviet officials believed their country had discovered an economic model far superior to the West's. Though America and Western Europe had higher standards of living than the USSR, the Soviet Union's rapid growth during the 1950s and 1960s meant that few questioned socialism's basic economic capabilities. Even into the 1970s, socialism appeared to be winning converts worldwide. "See, even in the jungles they want to follow Lenin!" exclaimed General Secretary Leonid Brezhnev, excitedly pointing to Asian and African attempts to mimic

Soviet socialism.[39] International success suggested that centrally planned communism was on the right side of history. It was not until Soviet economic growth declined sharply in the late 1970s and 1980s that Soviet scholars and policymakers began questioning the country's economic model and started to look abroad for advice on how to get back on track.

Even more important than the slowdown in the Soviet economy, however, was a generational shift within the USSR's elite. Brezhnev's generation of Soviet leaders came of age in the era of Stalin's terror and World War II. These catastrophes shaped their politics and left them skeptical of outsiders, especially capitalists. Few of that generation's leaders studied foreign languages or lived abroad. Brezhnev personally exemplified this: when he was considered for a position in Paris in 1945, he promised to "climb the Eiffel Tower and spit on all of Europe."[40] Other Soviet leaders of Brezhnev's generation were slightly more eloquent, but many shared his basic outlook.

In the 1980s, however, a younger generation began to take power. Brezhnev died in 1982, and his successors, Yuri Andropov and Konstantin Chernenko, quickly followed him to the grave. Gorbachev, who became general secretary in 1985, was the first Soviet leader since Lenin to finish university, and he brought a new spirit of openness to Soviet intellectual life. Academic research institutes such as the Institute for the Study of the USA and Canada (hereafter USA-Canada Institute) and the Institute of the Economy of the World Socialist System had long cultivated critical, Western-oriented intellectuals. Many of these scholars studied abroad in Eastern European cities that were far more cosmopolitan than Moscow. They learned foreign languages such as English and French, and knew students and scholars from other countries.[41] Prague in particular was a center of cross-cultural exchange; it was also, in the words of one participant, a "'prep school' for the Soviet party apparatus" during the 1960s and 1970s.[42] Many influential intellectuals, some of whom would become top advisers to Gorbachev, worked in Prague in the 1960s on a journal called *Problemy Mira i Sotsializma* (*Questions of Peace and Socialism*). One participant said the experience exposed him "to a huge amount of information on the outside world. And from all that, the idea of imperialist aggression, that the West posed a real threat to the Soviet Union, it instantly disappeared."[43] As this new generation came to power, the effects of their new thinking on Soviet foreign policy was visible in Gorbachev's attempt to reduce tension with the West and in his rhetoric about creating a common European home.

Though Western-oriented intellectuals reshaped Soviet foreign relations and domestic politics during the Gorbachev era, interest in the West had fewer concrete effects on Soviet economic policy. To be sure, one can find dozens of examples of top Gorbachev advisers praising Western capitalist economies. But the influence of Western models in the perestroika era is easy to overestimate. The actively pro-Western economists who governed under Boris Yeltsin during the 1990s were politically marginal in the 1980s. For example, Yegor Gaidar, the pro-Western, free-market economist who later became Yeltsin's prime minister, served in the late 1980s as deputy editor of *Kommunist*, a leading journal. That marked him as a rising star in the Soviet intellectual firmament, but Gaidar was never a close adviser to Gorbachev, and there is little evidence that he seriously influenced Soviet policy until 1990 or 1991, well after perestroika had been formulated.[44] Several other Western-oriented economists who served under Yeltsin spent the perestroika years secretly reading Friedrich Hayek and hiding from the KGB.[45] They, too, had no tangible effect on public policy until after the Soviet Union collapsed.

Beginning in 1989, and especially in 1990, other Soviet officials with closer ties to the government did explicitly try to learn from the West. Soviet economists Stanislav Shatalin and Grigory Yavlinsky, for example, worked with George Soros in 1990 to bring Western economists such as Wassily Leontief and Romano Prodi to Moscow to advise on economic policy.[46] The previous year, the deputy prime minister of Belgium even suggested that the Soviet Union hire McKinsey, an American consulting firm, to restructure the entire Soviet government and economy.[47] Gorbachev declined. The Soviet Union was not short on ideas. Most Soviet economists were, by the end of the 1980s, committed to economic liberalization in some fashion. Instead, Moscow lacked a political consensus about who should pay the costs of the transition to capitalism. Soviet leaders were interested less in Western ideas than in Western aid: the Soviet Union repeatedly asked for financial assistance, though the "Marshall Plan" for which many Soviet officials hoped never materialized.[48]

Because of this, before 1989, the West in general and America in particular were far less significant as sources of economic ideas than is usually thought.[49] The West was important in showing how far behind the Soviet Union had fallen. But during the 1980s, Soviet economists and scholars treated lessons from Western economies skeptically. Many Soviet scholars and policymakers, even those who recognized their country's deep flaws, nonetheless believed in socialism as an ideal, and feared that emulating Western capitalism would introduce inequality and poverty to the Soviet Union. To this day, Gorbachev professes to believe in socialism. His former second-in-command, Yegor Ligachev, remains a Communist Party member. These convictions were real, and they constrained Soviet leaders' willingness to emulate capitalists—especially the most ruthless of the capitalists, the Americans.

On top of these ideological motives, however, were what Soviet scholars would have termed "objective" factors. Even Soviet leaders who had lost all faith in socialism had plenty of reasons to doubt the relevance of Western models for the USSR. From the late 1970s through the mid-1980s—that is, during the period in which ideas about market reform began to take root in the Soviet Union—it was far from clear that Western capitalism was actually working.

The Decline of the West?

During the 1970s and 1980s, Soviet analysts had many reasons to think that Western capitalism in general—and America in particular—was on the decline. The United States was still the wealthiest and most technologically advanced country in the world, but its lead was shrinking, and many believed that America's economy would increasingly underperform its rivals. To be sure, there were still spheres in which America retained a dominant position. Supercomputers, for example, were produced primarily in America, and that was unlikely to change soon.[50] But Soviet researchers nonetheless sensed that by the early 1980s America's technological dominance was beginning to erode. Other countries were catching up to America in spending on research and development. Soviet researchers at the USA-Canada Institute noted that in the early 1980s, the United States spent less on research and development than West Germany and only slightly more than Japan. When military research and development was excluded, Japan and West Germany, the United States' main capitalist competitors, significantly outspent the exhausted superpower.[51]

Absolute numbers didn't tell the whole story, Soviet analysis suggested. Japan and European countries developed government programs to target investment in high tech. Unlike the United States, which relied on capital markets to allocate investment, Japan created a public-private model that Soviet researchers thought would produce higher growth rates.[52] America's falling technological position was increasingly visible in trade patterns, Soviet scholars noted. Japan's top export to the United States in

1985 was cars, followed by electrical machines and household electronics.[53] By contrast, America's main exports included basic commodities such as grain, soy, coal, and lumber. How could such an export base propel America's economy forward?[54] None of this meant immediate decline, of course. America was still the world leader in high tech. But Soviet scholars—like many analysts in America and across the world—thought that other countries, and other models of economic policy, were catching up.

In the Soviet Union, economic success meant industrial prowess. That notion motivated shock industrialization in the 1930s, and it also explained why the Soviet Union consistently preferred heavy industries over consumer goods. Measuring by its industrial base, however, the United States was falling behind in the late 1970s and early 1980s. The industries that had made America great were decaying. Shipyards were closed, steel mills were shuttered, and millions of American factory workers lost their jobs.[55] Like many in the United States, Soviet officials believed the collapse of America's manufacturing base was evidence of deep economic problems.

Throughout the 1980s, scholars at the USA-Canada Institute in Moscow produced dozens of reports on America's failing manufacturing sector, many of which were sent to top Soviet leaders. The message was consistent: America's manufacturing sector was falling behind because of structural weaknesses. A Soviet report in 1985, for example, found massive differences in U.S. and Japanese manufacturing costs. According to Soviet analysis, a factory of 20,000 square meters built in Massachusetts would cost $75 million, compared with only $7 million in Japan.[56]

This price differential between American and Japanese manufacturing, explained a different economist, created a profound challenge for U.S. industries. Soviet scholars were not alone in drawing this conclusion. "The theme of the 'Japanese offensive,' " the report noted, "has become one of the central themes in [America's] media, reaching political actors and bourgeois scientific research in the U.S."[57] The result of this Japanese offensive was that the United States "in the 1980s saw a marked fall in the competitiveness of American products on the world capitalist market."[58] Its manufacturing products were too expensive. High tariffs and import quotas, meanwhile, kept American agricultural goods out of many potentially lucrative markets, especially Japan.[59] This reduction in competitiveness, combined with a strong dollar, meant that America's trade deficit was unprecedented—over $100 billion per year by the early 1980s.

America's negative trade balance with Japan made up an increasingly large part of the overall trade deficit.[60]

In fact, Soviet analysts argued, America's challenge was not just to reduce its trade deficit with Japan, but to learn from Japan's economic policy successes. Some Americans had already gotten the message. Articles published in Soviet journals noted that American corporations were adopting ideas from Japanese management thinking.[61] A Soviet report on American manufacturing in 1986 noted that General Motors—once the symbol of America's industrial might—had created a new subsidiary called Saturn in 1985, which would emulate Japan's car manufacturing methods.[62] Japan's success also held lessons for America's government. An analysis by the USA-Canada Institute titled "Government policy on the question of restructuring industry in the U.S.," for example, cited prominent American authors such as Chalmers Johnson and Robert Reich who argued that Japan had better solutions to pressing economic questions. Johnson, for example, published an influential book examining how Japan's Ministry of International Trade and Industry managed economic growth to avoid wasteful conflicts and industrial tension. Johnson's conclusion—which was also embraced by the Soviet scholars who cited him—was that Japan, not America, had the economic policy institutions that would lead the world into the twenty-first century.[63]

America's structural weakness in manufacturing was an important cause of its general macroeconomic malaise. The 1970s was a period of drift and stagnation. The rapid growth of the 1950s and 1960s was replaced by high unemployment and inflation, which exacerbated other problems, from declining manufacturing employment to continued racial disparities.[64] In the 1980s, inflation finally fell as the Federal Reserve squeezed money out of the economy with sky-high interest rates. But America's overall economic position was, in the eyes of most observers, no less cloudy because unemployment increased markedly.[65]

Soviet observers closely followed the deterioration of American macroeconomic management, whether the stagflation of the 1970s or the high unemployment of the early 1980s.[66] In May 1981, for example, a Soviet delegation participated in a conference in Prague on economic challenges in the capitalist world. Participants concluded that, "in contemporary conditions capitalism can't develop without governmental aid . . . [including] changes to forms of state interference. Reflecting the crisis of Keynesian methods of regulation, the role of the budget as an instrument of short term regulation and of redistributing national income is being reduced. The role of monetary policy is being strengthened."[67] Judging by rising inflation and falling growth, few analysts saw this as a positive shift.[68] It seemed, finally, that Marxist-Leninist predictions about capitalism were coming true. Articles titled "Contemporary Capitalism and Mass Unemployment" were a staple of Soviet propaganda, but in the early 1980s America's unemployment rate surpassed 10 percent, the highest level since the Great Depression.[69]

Even as inflation and unemployment rates decreased by the mid-1980s, America's financial system wobbled under the weight of the savings and loan crisis and the 1987 stock market crash.[70] At the same time, the policies that defeated inflation threatened traditional manufacturing industries, which continued to hemorrhage jobs. Steel and cars, two industries that once represented the peak of American industrial might, struggled to stay afloat.[71] It was far from clear that America's economic model was worth emulating. All signs suggested that America was in decline. The journal of the USA-Canada Institute translated and published the conclusion of Paul Kennedy's *Rise and Fall of the Great Powers*, which argued that America was a declining power, dragged down by its faltering economy.[72] Like many of the period's most influential intellectuals, Soviet analysts believed that the future of the global economy would be determined not in America, but in East Asia.[73]

The Soviet Union Turns East

By the 1980s, Soviet analysts were increasingly concluding that the future of the global economy lay in the Pacific. Japan's tremendous growth was one reason. In the United States, Ezra Vogel's bestseller *Japan as Number One* captured the era's expectations: Clearly Japan worked better than Western societies; clearly its tremendous economic growth would continue into the future.[74] To outsiders, Japan appeared untouched by the social divisions that tore apart Western societies. Its politics were sensible and consensual; opposition parties operated freely, but the ruling party governed so effectively that it won nearly every election. And Japan's economy produced miraculous results, growing faster and for longer than any other example in history. There was barely any unemployment. The country's manufacturers were competitive worldwide and were moving up the value chain. They began by copying Western goods, but now they were innovating themselves. The Sony Walkman, which transformed how people listened to music when it debuted in 1979, exemplified what many believed to be Japan's coming dominance of high technology.[75] The country's manufacturing success funded a series of foreign forays, and Japanese purchases of high-profile American real estate such as the Empire State Building began to grab headlines.[76]

By the early 1980s, experts and policymakers in the Soviet Union reached a similar conclusion about Japan's coming economic dominance. They predicted a clash between American and Japanese capitalism, and thought the Japanese would come out on top.[77] Discovering contradictions between capitalist powers was, of course, required by the USSR's official Marxist-Leninist ideology. But even liberal-minded Soviet analysts who had long since discarded most of Marx and Lenin genuinely believed in a sharpening clash between America and Japan. They were not alone. Influential American analysts made similar forecasts—and indeed, Soviet research often cited top American experts on Japan such as Ezra Vogel and Henry Rosovsky.[78] "Japan represents in the 1980s the largest threat to the United States in economics, science, and technology," argued a 1986 report from a reformist research institute in Moscow. "Traditional branches of American industry, and also the production of the majority of durable consumer goods, are tested with serious difficulty by the marked level of competitiveness of Japanese products."[79] Business clashes, the report noted, quickly became political disputes.[80] As America receded, Japan was filling the gap with its manufacturing might.

This conclusion marked a sharp change in Soviet analysis of Japan, and of Asia more generally. Russia and Japan had been geopolitical rivals for a century. The two countries went to war in 1904 and again, briefly, in 1945. By the end of World War II, one Russian historian noted, "in the consciousness of Soviet people, the word 'Japanese' was invariably associated with words such as 'samurai,' 'militarist,' and 'spy.' "[81] Throughout the 1950s, 1960s, and 1970s, Soviet analysts worried about the country's remilitarization and played down talk of Japan's economic miracle, a phrase that Soviet authors were discouraged from using even in quotation marks.[82] But by the early 1980s, Japan's sustained success had left an impression on Soviet observers. To be sure, a minority of Soviet scholars still argued that Japan's growth was based on vague "structural disproportions" and that its powerful state-backed corporate champions were corrupting its politics and leading it toward crisis.[83] But the data increasingly suggested otherwise.

Though in the 1950s and 1960s Japan focused on exporting textiles and low value-added manufacturing, by the 1980s its technology was among the best in the world, far more advanced than that of the Soviet Union. Soviet research suggested that Japan's level of technology in 1980 was actually higher than France's and Britain's.[84] This was a tremendous accomplishment, showing that the country adopted new technology at a far faster rate than the USSR. Whereas most Asian countries were concerned about providing employment for rapidly growing populations, Soviet scholars noted that Japan was preparing to deal with the employment effects of the increasingly widespread use of robots.[85] Japan's technological prowess was not simply purchased from abroad. Soviet data showed that from 1965–76 Japan spent only between 0.08 and 0.21 percent of GNP per year on technology imports, but roughly 1.25 percent of GNP on domestic research and development.[86] Because of this investment, the country's economy expanded rapidly, averaging 10 percent per year from 1955–70, according to Soviet data. Japan even eked out 7.25 percent average growth during the troubled 1970s, when much of the rest of the world slumped into recession.[87] Soviet scholars projected Japan's growth to continue at around 5 percent during the first half of the 1980s, a slowdown from previous years, but still far faster than growth in the West or in the Soviet Union.[88] That was why Japanese firms were expanding in developed markets, Soviet analysts argued, edging out previously dominant Western companies.[89]

Japan's success led many Soviet analysts to conclude that the country had devised a new East Asian path of economic development. "The 'Japanese Miracle' created an especially strong impression," one Russian historian wrote, "because, for among other reasons, it was in no way expected that such a powerful spurt on the path of progress would be seen from an Asian country."[90] Yet as Soviet scholars began to look at Asia more closely, they noticed that Japan was not the only country in the midst of an economic miracle. South Korea, Taiwan, Hong Kong, and Singapore also posted strong economic results in the 1970s, as the rest of the world stagnated. In the West, these countries came to be known as the "Asian Tigers" and grew famous for their ability to turn poverty into wealth with few natural resources—just sensible policies and hard work. Soviet scholars did not embrace the phrase Asian Tigers until glasnost, nor was it possible to celebrate their success too openly, because these Tigers were staunch capitalists. They were all also geopolitical opponents of the USSR.[91] Indeed, it is hard to imagine a group of more ideologically problematic countries from which Soviet analysts could draw lessons.

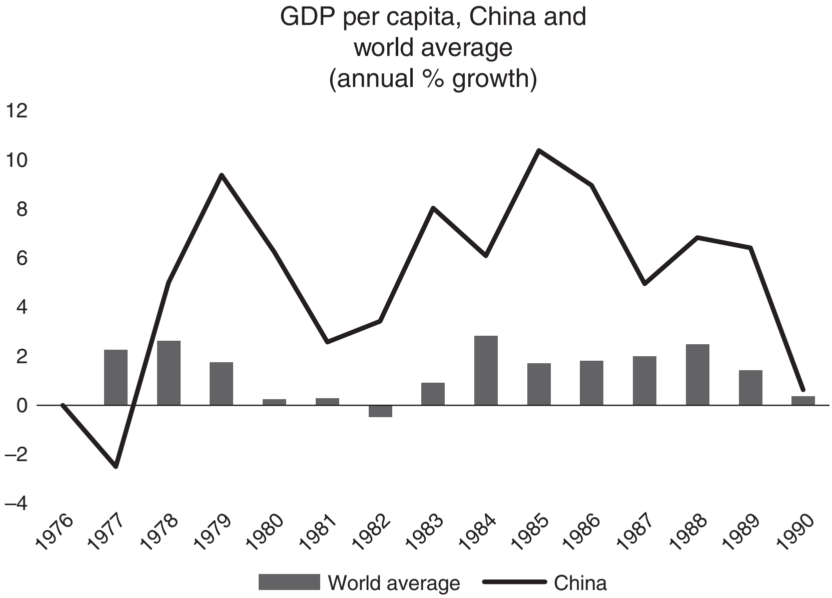

CHART 2 Source: Angus Maddison, *Historical Statistics for the World Economy* (Paris, France: Development Centre of the Organisation for Economic Co-operation and Development, 2006).

The economic growth of the Asian Tigers, however, was impossible to ignore. The Tigers followed the Japanese model, Soviet analysts noted. They started by exporting textiles, taking advantage of wages that were lower—twelve times lower, according to Soviet data—than in the West.[92] Singapore exported 63 percent of its textiles in the early 1970s, as well as 54 percent of its shoes.[93] By 1980, the Tigers had advanced quickly along Japan's path toward industrialization. As Soviet analysts noted, the countries boasted "developed infrastructure" and "qualified labor forces," especially in Singapore and Hong Kong, which made it possible "to organize fairly complex production without the need for high spending on training personnel." At the same time, economic growth meant that the Tigers were no longer simply exporters. They were also becoming consumers because growth caused "an increase in internal demand both for the production of mass goods for all the population, and for expensive durable goods for the newly wealthy local bourgeoisie."[94]

Like Japan, the Asian Tigers were part of a broader shift in the world economy. For centuries, most of the world's growth took place along the shores of the Atlantic. That was changing. Yevgeny Primakov, an academic who advised Gorbachev, noted that “the Pacific region has become the center of world development. Today it is demonstrating the most rapid rates of economic growth and scientific-technical progress.” It was not only Japan or America’s West Coast, but that “the so-called ‘economic tigers’—South Korea, Taiwan, Singapore, and Hong Kong [as well as] Malaysia and Indonesia are developing rapidly.”[95] Reports prepared by the Soviet foreign ministry reached similar conclusions.[96] Economist Ivan Tselishchev argued that the world economy’s shift toward Asia was driven by objective economic factors: “We are now witnesses to the beginnings of a radical restructuring of the world capitalist economy on the basis of electronics, informatics, advanced means of communication, and new materials. . . . The Asian-Pacific region will set the tone.”[97] While Eastern Europe was mired in debt, and the West was battling inflation and unemployment, East Asia’s rise during the 1980s seemed unstoppable. “The twenty-first century,” wrote another Soviet academic, “promises to become the century of the Pacific.”[98]

Gorbachev’s Asian Pivot

Academic institutes were among the first organizations in the Soviet Union to fully realize how radically East Asia was changing and to argue that this held lessons for the USSR. As Soviet analysts published repeatedly on the subject, the message spread quickly. In 1985, the Institute for the World Economy and International Relations, one of the most influential Soviet think tanks, founded a new Pacific Ocean Division to more closely study the region. The Institute also hosted the USSR National Committee for Asian-Pacific Cooperation, chaired by Gorbachev’s influential adviser Primakov, which promoted commercial ties between the USSR and Asia’s rising economic powers.[99] The Soviet Foreign Ministry followed with its own reorganization, creating a section that covered the countries of the Pacific Ocean and Southeast Asia, which combined Japan with the fast-growing Asian Tigers.[100]

A key proponent of pivoting to Asia sat at the top of the Soviet hierarchy: Mikhail Gorbachev. Before becoming general secretary, Gorbachev had little experience with Asia. But when he came to power he placed the region at the center of his agenda. Gorbachev repeatedly referred to the Soviet Union as “one of the greatest Asian powers,” and argued that the significance of Moscow's "Asian and Pacific Ocean orientation is increasing."[101] Realizing that many others—both within the Soviet Union and abroad—did not see the USSR as a real Asian player, Gorbachev actively asserted Moscow's role in East Asia. In 1986, during the early days of perestroika, he gave a speech in Vladivostok—a territory that Russia acquired from the Chinese in the mid-nineteenth century. The speech underscored the Soviet Union's position in Asia and set forth policies to connect the USSR with fast-growing Asian economies.[102] Gorbachev's rationale was simple: East Asia was increasingly important in world politics and economics. He explained to the Politburo in April 1986 that "the development of civilization is moving in that direction. . . . There is an objective interest in questions about Asia-Pacific Cooperation . . . the Asian-Pacific region is one of our most important orientations."[103]

When Gorbachev sat down with his speechwriters in July 1986 to prepare the speech he would deliver in Vladivostok, he repeatedly emphasized its importance, not only for Soviet foreign policy, but for perestroika, too. "The speech in Vladivostok should be large-scale," he told his advisers. It is "for the country, and for the world, and not only about regional problems. I will not speak about local matters. The Far East needs to be placed in perspective." Gorbachev asked his advisers to emphasize that "the Soviet Union is a European and at the same time an Asian country, so it is closer to Asian problems." The Soviet Union should redouble its efforts in Asia, Gorbachev explained to his speechwriters, because "civilization is moving toward the Pacific Ocean."[104]

When Gorbachev finally delivered his Vladivostok speech on July 28, 1986, it was one of the USSR's biggest foreign policy events of the year. Gorbachev began by emphasizing economic development in Siberia and the Soviet Far East, and calling for more Soviet exports—the economic motor that drove development in other East Asian countries. But increased trade was only possible if the Soviet Union played an active role in the Asia Pacific region. Gorbachev argued that Soviet citizens needed to take Asia more seriously. The reasons were geography and economics. "Many major states of the world," Gorbachev argued, "including the United States, India, China, Japan, Vietnam, Mexico and Indonesia," border the Pacific Ocean. "Here are situated states which are considered to be medium-sized ones, but are rather big by European standards—Canada, the Philippines, Australia, and New Zealand." Scale alone meant that the Soviet Union needed to focus on Asia, Gorbachev insisted: "this colossal human and socio-political massif calls for close attention, study and respect."[105]

On top of that, Gorbachev argued, Asia was experiencing a new bout of dynamism. Asia "woke up to a new life in the twentieth century," Gorbachev argued, and now was catching up to Europe. He cited a "whirlwind of changes—social, scientific, and technological . . . a renaissance of world history." The USSR needed closer economic ties as a result. "The laws of growing interdependence," explained Gorbachev, "and the need for economic integration urge one to look for ways leading to agreement and to the establishment of open ties between states."[106] The Soviet Union needed to settle its political disputes with China, Japan, and other Asian states, in order to trade with them.

Above all, that meant China, a country with which the Soviet Union nearly went to war in the late 1960s, and which was an ideological competitor and geopolitical opponent. Gorbachev knew that improving ties with China was key to engaging with Asia, and he put China at the center of his Vladivostok speech. "Speaking in a city which is but a step from the People's Republic of China," Gorbachev said, it was important to discuss how the two countries' relationship could be improved. He reaffirmed that he was ready for talks with the Chinese leadership to resolve disagreements. "The Soviet Union and China have similar priorities," Gorbachev argued, "to accelerate social and economic development."[107]

Gorbachev's Vladivostok speech marked a sea change in Soviet thinking about international politics and economics, though at the time most analysts did not fully comprehend its importance. Amid sharp disputes about mid-range nuclear missiles and civil wars in Africa and Latin America, it was easy to miss the broader shift in the Soviet Union's orientation. But by the time of Gorbachev's Vladivostok speech in 1986, Soviet policymakers and intellectuals had begun to see the world differently. The stagnation and crises of the 1970s and 1980s in Eastern Europe and in the West convinced Soviet leaders that they needed to look elsewhere for models of reform. The rapidly growing economies on the USSR's eastern border were the obvious place to turn. Most historians have overlooked perestroika's Asian roots, but they were clear to contemporaries. Leading economist and Gorbachev adviser Stanislav Shatalin, for example, was asked by a journalist which of the world's economic models the Soviet Union should emulate. Should it copy the West, or learn lessons from its Eastern European socialist allies? The question of international orientation had vexed Russia since Peter the Great, but like many perestroika-era intellectuals, Shatalin believed it was time for something new. “We need to be more attentive to the experiences of Japan, South Korea, and China,” he said. “It is time to unite the Slavophiles and Westernizers, and turn our face to the east.”[108]

2 Take Off or Leap Forward?

Soviet Assessments of China after Mao

As Soviet intellectuals and policymakers turned toward the East and began trying to make sense of the newfound dynamism on the shores of the Pacific, one question predominated: "Where is China headed?"[1] Japan's trajectory seemed obvious: since 1945, Japan had steadily expanded its industrial might. South Korea and the other Asian Tigers were manufacturing powerhouses closely integrated with the capitalist West, so their future seemed clear. China, however, was still recovering from the tumults of Maoism and the terrors of the Cultural Revolution, the violent period of leftist ascendancy in the late 1960s. Its new leaders were promising change, but it was not yet obvious—to Soviet observers, Western analysts, or even the Chinese themselves—where these new policies would lead. The question, "where is China headed?" was not only important because China was a nuclear-armed country with a billion people. China's system of communist central planning and economic management was modeled on the USSR's. If China could overcome the faults of central planning and revitalize its economy, maybe the Soviet Union could, too.

In assessing China's changes, the Soviet Union drew on an extensive but complicated history of engagement with the People's Republic of China. After Mao Zedong's communists took power in China in 1949, they turned to Moscow for advice on establishing a Marxist-Leninist state. In the early 1950s, thousands of Soviet advisers worked in China, teaching in schools and universities, introducing new factory technologies, and sharing advice about socialist development.[2] The economic model that China adopted under Mao was copied from the Soviet Union. But cooperation was short lived. In the mid-1950s and 1960s, the relationship between the two countries collapsed, nearly leading to war over border disputes in 1969. There were several causes of the Sino-Soviet split, but one key disagreement was over Stalin's legacy.[3] Stalin's successor as leader of the Soviet Union, Nikita Khrushchev, sought to roll back some of the "excesses" of Stalin's rule. In 1956, Khrushchev delivered his famous “secret speech” to the Twentieth USSR Communist Party congress, which condemned Stalin’s personality cult and other abuses, and called for more openness in Soviet politics.

Khrushchev’s speech may have been secret at first, intended only for USSR Communist Party members, but news of the Kremlin’s partial repudiation of Stalin’s crimes was soon known far beyond Soviet borders. The speech undermined Stalinists in Western Europe by publicizing the late dictator’s crimes. In China, however, the secret speech had the opposite effect: Chinese leaders concluded that it discredited not Stalin, but Khrushchev. Mao was personally committed to Marxism-Leninism as an ideology, and believed that Khrushchev was a dangerous revisionist who threatened socialism’s gains. De-Stalinization also threatened Mao’s rule at home. Khrushchev criticized Stalin’s personality cult even as Mao was busy constructing one of his own. To stave off any threats to his position, Mao viciously attacked Khrushchev’s secret speech, denouncing it as revisionist and anti-Marxist. The Soviets responded in kind, and relations between the two countries spiraled downward until 1969, when their armies exchanged fire over their disputed border.

The demise of the Sino-Soviet alliance had an unexpected consequence, however, as Soviet interest in Chinese politics increased markedly. The reason, historian Aleksandr Lukin has shown, is that the Sino-Soviet split “gave China experts and the public at large a unique chance to legitimately criticize a socialist country.”[4] Moscow actively encouraged attacks on China as part of its propaganda campaign to delegitimize Maoism. Yet Soviet intellectuals quickly realized that condemning Mao could serve two purposes, pointing out flaws in the Soviet Union as well as in China. “Under the screen of ‘Maoism,’ ” Lukin explains, “it became possible to condemn almost any vice of the Communist system: the despotic rule of one personality, the dictatorship of the party bureaucracy, the economic crisis, the miserable living conditions of the population, the lawlessness, the militarism, and the expansionism.”[5] So long as critics blamed Mao for these failings, rather than communism in general, Soviet censors would approve almost anything.

A number of influential Soviet intellectuals began to research and write on China during the 1960s and 1970s to take advantage of this back-door intellectual freedom. One of the most important was Fedor Burlatsky. Burlatsky was born into a family of politically active Bolsheviks—he was named Fedor after Friedrich Engels—and his career brought him close to the centers of Soviet power, though his vocal opposition to Stalinism meant he had many enemies, too. After completing a degree in law and supplementing his formal education with secret readings from Trotsky, Bukharin, and other early Bolsheviks who were purged by Stalin, Burlatsky became an adviser to Nikita Khrushchev, just as the Soviet leader was beginning to remove some of Stalin's brutality from Soviet politics.[6]

Burlatsky later said that he was to Khrushchev what Ted Sorensen was to John F. Kennedy—not only a speechwriter but a counselor and a persistent advocate for political openness.[7] Burlatsky worked directly under Yuri Andropov, who would later lead the Soviet Union, as part of a team of intellectuals who advised Khrushchev on political matters. Many of the analysts who worked with Burlatsky later played prominent roles in Soviet politics, including academics Georgy Arbatov and Oleg Bogomolov, journalist Aleksandr Bovin, Foreign Ministry spokesman Gennady Gerasimov, and political adviser Georgy Shakhnazarov.[8] Shakhnazarov, who served as a leading aide to Mikhail Gorbachev, had been a longtime friend of Burlatsky's since their student days. Because of this personal network, Burlatsky had a wide array of contacts within Soviet political and intellectual circles. Even after he quit active politics, Burlatsky's writings remained highly influential, particularly among the reform-oriented officials with whom Burlatsky began his career.

After Khrushchev was ousted, Burlatsky left the government, disgusted by the turn that Soviet politics had taken. During the era of stagnation under Brezhnev, Burlatsky's writings took on an increasingly critical tone, and he was occasionally harassed by censors and opponents for failing to toe the party line.[9] In the 1960s and 1970s, Burlatsky regularly published books and articles that were ostensibly critiques of Mao Zedong's China, but were primarily intended to illustrate to Soviet readers the dangers of Stalin-style dictatorship. In his memoirs, published after the USSR's collapse, Burlatsky discussed his double purposes openly, writing that the Sino-Soviet split "gave me the opportunity of comparing Maoism with Stalinism."[10] "My book about Mao," he later explained, "was really about Stalin and Stalinism."[11] Georgy Arbatov made a similar point about Soviet sinology during the Maoist era. Conflict with China meant that "the policies [Beijing] was advocating were automatically discredited" in the Soviet Union.[12] After Chinese communists published an open letter to the Soviet Union in 1962 criticizing de-Stalinization, Soviet reformists such as Arbatov and Burlatsky pounced. Responding with their own open letter, they called on the Chinese Communist Party to "ask the thousands upon thousands of innocent people who suffered from repressions during the personality cult and who regained their freedom and good name, and you will find out," why de-Stalinization was necessary.[13] The letter was sent to the Chinese, but the intended recipients were also those in the Soviet Union who still defended Stalin.[14]

These polemics meant that, despite the sour relations between the USSR and China, Moscow had a wide array of experts with a sophisticated understanding of contemporary China. Indeed, as relations with Beijing deteriorated, the Soviet government allocated more resources to the study of China, creating the Far East Institute in 1966, which assembled leading sinologists.[15] These specialists were unsympathetic to Mao's politics, and the new institute was known for the harshly anti-Chinese positions of its most prominent scholars. But funding for sinology did, however, guarantee that the Soviet Union had plenty of expertise with which to understand shifts in Chinese policy.

Chinese Politics after Mao's Death

The end of the Cultural Revolution in the early 1970s, and Mao's death in 1976, caused a sharp shift in Soviet debates about China. Previously, all Soviet analysts agreed that Maoism was despicable, though they disputed the ramifications of that conclusion for Soviet domestic politics. After Mao's death, however, Soviet scholars and policymakers began to disagree about whether Maoism died along with Mao, or whether it continued in a new guise, "Maoism without Mao." That question was particularly important because China had announced plans to rejuvenate its economy. Was China's post-Mao economic vision the start of a takeoff of the type that propelled Japan and the Asian Tigers in previous decades? Or was China merely beginning another leap forward, which would end as disastrously as Mao's Great Leap Forward of the 1950s?

The Soviet Union's most vocal and influential sinologists continued to attack the Chinese government. That led many outsiders to conclude that Moscow's top sinologists believed that nothing had changed in Beijing. Led by Oleg Rakhmanin, a top party official, and Mikhail Kapitsa, who was appointed deputy foreign minister in 1982, hawkish Soviet China-watchers argued in the late 1970s and early 1980s that any changes in Chinese politics after Mao's death were only cosmetic.[16] Insofar as Chinese politics were shifting, these officials argued, it certainly didn't change Beijing's status as an immutable enemy of the Soviet Union.[17] This was the position of the USSR's most prominent journal that covered China, *Far Eastern Affairs*, which was published by the ideologically orthodox scholars of the Far East Institute.[18] In the early 1980s, the journal recognized some minor spheres in which Chinese policy was changing, but it placed these innovations within a context of continued anti-Soviet politics. One representative article, published in 1982, argued "the present Chinese leadership had to reappraise many important aspects of Maoist theory and practice. But it continues to pursue the hegemonistic [i.e., anti-Vietnam, a close Soviet ally] policy bequeathed by Mao Zedong of accelerating the militarization of the country, whipping up anti-Sovietism, aggravating international tension and leaguing with imperialism."[19] Beijing's belligerent foreign policy, the article suggested, was evidence that China's communists have "renovated Maoism as the ideological and political foundation for the development of Chinese society."[20]

Other analysts argued that Maoists had become the "main ideologues and warmongers of global conflict."[21] The Soviet Foreign Ministry took a similar line, reminding its ambassadors posted abroad that "there is absolutely no basis for concluding, as some do, that Beijing's alleged adoption of a 'modernization program' represents a new political course to overcome China's economic backwardness. . . . In China they don't hide the fact that 'modernization' is the best means of preparing for war."[22] Mao may have died, these analysts argued, but Mao's foreign policy lived on.

Many scholars have presumed that the existence of a vocal anti-China lobby in the USSR meant that Soviet policymakers were receiving a biased or inaccurate view of China's post-Mao trajectory.[23] But the complexity of the Sino-Soviet relationship meant that there was more than one interpretation of China within the Soviet Communist Party. In the early 1980s, even as the USSR's China skeptics declared that Deng Xiaoping's ascendance meant a continuation of Maoism, reformists in the Soviet Union reached the exact opposite interpretation. Compared to the 1960s, however, there was one major difference. In the past, Soviet liberals pointed out the despotic aspects of Maoist rule to emphasize the types of policies that Moscow should avoid. As Deng Xiaoping consolidated power, Soviet reformists were impressed by China's new policies. They wrote about China to emphasize the lessons the Soviet Union could learn.

One of the earliest Soviet writers to question the conventional wisdom about post-Mao politics was Fedor Burlatsky, who had previously published articles against Maoism in an attempt to spur change within the

USSR.[24] After Mao's death in 1976, Burlatsky realized that China's politics were changing. Burlatsky had no formal training as a China expert. But over the course of two decades he had engaged deeply with Soviet debates about China, and—perhaps because of his participation in intraparty disputes in the USSR—he had a keen eye for the nuances of Chinese politics. In 1978, just two years after Mao's death, Burlatsky took to the pages of *Novy Mir*, a magazine popular with the Soviet intelligentsia, to insist that it was time to take a new look at China.

Burlatsky began his article by noting the apparent continuities of Chinese politics before and after Mao's death. At "the ceremonial meeting to dedicate the memorial of Chairman Mao Zedong," Burlatsky wrote, Chinese leader Hua Guofeng "delivered a speech ordering all the party, the army, and the people . . . to fulfill the commands of Mao Zedong," and urging his colleagues to "pass the great banner of Chairman Mao Zedong from generation to generation like a valued legacy." Hua's speech, Burlatsky admitted, suggested that the Chinese government would seek to continue Mao's politics—and would continue to reap results as disastrous as the Great Leap Forward and the Cultural Revolution. But Burlatsky urged readers to look more deeply. Did China really intend to copy Mao's policies indefinitely? "From generation to generation?" Burlatsky asked skeptically. "For a long time, for ever? For ever and ever?"[25]

Burlatsky was not convinced that China would pursue Maoist policies after the great dictator's death. In fact, Burlatsky argued, China's elite was divided between different factions. On the left was the Gang of Four, led by Mao's wife Jiang Qing, who had been a leader of the Cultural Revolution. Burlatsky agreed that the Gang of Four were extremists, whose policies led China to disaster.[26] But the leftists' influence had fallen sharply. A month after Mao's death, the Gang of Four was jailed.[27] In their place, Burlatsky noted, were "pragmatists," whose "spiritual leader" was the late Zhou Enlai, Mao's longtime deputy, who focused on practical policy rather than revolutionary theory.[28] The military, which opposed the leftists, played an influential role in bringing pragmatists back to power. Defense Minister Ye Jianying was the second most powerful figure in the Communist Party, so there was little risk of a new coup.[29]

Burlatsky argued that the pragmatic faction was slowly restructuring Chinese politics. The legal system, for example, was changing rapidly. Burlatsky highlighted the reappointment of "prosecutors who had been liquidated in 1975," "the emergence of a system of peoples' courts," and a series of amendments to the constitution that confirmed "the basic rights and responsibilities of citizens," many of which were copied from China's pre–Cultural Revolution constitution, and thus represented a rejection of Cultural Revolution radicalism.[30] More importantly, key pragmatic leaders were promoted. Deng Xiaoping, a former top aide to Mao who had fallen afoul of the leftists, returned in 1977 to all of his posts.[31] Burlatsky argued that Deng was one of the most important figures in the Chinese Communist Party, describing him as a man with a "unique political biography" and "one of the most influential and authoritative leaders of the CPC." Deng would use his new power, Burlatsky argued, to improve China's economy, noting Deng's promise that "every family should have a bike, sewing machine, and TV. Every person should have 60 pounds of meat per year, half an apple a day, plus a bit of baijiu," the Chinese liquor.[32] Ideological exhortation had been replaced by promises of material improvement. The contrast with the radical politics of the Cultural Revolution was stark.

Deng rejected many central Maoist policies, Burlatsky pointed out. "In the depths of his soul he not only rejects the policies of the 'Great Leap Forward,' and the 'People's Communes,' " Burlatsky suggested, "but even the Cultural Revolution, which touched him personally and which cost the Chinese Communist Party so dearly."[33] How, then, should Soviet readers interpret the slavish references to Mao's great legacy, which Chinese officials repeated on a daily basis? Ignore them, Burlatsky recommended.

It was true, Burlatsky granted, that Hua Guofeng, the nominal leader of the Communist Party, avoided uncomfortable questions and regularly declared his allegiance to Mao's legacy. But other Chinese politicians were questioning Maoist politics, Burlatsky noted, citing "an increasingly visible attempt to distinguish between the positive and negative sides of the Cultural Revolution."[34] What policies did China's pragmatists intend to implement? Burlatsky argued that "two important ideas of the new government of the country are notable: firm order and modernization. Today in China there is no more popular slogan than the slogan of firm order."[35] This was an additional guarantee that China would not slide back toward revolutionary chaos, giving Burlatsky and his readers additional assurance that Chinese politics had reached a fundamentally new stage.

Burlatsky's article in *Novy Mir* did not simply provide an important argument that China was changing. The very fact that the article was published showed that Soviet interpretations of China were changing, too. Soviet censors carefully policed what was published, and because Burlatsky had a reputation for pushing ideological boundaries his pieces were probably vetted more carefully than most. Getting the censors' approval for such an article, which directly rebutted official Soviet interpretations of China, would have required careful bureaucratic maneuvering. That Burlatsky's article was published shows that the consensus Soviet interpretation of Chinese politics was already beginning to shift.[36]

The Far East Institute and "Orthodox" Interpretations of China's Reforms

Even Soviet analysts who were most skeptical of China accurately conveyed to readers in the late 1970s and early 1980s the types of legal and institutional changes with which China was experimenting. Throughout the 1960s and 1970s, Soviet propaganda regularly bashed Mao's China for diverging from proper Marxist-Leninist practice. *Far Eastern Affairs*, the Soviet Union's flagship journal of China studies, frequently identified fundamental flaws in China's political and economic system. Many of these pieces were written by serious scholars, but the articles were primarily intended as weapons in the propaganda war between the two communist superpowers. Titles such as "The Anti-Marxist Essence of Maoism" and "Flouting the Interest of the Chinese Working Class" illustrate the types of arguments that the Soviet press deployed against Beijing.[37] Most of these publications were not flatly inaccurate—the article "Arbitrary Rule and Violence as the Basis of Maoist Policy" sensibly summed up the Cultural Revolution—but they were far from objective analyses of Chinese politics and society.[38]

In the years after Mao's death and Deng's ascendance, Soviet publications on China continued to play a crucial role in this ideological struggle. Accusations that Beijing was abusing its working class remained a staple of Soviet sinology. For example, one article published in *Far Eastern Affairs* in 1981, three years after Deng took power, levied allegations that looked similar to Soviet criticisms of the Great Leap Forward and the Cultural Revolution: "Today, China's economic basis is marked by the existence of formal socialisation, whereas the forms of ownership are increasingly assuming a character alien to the people's interests," alleged two top Soviet sinologists. "Maximisation of the surplus product for the sake of militarisation and hegemonism is increasingly becoming the supreme aim of state-owned production. The Chinese leaders are trying to adapt socialist forms to their antisocialist policies."[39]

To an inattentive reader, it might seem like nothing had changed. Yet even among scholars working in "orthodox" institutions that were critical of the Chinese, Mao's death caused a subtle shift. During the Cultural Revolution, much Soviet criticism was empty propaganda. But as Deng and his allies began opening China's economy during the late 1970s and early 1980s, "antisocialist" began to accurately describe Beijing's goal of decollectivizing agriculture and placing greater emphasis on market forces. Many Soviet analysts did not reduce the venom in their broadsides against China's government. But as Beijing began permitting private economic activity, Soviet claims that China was abandoning the socialist path began to ring true. As analysts described Deng's efforts to undermine Mao's socialist order, Soviet readers received a fairly accurate picture of what economic policy under Deng entailed.

Both published essays and classified internal reports prepared by the USSR's Far East Institute, which were unpublished but distributed throughout the upper echelons of the Communist Party, show that as early as the beginning of the 1980s, Soviet scholars had a detailed understanding of China's economic policies. This was true both of scholars who admired China's reforms, and of those analysts who criticized Beijing on ideological grounds.[40] For example, as researchers at the Far East Institute compiled detailed analyses of China's agriculture policies under Deng Xiaoping, they accurately reported these revolutionary innovations to Soviet Party leadership. "The whole meaning of the current changes" in China, one 1981 briefing explained, can be characterized as a reduction "of strict governmental regulation in planning and organizing industry."[41] The scale of change, institute scholars pointed out, was tremendous; "the reorganization of the management system firstly affected the people's communes with about nine-tenths of the country's population."[42]

Like many analysts in China and in the West, Soviet scholars were initially unsure whether Deng's decision to reverse the collectivization of agriculture, allowing peasants to leave collective farms and return to family farming, would increase harvests. Reports prepared by the Far East Institute pointed out that "many agrarian workers consider the 'Household Responsibility System' "—as Chinese family farming became known—a system of "private labor."[43] Because China's agricultural reforms were reversing the collectivization of farm land, some Soviet scholars reasoned, they would be accompanied by the same ills that plagued China before the revolution: "the differentiation of the peasantry and formation of a very limited wealthy stratum in its society."[44] Institute analyses reported evidence of "radical changes" in the social structure of China's villages. Discrimination against the relatively wealthy declined, and limits on wealth accumulation were removed.[45] Chinese society started to look less socialist, and more "traditional."[46] These criticisms of China were influenced by the USSR's official ideology, but they were not groundless. And it was not only Soviet scholars who were skeptical about the social effects of Deng's policies. Chinese publications such as *Hongqi*, which was run by orthodox Maoists, made similar arguments about the links between decollectivization, inequality, and social conflict.[47]

Soviet scholars also reported on new developments in Chinese industrial organization, with some analysts criticizing the antisocialist behavior of China's government. Here too, Soviet critiques were not simply blind ideology, but evidence that Soviet analysts understood changes in Chinese policy under Deng. One research report prepared by the Far East Institute in 1981 noted that China was developing new forms of property and organization for industrial and commercial enterprises. Beijing was planning to "develop the cooperative sector in the industry and in the services sector versus the state-owned" sector of the economy. China's leaders concluded that central planning could not provide the industrial growth the country needed, Soviet scholars noted, so Beijing was embracing varied "forms of economic management."[48] At the same time, China hoped to develop joint ventures with foreign companies.[49] "In practice," the Soviet report concluded, China was not moving toward a flexible socialism. It was abandoning socialism, and "allowing market elements into the economy" instead.[50]

Soviet criticism of China for "reviving anti-socialistic forms of property" accurately conveyed Deng's reforms.[51] In 1980 alone, reported one article in *Far Eastern Affairs*, 320,000 people in China received licenses to run a private enterprise, and perhaps another 130,000 operated businesses without licenses.[52] That was still only a tiny share of China's population, but these de facto private businesses represented 10 percent of all output in services, according to Soviet sources. This marked a tremendous change from a decade earlier, when students carrying little red books dragged the country into a civil war by harassing, beating, and sometimes killing those suspected of capitalist sympathies.[53]

Even Mikhail Kapitsa and Oleg Rakhmanin, the Soviet policymakers who were most skeptical of rapprochement with Beijing, were well aware of China's changes. Historian Sergey Radchenko has unearthed new evidence from Mongolian archives showing that as early as 1982, Kapitsa was openly discussing China's turn toward capitalism. "They have advanced the motto 'let's get rich' and everyone has escaped into trading," Kapitsa said. "In ten years, the capitalists and kulaks [rich peasants] will multiply."[54] Kapitsa was aware of these dynamics, having visited China several times in the early 1980s.[55] He and his ally Rakhmanin remained skeptical of improvements in Sino-Soviet relations, but they opposed Beijing on the grounds that domestic reforms did not reshape Beijing's anti-Soviet foreign policy. They did not deny that China was changing at home, and the publications that they influenced discussed Beijing's new economic policies openly. Even in the late 1970s and the first years of the 1980s, when the Soviet Union and China were sworn ideological enemies, attentive readers of the Soviet press—and, especially, party leaders who received classified reports from the Far East Institute—could see that great changes were underway. It was not yet clear whether China's new economic measures would succeed. But accurate reporting from Soviet sinologists meant that behind the harsh rhetoric—and underneath the usual boilerplate criticism that "the economy of China is in deep crisis because of violations of objective economic principles and because the vital interest of the laborers is ignored"—Soviet policymakers knew that China was changing quickly.[56]

Soviet Analysts on Deng Xiaoping

In the four years after Burlatsky published his first article on post-Mao China in 1978, Deng Xiaoping moved quickly to cleanse China of many of Mao's legacies, proving Burlatsky's predictions correct. Deng focused on removing Mao's allies, and Hua Guofeng, Mao's hand-picked successor, was the main target. After several years of maneuvering within the Chinese Communist Party, Deng assembled a coalition against Hua and his philosophy of the "two whatevers"—"whatever decision Chairman Mao made we will resolutely support; whatever instructions Chairman Mao made we will steadfastly abide by."[57] Deng pointed out that the logic of the "two whatevers" was as extremist as the Cultural Revolution, and the party sacked Hua from his position as premier in 1980 and put Zhao Ziyang, one of Deng's top allies, in Hua's place.

Even after the leadership changes, however, China's government did not abandon Maoism as an ideology. This presented a dilemma for Soviet China-watchers. Burlatsky believed that Beijing's Maoist trappings were nothing more than political cover for a sharp change in policy; he took to the pages of *Novy Mir* again in 1982 to set out his argument. Did the ascendance of Deng Xiaoping mark a genuinely new era of Chinese politics, or might Beijing revert to Maoist leftism and revolutionary chaos? As with his previous writings on China, the fact that Burlatsky's article was approved by censors suggested that his ideas already received strong support from at least part of the Soviet leadership.

Deng's conservative wing of the party was deeply fearful of a return to the chaos of the Cultural Revolution, Burlatsky believed. Public veneration of Mao, therefore, served two purposes. First, it soothed the left's wounds, ensuring that Mao continued to be venerated and keeping radicals from too openly opposing Deng's policy shifts. Second, maintaining the cult of Mao made it harder for any other Chinese leader, including Deng, to construct a personality cult for himself. This provided a guarantee to the various factions in the Chinese Communist Party that no one group would monopolize power. Because of this, Burlatsky argued, it "is useful for [the Chinese leaders] to pretend as if they believe China's newest political show."[58] Despite Deng's new policies, veneration of Mao would continue.

Burlatsky was nonetheless convinced that China's adherence to Maoism was a façade. The most important question, Burlatsky believed, was "who represents the new government?" The answer was, "Deng Xiaoping." Because Deng's policies were "without doubt an indicator of a search for a more realistic approach to sharp problems that the country faces," Burlatsky concluded that moderation and stability would mark China's politics going forward. Deng was not the only top Chinese politician who supported this new line. Hu Yaobang, the new de jure head of China's Communist Party, criticized Mao in a meeting with a Spanish politician in November 1980. Burlatsky noted that "Hu is a supporter of large-scale reform in China." Meanwhile, Zhao Ziyang, the Deng ally who replaced Hua Guofeng, had used markets to restructure agriculture when he was governor of Sichuan province.[59] Chinese top leaders, Burlatsky argued, were committed to political moderation and economic development.

Burlatsky's interpretation of China's politics was not unique. It closely mirrored the consensus view in the West, where analysts agreed that Deng Xiaoping wanted to move Chinese policy away from Mao's leftism.[60] Indeed, Burlatsky may have borrowed much of his analysis from Western or Japanese accounts, given how extensively he cited foreign writers.[61]

But his main purpose was to interpret Deng's China for Soviet readers, and he shaped his analysis to maximize the extent to which Soviet readers felt comfortable learning from Deng's moderate policies. Whereas Soviet scholars at the Far East Institute bashed Chinese foreign policy by alleging, accurately enough, that Beijing was abandoning socialism, Burlatsky took the opposite tack. China under Deng was returning to socialism, Burlatsky insisted, by casting off Maoist deviations. "On different levels of Chinese society thousands of enthusiasts are dreaming of changing the structure and renewing the country, returning it to the socialist path of development," Burlatsky wrote. "Waves of innovation and enthusiasm percolate through the press and are reflected in the struggles of different political currents within the Chinese government."[62]

Burlatsky and the China skeptics at the Far East Institute differed over whether China's policies entailed a return to socialism or a rejection of it. Burlatsky wanted to legitimize the reforms in Soviet eyes, so he compared them to Lenin's New Economic Policy—the period during the 1920s when Lenin embraced the use of markets within the Soviet economy. Opponents of Chinese reforms, meanwhile, asserted that reversing the collectivization of agriculture meant undoing socialism's gains.[63] Burlatsky's opponents denied any similarities between China's policies and the New Economic Policy, lest Soviet readers interpret Deng's policies as Leninist, and therefore acceptable.

Despite these differences in interpretation, by the mid-1980s Soviet supporters and opponents of economic liberalization increasingly accepted Burlatsky's argument that the influence of Maoism was receding. An article published in 1982 in *Far Eastern Affairs*—long a forum for bashing China—echoed Burlatsky's praise of China's legal reforms and described "the condemnation of the Maoist repressions, the posthumous rehabilitation of the former Chairman of the PRC, Liu Shaoqi, and other victims of Maoist political campaigns" as an event "of much political importance."[64] Even more significant than the political criticism of Maoism, the article suggested, was China's rejection of Maoist economic policies, including "severe criticism" of the Great Leap Forward and the description of the Cultural Revolution as a "catastrophe."[65] Classified reports prepared by the Far East Institute reached similar conclusions. China's economic revitalization program, argued one analysis, was based on realism rather than radicalism. Attempts to leap forward were replaced by an acknowledgment that the country will be able "to approach the level of a developed country" only by the mid-twenty-first century.[66] China's era of leftist zealotry had come to a close, and Soviet politicians began to take note.

Brezhnev's Rapprochement with China

Improving relations between Moscow and Beijing added impetus to Soviet efforts to understand China's changes. In the early 1980s, Soviet leaders worried about America and China's rapidly warming ties and sought to decrease tensions with Beijing in response. That required limiting ideological conflict with Beijing, with the goal of eventually resolving the border dispute and other disagreements. In a speech in 1981, Soviet leader Leonid Brezhnev began toning down the propaganda war. He declined to repeat charges that China under Deng was simply a continuation of Maoism, suggesting instead "changes were occurring" in China's "internal policies and that, to some extent, China's leadership was overcoming the Maoist legacy."[67] This was a substantial concession because it meant that Soviet propagandists could no longer simply cite the Cultural Revolution and the Great Leap Forward as evidence that China deviated from socialism. Now even the Soviet Union's leader admitted that China had abandoned Maoism.

Moscow continued to temper its anti-China propaganda throughout the early 1980s. In 1982, two top China specialists in the Soviet Foreign Ministry, Mikhail Kapitsa and Sergei Tikhvinsky, visited Beijing, the highest-level diplomatic exchange in many years.[68] That same year, Brezhnev traveled to Tashkent to deliver a speech calling for improvements in Sino-Soviet relations. In Tashkent, Brezhnev signaled his desire for reduced ideological conflict, arguing that the two countries clashed primarily with regard to their foreign policies, not their understanding of socialism. "Despite the fact that we openly criticized and continue to criticize many aspects of the policy (especially foreign policy) of the Chinese leadership as being at variance with the Socialist principles and standards," Brezhnev declared, "we have never tried to interfere in the internal life of the People's Republic of China." That was untrue, of course, but it provided an important signal to Soviet scholars. "We did not deny and do not deny now the existence of a Socialist system in China," Brezhnev continued, "although Peking's junction with the policy of imperialists in the world arena contradicts, of course, the interests of Socialism."[69]

Brezhnev's logic, explained speechwriter Aleksandr Bovin, was simple: "Mao is gone, the Gang of Four is in jail, so something must be changing, and not for the worse."[70] Brezhnev's speech signaled that Soviet criticism would henceforth focus on Beijing's foreign policies, not its domestic politics. It was no longer necessary for orthodox analysis to blindly assert that any policy change in China was yet another example of Beijing's willingness to flout the interests of the working class. A new era of objectivity and openness in Soviet analysis of China's economy was the result.

This new openness was increasingly visible in Soviet analysis of Chinese ideology. Soviet scholars had examined Beijing's political debates in the past, of course, but publications from the Far East Institute and other research centers were constrained by the need to prove that Mao and his successors were deviating from the socialist path. Brezhnev's speech changed this by affirming that, despite Mao's mistakes, China's government nonetheless abided by "socialist principles and standards."[71] This meant that, while Soviet propagandists would continue to criticize the Cultural Revolution, the Soviet press could now straightforwardly report on Chinese domestic politics without engaging in arguments about the meaning of socialism.

One of the first published articles to take advantage of the new openness was Ivan Naumov's 1984 examination of new forms of property in China. Well over a year before perestroika began in the USSR—even before Gorbachev came to power—Naumov's article laid out the debate under way in China about whether state, private, or mixed ownership of property worked best. In accordance with Brezhnev's admission that China was a legitimate socialist country, Naumov did not question that China's new forms of property were compatible with socialism, even though Beijing was decollectivizing agriculture and privatizing many enterprises, thereby reversing core communist policies.

Naumov argued that the redefinition of property was one of the most important questions in contemporary China. With the exception of diehard Maoists, most Chinese, especially those close to Deng Xiaoping, recognized that the Great Leap Forward and the Cultural Revolution had been disastrous. Many blamed the government's economic policies for the country's backwardness. Before Deng, China had not undertaken a single scientifically based economic reform since the years immediately after the revolution, Naumov noted. Instead, problems were widely visible: "over-centralization and lack of economic independence of enterprises, disregard of economic laws and commandism, severance of production from consumption, growth of bureaucracy."[72] All of this, Naumov wrote, pointed Chinese policymakers toward a radical conclusion: China's system of property relations needed to change.[73]

The reason for introducing new types of property, Naumov explained, was that China's leaders realized that collective property does not "create stimuli for the development of production."[74] State-controlled production, in short, was inefficient because it lacked incentives. This was a radical argument, running against decades of economic thinking in the Soviet Union as well as in China. The question of whether economic laws existed at all was a contentious point in Soviet economics; many hardliners argued that the only objective laws were those of Marxism-Leninism, the highest science. But Chinese economists, Naumov pointed out, rejected that logic and embraced incentives.

Soviet analysts had previously attributed China's embrace of de facto private property to the country's deviant and antisocialist leadership. Naumov, however, suggested that decollectivization was required by economic laws. "The critical economic situation demanded immediate steps . . . and the reappraisal of a number of 'guiding ideas' concerning property," he wrote.[75] Looking at the problems that beset China, Naumov explained, "the only natural conclusion is that it is necessary to 'regulate' and 'transform' the existing property system in the PRC"—to turn it into a regulated market economy rather than a centrally planned one.[76] Naumov had no doubt about the significance of his conclusions, which applied not only to China but to other socialist countries too. Debates about "objective economic laws, on the aims of production and the fundamental economic law of socialism," were "highly important theoretical questions of the socialist political economy," he pointed out.[77] And by describing the questions as socialist, he legitimized them, opening them to debate not only in China, but in the Soviet Union as well.

Time to Learn from China?

Fedor Burlatsky visited China in fall 1985 as part of the Soviet-Chinese Friendship Society. He published an account of his trip the following year in *Literaturnaia Gazeta*, a leading newspaper. Burlatsky's main purpose was to explain to Soviet readers why China's reforms mattered to the USSR. By this time, Burlatsky's audience was not simply the reading public. After Mikhail Gorbachev's ascendance to power in 1985, Burlatsky was not just an influential intellectual; he was someone who had the ear of the general secretary.[78]

Burlatsky structured the account of his travels in China around a series of conversations with people he met. The first was Zhao Maomei, a thirty-eight-year-old village head who lived in central China, just two kilometers from the Yangtze River.[79] Zhao reported that before reforms, the village harvested 100 to 150 kg of wheat and rice per plot of land, but now it reaped 800 kg per plot. Farmer Zhao, Burlatsky reported, credited the growth in crop yields to the loosening of rules governing collective farms, giving more decision-making authority to individual farmers. The new system worked well, Zhao told Burlatsky, and "every family's income has approximately doubled over the last six years."[80]

Improvements in farming productivity were not the only changes that Burlatsky noticed in the Chinese countryside. In many villages, he found, some residents had abandoned farming and turned to manufacturing instead. A cooperative near Farmer Zhao's village started "developing small-scale industrial production," Burlatsky reported. "They operate small factories for the production of wire, screws, synthetic fibers, and bricks, a weaving factory, and a dying workshop." In addition to manufacturing, the cooperative entered the service sector too: "hostels, large storage facilities, a cafeteria, a restaurant, a garage, and a movie theater." All of these businesses, Burlatsky wrote, were founded by local cooperatives that gained new authority via Deng's reforms. To be sure, China's villages were still very poor, and many houses lacked running water, toilets, and heating. But the burst in business activity was nonetheless impressive, and incomes had increased sharply since reforms began.[81]

To understand the reforms that made this new prosperity possible, Burlatsky met with professors at Shanghai University. The Chinese scholars noted several changes that were transforming village life. First was the new system of contractual responsibility, which included "contracts within the framework of the family, cooperative, rural industrial enterprise, or trade association." The "growth of small and medium industrial production in the countryside"—which, as Burlatsky noticed, was driven by cooperatives and not by central planners—was another important factor. The scholars reported results that matched what Burlatsky had seen in China's countryside: in just five years, grain harvests increased by 30 percent, while peasants' incomes doubled.[82] Echoing the question that was often put to reformers, Burlatsky asked whether this increased income inequality in the countryside. "Yes," the Chinese scholars said, but "we are regulating the growth of incomes by means of progressive taxation. For the time being, we are more concerned with the problem of overcoming poverty."

In fact, Burlatsky's interviews showed, many Chinese scholars completely rejected traditional Marxist-Leninist interpretations of economic growth. In a situation of de facto private ownership in the countryside, some peasants became richer than others. In the 1930s, the Soviet Union solved this problem by liquidating the richer peasants—the kulaks—as a class. The Chinese scholars rejected the notion that private ownership or wealth differentials were inherently exploitative; inequality was fine, they argued, so long as everyone was getting better off. Rich peasants represented 11–13 percent of all rural residents, the scholars told Burlatsky. They earned their money: "Their successes are the result of their own labor, economic initiative, and application of scientific achievements. You have seen for yourselves the construction boom in our countryside. The clay huts with straw roofs are increasingly replaced by new brick houses with tiled roofs. . . . Many families have not one but several bicycles." The Chinese scholars embraced the new rural elite, and the prosperity that they were spearheading, because the benefits of economic growth would eventually spread widely, and "the middle peasants will rise to the level of the rich, while the poor will rise to the middle level."[83]

It was not only rural areas that saw drastic change under Deng Xiaoping's new policies. Industrial enterprises, mostly based in urban areas, also grew rapidly. A radio factory that Burlatsky's delegation visited in Wuxi reported output growth of 70–75 percent between 1980 and 1984; annual profit growth was 120 percent while labor productivity increased 8.5 times. How was this possible? Burlatsky put that question to the factory's management. They responded that "everything boils down to the economic reform we launched a few years ago." There were several key changes, managers told Burlatsky. First, the enterprise "formed a joint stock company," which gave the company new freedom in managing their enterprise. Before Deng came to power, central planners made most decisions. Now, Burlatsky reported, the firm's managers "still have a plan [from the central bureaucracy], but it is a guide plan rather than a directive. It includes just a few indicators and is based on the utilization of market regulations." The firm's decisions were governed less by the plan than the market. This was visible, for example, in its decision to engage in foreign trade, importing technology with which to produce new types of goods. "Whereas back in 1980 we were producing the most basic tape recorders," the management told Burlatsky, "since 1984 we have been producing twin-cassette tape records of average and even superior quality."[84]

The plant's directors told Burlatsky that they could now make decisions without interference from central bureaucrats. "The main change," the managers told Burlatsky, "involved the transition to the system of directorial responsibility. The right to decide all basic issues is vested with the director." And the director, in turn, bears responsibility for the enterprise's fate. "The director's salary and his bonuses," Burlatsky reported, "depend on the fulfillment of these indicators." Did this lead to exploitation, Soviet readers might wonder? "Worker's incomes have increased by 60 percent in a few years," the factory managers answered Burlatsky. If this was exploitation, Burlatsky suggested, it was a type Soviet workers could get used to.[85]

Finally, Burlatsky met with a series of Chinese officials who helped design the new economic program. In case any of his readers missed the point about the transferability of China's policies to the Soviet Union, Burlatsky subtitled the section on his meetings with Chinese officials, "Concept of Global Reform." Like Burlatsky's other interlocutors, the officials reported tremendous economic results, claiming 11 percent growth in output from 1981–85. "What kind of economic model," Burlatsky asked the Chinese officials, could produce such results? "What are its specific features?" And, implicitly, what lessons might the Soviet Union draw? "First and foremost," Burlatsky quoted the Chinese officials as saying, is "the expansion of the independence of enterprises right to the point of their transformation into independent producers"—in other words, reducing the role of central planning—was a key driver of economic development. "The ultimate aim is that all materials, including the ones in short supply . . . will be distributed via the market." The Chinese began this process, Burlatsky reported, by restructuring small- and medium-sized enterprises. Even more important was their decision to let households start their own businesses to "branch off into the services sphere, trade, and cottage industries." This explained the restaurants, tailor shops, and other small businesses that Burlatsky saw in the countryside.[86]

For such a system to work, enterprises needed to benefit from profits and suffer from losses. The Chinese bureaucrats told Burlatsky that this was their goal: "Previously, the entire profit was in fact expropriated by the state [which] . . . compensated enterprises for all their losses. Now we are shifting to a system of taxation relations, with a considerable proportion of the profits being left to the enterprises." Corporate taxes—a novelty for centrally planned economies, which generally confiscated profits rather than taxed them—were set at around 50 percent of enterprise profits, the Chinese said, which was about the same as America's corporate tax rate at the time. This was the worry, of course—that China's new policies were not salvaging socialism, but replacing it with capitalism. Burlatsky asked his Chinese interlocutors, "Will this decentralization . . . not lead to an erosion of the public forms of ownership?" In fact, the Chinese reported, income inequality did not lead to social tension. "Let me repeat," Burlatsky quoted them as saying, "we have not encountered the problem of the rich growing richer and the poor growing poorer." The Chinese listed impressive statistics about lower unemployment, higher wages, and better health. China saw few downsides to its market reform, but many benefits. It was time, Burlatsky was suggesting, for the Soviet Union to take note.[87]

Indeed, many in the Soviet Union were taking note. Throughout the early 1980s, Burlatsky's message—that Deng Xiaoping's policies were worth studying—spread across the Soviet leadership. One irony, many Soviet officials noted, was that China's policies were not actually new. Not only was Deng's policy of "reform and opening" similar to Lenin's New Economic Policy, it also mirrored changes to economic governance mechanisms that some Eastern European countries like Hungary tested in the 1960s and 1970s. Even as Soviet economists were praising China's policy experiments, Moscow foreign policy analysts were lamenting improving ties between China and Eastern Europe, which threatened Soviet influence in that region. Chinese-Hungarian ties were particularly close, Moscow noted, which, one analyst explained was due in part to Beijing's recognition of "the original methods that Hungary has used to solve economic problems."[88] But the Soviet officials who embraced China as a model did so not because they thought Beijing's policies were unique, but because they believed that China provided compelling evidence of what such reforms could accomplish.

By the early 1980s, the publicity campaign to present China as a model began to gather steam. A series of top Soviet officials and analysts visited China during the 1980s, both to learn more about Beijing's policies, and to demonstrate to other Soviet policymakers that the country's policies were succeeding. Aleksandr Bovin, the Brezhnev aide who was one of the foremost representatives of the Moscow intelligentsia in the Soviet Communist Party, traveled to China in 1983. Ivan Arkhipov, a deputy prime minister who served in the Soviet embassy in Beijing in the 1950s, made an official visit in 1984. The flurry of diplomatic activity gave credibility to the analyses of writers such as Burlatsky, who promised that a new era was unfolding.[89] Georgy Arbatov, a top party intellectual who had joined Burlatsky in the 1960s in using Maoist excesses to criticize Stalinism at home, visited China in 1985 and was so impressed with the scope of reforms that he wrote Gorbachev a memo detailing what he learned.[90] A delegation from the Supreme Soviet visited in 1987.[91] Abel Aganbegyan, one of Gorbachev's chief economic advisers, went to China in 1988 to meet with Chinese economists and scholars. Aganbegyan recounted discussing with his Chinese counterparts "the efficiency of long-term land leases as part of an agrarian reform, the need to maintain a balance between town and village, the need to balance rights and duties between local and central authorities, . . . the need to liberate pricing and to make price formation dependent on the market, the need to make banks independent (particularly from local authorities), the efficient working of special open zones and much more."[92] There was much to be learned, Aganbegyan reasoned.

Officials from across the Soviet Union's research institutes and even government ministries visited China because they believed its experience might hold lessons for the USSR. Aganbegyan said that his travel to China "provided a number of useful lessons based on their experience for the furthering of our own reform."[93] This was a common argument across the Soviet bureaucracy and among its research institutes. Sergei Stepanov of the Institute of the Economy of the World Socialist System—an institution that had historically focused on Eastern Europe—argued that China "is the only other socialist country where the economy and the task of reform are on a similar scale with ours. For our purposes, that makes China our main foreign reform laboratory."[94] Georgy Arbatov argued that China's new policies "once again made that country's agenda a factor in our internal politics; we were becoming increasingly interested in the problem of reform."[95] Leonid Abalkin, who was a top adviser to Gorbachev on economic questions, suggested that "the fast and successful development of agriculture through broad application of the household responsibility system presents special interest to us. . . . They have succeeded at resolving the not-simple problem of satisfying the market for consumer goods on the basis of cooperatives and individual labor activity."[96]

It was not only reformists who began looking at China for lessons. Officials at the Far East Institute also began to treat China as a laboratory.

In 1985, the institute's journal, *Far Eastern Affairs*, began running a monthly section on China's economic policy, reasoning that it would be of interest to Soviet readers.[97] Evgeny Konovalov, head of the China department at the Far East Institute, told a journalist in 1986, "What is taking place in China is vitally important for us. . . . We now look at their reforms as if it were our own personal business."[98] This attitude soon made its way up the Communist Party hierarchy. In 1985, the party's Central Committee created a special office to examine China's economic restructuring efforts.[99] The USSR's ambassador in Beijing, Oleg Troianovskii, noted that because "China went further down the path toward a market economy" it "gave us an opportunity to draw many useful lessons from their innovations."[100]

Gorbachev himself followed China's economic policy closely. In a high-profile speech in the Siberian city of Krasnoyarsk in 1988, the Soviet leader argued that "something new and substantial . . . is taking place in our relations with China during powerful renewal processes." Gorbachev compared the economic and political processes underway in both countries. "The fact that very deep internal changes are currently under way in these two great socialist states" was an important reality, Gorbachev argued. The USSR and China's "deep interest in each other has been revived and is being filled with new content. Mutual attraction—for that is how I would put it—is growing."[101] Indeed, by the mid-1980s, a new interest in China's experience, and a new association between China and innovative economic policies, was spreading throughout Soviet society—and not only among the elite. One Soviet journalist recounted "asking pedestrians on the Moscow streets what ideas came to mind upon mention of China. They thought of the Great Wall and China's capital, Beijing. They named well-known Chinese goods . . . but almost every one of those questioned mentioned the word 'reform.' "[102]

Academic Research and Soviet Policymakers

Did these intellectual shifts actually translate into policy? Some historians have argued that Soviet policymakers were ignorant, and that Gorbachev himself, in one leading scholar's words, "seemed oblivious to contemporary reform experiences in communist countries."[103] Yet it is hard to reconcile the argument that the Soviet leadership lacked understanding, either of its own society or of other countries' experience, with the reality that during Gorbachev's time in power many of his top advisers were academics. Often they were the very same academics who popularized the need for economic liberalization and for learning from abroad in the first place.

Soviet archives repeatedly demonstrate that academic research was sent to the highest levels of the Soviet bureaucracy, whether to the relevant ministry, to the Council of Ministers, or to the Communist Party's Central Committee.[104] Policymakers had full access to the USSR's best analysis. And scholars in many institutes tailored their research questions to address issues that mattered to policymakers. In the research programs of the Far East Institute, for example, the institute's leadership explicitly planned not only to undertake a "complex prognosis of socio-economic and scientific-technical development of China" but also to prepare "recommendations for the use of Chinese experience with economic reforms," in the USSR.[105] Soviet analysts produced many briefings intended for policymakers.

Did Soviet leaders actually read the material they received? Did research on China affect their decision making? Evidence suggests that it did. Gorbachev so strongly valued the input of Soviet academics that he appointed several top scholars to high-level positions. Oleg Bogomolov, Georgy Arbatov, Abel Aganbegyan, Aleksandr Yakovlev, and Yevgeny Primakov, all of whom directed influential research institutes, played crucial roles in Soviet politics in the perestroika era. All were advisers to Gorbachev. Bogomolov was also a member of a committee at Gosplan that studied the experience of other socialist countries, especially China.[106] Primakov and Yakovlev even served in the Politburo, placing them among the most influential political leaders in the country. At the same time, writers and academics such as Fedor Burlatsky and Tatiana Zaslavskaya regularly counseled Soviet leaders, including Gorbachev. Meanwhile, Anatoly Chernyaev, the official who criticized the Soviet bureaucracy's ignorance of academic research, became Gorbachev's top foreign policy aide.

Soviet officials were aware that many of China's policies during the 1980s mirrored what Eastern Europe tried a decade earlier.[107] Having closely studied the economies of their Eastern European allies, Soviet economists who were interested in market reform were already broadly aware of the various mechanisms that could be used to restructure central planning. Soviet history under Lenin's New Economic Policy provided plenty of potential ideas, too. China's example was useful to Soviet advocates of market reform in part because of chronological happenstance—Deng Xiaoping came to power just before Gorbachev—and in part because, unlike in Hungary or Yugoslavia, China's high growth rates seemed to provide strong evidence that market-based policies worked. The intellectuals who embraced China as a model used its experience as a trump card in political debates. If anyone questioned whether collective farms should be replaced by individual leaseholds, or whether industries should face incentives, these writers and officials answered: "Look at China." By the mid-1980s, a group of intellectuals and officials around Mikhail Gorbachev were convinced that China's politics had changed decisively. Because of market reforms, they concluded, China's economy was taking off. As soon as he was appointed general secretary in 1985, Gorbachev and his advisers embraced Deng's policies as a model for the Soviet Union and used China's economic takeoff to shape Soviet debate about economic reform.

3 Gorbachev's Gamble

Interest Group Politics and Perestroika

"It is politics that follows economics, and not vice versa," Mikhail Gorbachev told members of Lithuania's Communist Party in mid-January 1990, as the Soviet Union's economic and political system was dissolving around them.[1] It is easy to see what he meant. Five years after the start of perestroika, the combination of industrial collapse, food shortages, and inflation had polarized Soviet politics. Radicals who wanted privatization and an immediate transition to a market economy clashed with Stalinists who thought that only renewed authoritarianism could restore economic order. Leaders of local governments and industrial enterprises took advantage of the political disarray to grab power and resources, weakening the central government's authority. Powerful interest groups such as the energy sector and the military-industrial complex struggled to retain their prerogatives. Each of these forces pulled Soviet politics in a different direction, and Gorbachev was left alone in the middle, unable to set a coherent course, bereft of a political base, and—worst of all—bankrupt. No wonder he felt that economic forces were more powerful than he was.

But Gorbachev's claim that politics followed economics misreads the forces that drove the Soviet collapse. From ideological battles about the meaning of socialism, to tugs-of-war between center and periphery, to interest groups tenaciously defending their turf, political disputes determined which economic policies the Kremlin enacted. Clashes between Gorbachev and industrial lobby groups shaped the fate of the Soviet economy during its final years. Gridlock prevented the government from addressing its ballooning budget deficit. Political contests limited the extent to which the Soviet Union implemented the economic lessons that its analysts were gleaning from China's experience.

Soviet Politics at the Beginning of Perestroika

"Cadres decide everything," Stalin famously said, but historians of perestroika have been strangely silent on the role that Communist Party cadres played in the final years of the Soviet Union. Most accounts of Soviet politics after Gorbachev's accession to power in 1985 focus on two main groups. The first, more liberal and reformist, was led by one of the top theorists of perestroika, Aleksandr Yakovlev, and was supported by the intelligentsia and some top officials in the party bureaucracy. These reformists wanted political liberalization, reduced censorship, and a less interventionist foreign policy. They, like everyone else, wanted a more effective economy, but in the early days of perestroika there was no well-defined reformist position on how the economy could be strengthened. In the Politburo—where top policies were decided—the reformists' opponents were led by Yegor Ligachev. Ligachev and his allies opposed attempts to criticize Stalinist policies, and thought the country needed a strong military to fend off capitalist aggression. The military and security services generally supported the traditionalist communist position in economic debates.[2]

Underneath ideological debates between reformists and traditionalists, however, cadres were deciding everything. Under Stalin, the regular jailing and killing of party leaders meant that the leadership regularly changed. Stalin's political system was brutal, but the prolific use of violence was effective in two ways. First, by guaranteeing a circulation of elites under Stalin, killings of top party officials prevented the formation of cliques that could oppose Stalin's decisions. Second, the threat of violence kept officials in line, ensuring, for example, that enterprise managers dare not miss production targets. Thanks to state socialism, a poorly performing manager's firm was safe from liquidation. But the manager himself was not.

The political class that solidified under Brezhnev was filled with survivors of Stalin's purges and the war. They had suffered enough from revolution, and eagerly welcomed Brezhnev's "stability of the cadres" policy. But Brezhnev failed to realize that purges played a key role in the Soviet political and economic system. Without a mechanism for rejuvenating the leadership, elite groups began to solidify and patronage networks were established and strengthened. Party discipline grew lax. Under Brezhnev, execution was not a normal response to missed production targets. In Stalin's state socialist economy, violence played the same role that market incentives play in a capitalist economy—a means of ensuring that workers and managers work hard and effectively. When the USSR's post-Stalin leadership made the political system less violent, they removed a main lever for enforcing economic effectiveness.

By the mid-1980s, as a result of these changes, the Communist Party was dominated by economic interest groups that wielded immense power, particularly when defending their bureaucratic turf. On questions of high politics and foreign policy, ideological divisions mattered greatly. On economic questions, however, it was industrial interest groups and economic bureaucrats who, operating through the Communist Party apparatus, played the most important role. Long-serving officials in Soviet industrial ministries developed power bases and patronage networks that let them implement policies independently of, and sometimes in contradiction to, the party leadership's wishes.[3] During most of the postwar era, this rarely presented a problem because leaders such as Brezhnev generally gave industries what they wanted. But as Gorbachev developed an agenda that was less favorable to industries, the ministries worked to counter decisions from party leadership that would harm their interests.

The power exercised by these ministries over the USSR's economy was widely noted by Soviet scholars.[4] Influential sociologist Tatiana Zaslavskaya, for example, openly argued that "the ministries are the most powerful state within the state" and "the most important element in the structure of state power."[5] She pointed out that ministers treated their organizations as personal fiefdoms and referred to their ministry's possessions as their own: "I have 330 state farms," she quoted the minister of medium-machine building as saying. "My cows give 6,000 litres of milk. . . . By volume of production, my ministry is between the Ukraine and Kazakhstan." The minister is "an emperor," Zaslavskaya explained.[6]

The immense power that such bureaucrats wielded made it essential for enterprises to lobby them for favors. One Moscow newspaper reported, for example, that although only 3,500 people worked in the planning commission's headquarters, the lunch cafeteria regularly served 6,000. The 2,500 guests in daily attendance did not come for the *borscht*—they came to lobby planning officials for more handouts from next year's budget. According to economist Leonid Abalkin, every ministry had a representative at Gosplan to facilitate lobbying. Another economist noted that in the Soviet economy, resources were allocated "by the principle: who has the loudest voice."[7] In theory, the Communist Party controlled the economy, but in reality the industries controlled the party. They were fully capable of defending their turf.

Three interest groups stood out: farms, energy companies, and the military. In Soviet terminology, these industries were grouped together as the agro-industrial complex, the fuel-energy complex, and the military-industrial complex.[8] Each of these groups represented its own microcosm of the Soviet economy; each was governed by its own bureaucracy, and personnel usually spent their entire career within a single industrial complex, creating interconnected webs of relationships, favors, and loyalty. Officials who moved from one of the complexes to another part of the Soviet bureaucracy, were believed—usually correctly—to be representing in their new organization the interests of the complex that previously employed them.[9]

Nikolai Baibakov, the long-serving chairman of the state planning commission, exemplified this. Baibakov was born in Baku, an oil boom town, in 1911. His father worked as an oil driller on the wells of the Nobel family, which endowed the famous peace prize. Baibakov was surrounded by oil his whole life. In July 1942, as Nazi armies approached the Baku oil fields, Stalin summoned Baibakov and pointed two fingers at the oilman's head. "If you fail to stop the Germans getting our oil, you will be shot," the Soviet dictator explained. "And when we have thrown the invader out, if we cannot restart production, we will shoot you again." But the Germans were thwarted, and Baibakov lived. He spent most of the war as deputy oil commissar, before being promoted to commissar in 1944. A year after the war ended, production had returned to prewar levels.[10]

Baibakov served as head of Gosplan, the state planning agency, from 1955–57 and again from 1965–85. He was supposed to be a neutral bureaucrat, but Baibakov always favored the energy sector. How could he not help out his colleagues in the oil industry? Baibakov described his work in the fuel-energy complex as "the cause of my life."[11] Indeed, his links with the energy sector survived the collapse of the Soviet Union and the privatization of its oil industry, after which he served as a trustee of the Gubkin Russian State University of Oil and Gas and as chairman of the All-Russian Association of Drilling and Service Contractors.[12] Baibakov's memoirs were published by Moscow's GazOil Press. His death in 2008 was announced not by the Russian government, but by Gazprom. Is it any surprise that, as head of Gosplan, Baibakov looked kindly upon requests for more investment in the energy sector?[13]

Baibakov's link with the oil industry—and the extent to which that relationship shaped his policies at Gosplan—was not unique. The military had a similarly wide network at the top of the Soviet policymaking elite.[14] Baibakov's successor as Gosplan chairman, L. A. Voronin, was closely linked to the military-industrial complex, as was N. V. Talyzin, the head of Gossnab, the organization that distributed industrial supplies.[15] On top of that, "nineteen of the thirty-eight members of the Committee on Defense and State Security . . . were members of the military-industrial complex, including the chairman."[16] Powerful advocates in the leadership ensured that these three groups—the military, energy, and agricultural industries—dominated the Soviet economy. These three groups had well-tuned political arguments about why their interests needed protection. Oil and gas workers emphasized that their sector produced much of the USSR's export revenue. Farm bosses, meanwhile, pointed out that millions of Soviet citizens worked on farms, and that the collectivization of agriculture, according to Soviet propaganda, was one of the great successes of socialism.[17]

The military-industrial complex alone constituted perhaps one-fifth of Soviet economic output.[18] Even a cursory glance at the gargantuan scale of the military-industrial complex showed it needed to be downsized. Yet the army was protected not only by its role in defending the USSR from foreign aggression. Its vast scale gave the military-industrial complex political clout that made it difficult to touch. It employed at least 15 million people, almost one-tenth of the Soviet workforce.[19] Most of the Soviet Union's scientific and technological research took place within the defense sector, too. "Just think about it," Gorbachev told the Politburo in 1989, "75% of science goes on within defense industries."[20] The defense industries used 60 percent of the country's steel, and, though statistics are dubious, consumed much of the country's overall industrial output.[21]

Even before Gorbachev came to power, he and many other top Soviet officials wanted to cut the military budget. But it was untouchable. When Baibakov was the head of Gosplan, the state planning agency, he asked Gorbachev, then a young politician, to raise the question of defense cuts during the next meeting of the Politburo, the top policymaking body. Like Gorbachev, Baibakov knew that military spending was growing faster than the economy as a whole, consuming resources that would better be deployed elsewhere. But Gorbachev told Baibakov that he would not propose military cuts. "You see," Baibakov responded, "I wouldn't do it either." The politics were simply too tough. "We both knew," Gorbachev later wrote, "that even a mention of this subject would mean immediate dismissal."[22]

The military-industrial complex resisted efforts at making its economic footprint more transparent. Only in 1987 did Gorbachev finally manage to publish data on defense spending. “It turned out,” Gorbachev recounted, “that military expenditure was not 16 per cent of the state budget, as we had been told, but rather 40 per cent; and its production was not 6 per cent but 20 per cent of the gross national product. Of 25 billion rubles in total expenditure on science, 20 billion went to the military for technical research and development.”[23] These numbers—like all Soviet data—are rough approximations at best. But they point to a truth that was obvious to anyone who was allowed to look: the military consumed a mammoth share of the USSR’s economy. Gorbachev and his advisers knew they needed to reduce the military’s economic role, and that defense factories had to be reoriented toward civilian production. As Gorbachev’s top economic adviser Vadim Medvedev put it, “Without a reduction in the burden of military expenditures it would not be possible to resolve the urgent socioeconomic problems.”[24] But, he explained, “It was widely argued that the people would forgive the leadership anything but a repetition of the tragedy at the beginning of World War II. . . . This was the primary political priority.”[25] Defense cuts were all but impossible.

Because of their political power, the big industrial lobbies got a free ride. The costs of perestroika’s changes were mostly borne elsewhere; the military, the farms, and the energy sector were untouched by cuts proportional to their size until the Soviet Union’s final demise. These political realities meant that Gorbachev, a young leader who was not nearly as dominant as predecessors such as Brezhnev or Stalin, had to consider not only the practical ramifications of his policies, but their political effects, too. Any change that sparked widespread outrage or reduced living standards would have threatened Gorbachev’s political standing. He therefore spent the early years of perestroika searching for economic solutions that the country’s powerful interest groups would tolerate. He was never able to cut spending on influential interest groups, defense above all. But that was the change that, in the long run, might have done the most good.

Perestroika and Acceleration

When Gorbachev became general secretary in 1985, the Soviet economy was wasteful and poorly managed, but it was not in crisis. The deficiencies of the command economy were visible in its declining growth rates. Gorbachev saw his task not as rescuing a country on the brink of bankruptcy, but as reinvigorating an economy that needed new energy and a new direction. He envisioned himself not as a bankruptcy expert, but a specialist

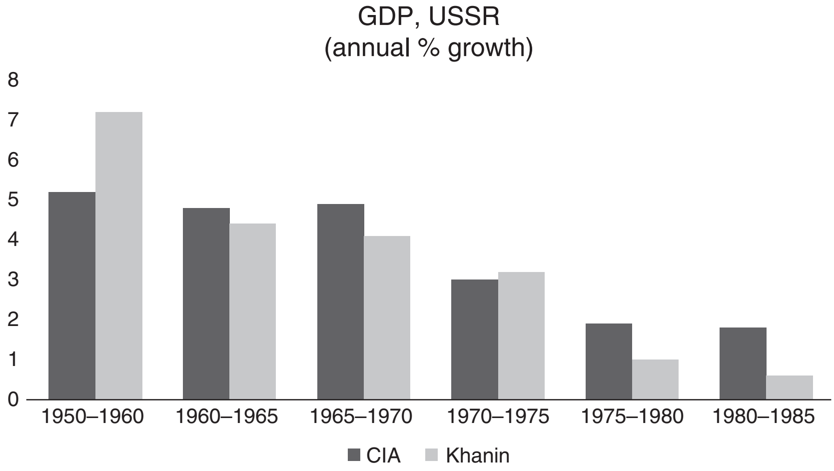

CHART 3 Two different estimates of Soviet GDP—one by the Central Intelligence Agency and another by dissident Soviet economist Girsh Khanin—show that economic growth declined sharply during the 1970s and 1980s. Source: Mark Harrison, "Soviet Economic Growth since 1928: The Alternative Statistics of G. I. Khanin," *Europe-Asia Studies* 45, no. 1 (1993): 146.

in turn-arounds. Like any leader, he assessed the strengths of his institutions and those of the competition. He drew two conclusions. First, the Soviet Union's high-quality education system created impressive levels of human capital, but that the country failed to take advantage of its workers' skills. Second, he and his advisers concluded that the global economy was increasingly driven by high-tech industries requiring skilled labor. Low-valued added manufacturing and natural resources exports could not provide the income levels that Soviet citizens increasingly demanded.

Gorbachev spent the first two years of his tenure as general secretary trying to reorient the Soviet economy in a more productive and efficient direction. One major effort was a campaign to improve labor productivity by cutting drunkenness. The Soviet Union was notorious for its drinking problem. Russia was always a hard-drinking country, but between 1955 and 1979, alcohol consumption per person doubled.[26] The social consequences were devastating, but for the Kremlin, alcohol's effect on labor productivity was even more alarming. At farms, factories, and offices, workers regularly showed up drunk. Often they didn't show up at all: 90 percent of missed workdays in the Soviet Union were caused by drinking.[27] Gorbachev decided to crack down. On May 17, 1985, the government launched a campaign against drinking that increased taxes on alcohol, canceled most liquor licenses, and prohibited the sale of alcohol before 2 P.M. or after 7 P.M. Police rounded up drunks off the street and fined them. Liquor was banned from workplaces, and intoxication on the job was punished harshly.[28]

By some measures, the campaign was a tremendous success: by 1988, official alcohol sales were half their 1980 level.[29] The campaign achieved real results. Diseases, crimes, and accidents involving alcohol, for example, were reported to have fallen by 25–40 percent in the first two years of the campaign.[30] Male mortality rates decreased 25 percent.[31] Reduced drunkenness almost certainly meant that more Soviet citizens showed up to work, and fewer made mistakes on the job. Yet the campaign had clear downsides. Critics of the anti-alcohol legislation, including some influential liberal intellectuals, compared it to American prohibition in the 1920s. Official data reported a decline in alcohol consumption, but critics argued that this was a mirage, as more people turned to home-brewed liquor, *samogon*.[32] The biggest problem, however, was that the anti-alcohol campaign left a huge hole in the Soviet budget.

Paying for Perestroika: Budget in the Red

Even as Gorbachev launched his efforts to revitalize the Soviet economy, the Kremlin faced a new problem: a growing budget deficit. Even as interest groups began jockeying for higher spending, taking advantage of the young general secretary, the government faced a sharp fall in revenues. Where did this deficit come from? Many scholars, as well as politicians such as former Prime Minister Yegor Gaidar, have argued that the budget deficit was caused by falling oil prices.[33] Oil prices spiked during the 1970s, providing a much needed revenue boost to countries, like the Soviet Union, that exported energy. Yet just as quickly as energy prices rose in the 1970s, they fell in the 1980s. By 1986 the oil price was half its peak.[34] The oil-price fall, though important, explains little by itself. Oil was just one of several factors in the Soviet Union's budget crisis; on its own, the fall in the price of oil would have led to a serious but manageable recession, not the dissolution of the Soviet state. As chart 4 shows, between 1985 and 1990, the decrease in earnings from trade (above all, oil) was less than half the level of the increase of the Soviet Union's budget deficit. This means the decrease in oil export revenues can at most ex-

CHART 4 The budget deficit increased by 8 percent of GDP between 1985 and 1990. Less than half of this increase was due to falling export earnings—caused above all by lower oil prices—which reduced government revenue by about 3 percent of GDP. Source: Vladimir Mau and Irina Starodubrovskaya, *The Challenge of Revolution: Contemporary Russia in Historical Perspective* (New York: Oxford University Press, 2001), 247.

plain about half of the deterioration in the USSR's fiscal position.[35] Other factors were no less important.

Notes from Politburo meetings show that Soviet officials, including those at the very top, knew that the falling oil price was only one piece of a larger deficit puzzle. To be sure, the Politburo followed oil prices closely. In a meeting on June 11, 1986, for example, Nikolai Ryzhkov, the chairman of the Council of Ministers, underlined the significance of energy prices to the USSR's budgetary position. The oil price fell from 172 rubles in 1985 to 52 in June 1986, reducing export earnings by 9 billion rubles, Ryzhkov told the Politburo. That required a 4-billion-dollar increase in the country's debt.[36] In a meeting on October 30 of that same year, Gorbachev sketched out a similar threat to the USSR's budget, noting that "in 1985 we lost 13 billion rubles from the fall in export prices," leaving an annual deficit of 5 to 6 billion. "Never before has this happened in the country's history," he lamented.[37]

Although the oil trade was important, Gorbachev and his colleagues saw that other factors were at play. In the same meeting where Gorbachev lamented the effects of oil price declines on the budget, Yegor Ligachev

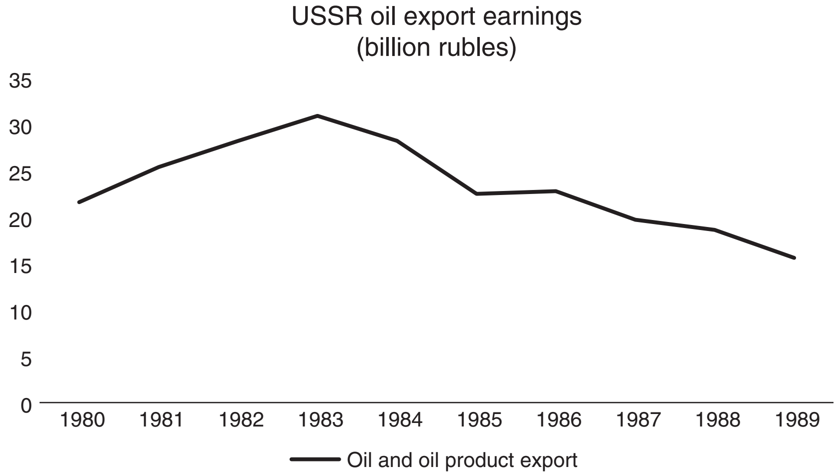

CHART 5 Oil and oil product export revenues. Source: Sergey Sinelnikov-Muryvlev, *Biudzhetni Krizis v Rossii, 1985–1995* (Moscow: Evrazia, 1995), 33.

pointed out that "in 1985, 11 billion rubles of vodka were sold, but in 1984 the figure was 54 billion rubles."[38] In 1984, before the assault on alcohol, liquor made up 16 percent of all retail sales.[39] The decline in liquor tax revenue caused by the anti-alcohol campaign was of the same magnitude as the decline in oil export revenue.[40] In another Politburo meeting, a year later, Finance Minister Boris Gostev made the same point. In 1987, he argued, "losses due to falling oil prices on the world market were 15 billion. From [falling sales of] vodka—also 15 billion."[41] And these were not the only factors in the government's deficit, Gostev pointed out. "The total cost of subsidies, if nothing is changed, will grow to 100 billion rubles on food products alone by 1990."[42] Spending on the military-industrial complex, which made up around one-fifth of overall production, was not even mentioned as a potential source of resources for balancing the budget.

The Kremlin declined to reduce the country's budget deficit, and chose instead to print money to fill the gap. This would prove a disastrous policy, leading to painful shortages and then a devastating bout of hyperinflation. Of all options for resolving the budget deficit, printing money was by far the worst. Why did the Kremlin choose it? Some scholars have argued that Soviet officials' rudimentary grasp of economics explains why they declined to raise revenue or cut spending. Valery Boldin, a top Gorbachev aide, remarked in his memoirs that "little thought was given to money in those days." Some historians have noted instances of Soviet officials denying any link between the price level and the amount of money in circulation. For example, Ruslan Khasbulatov, a member of the Congress of Peoples' Deputies, argued that "if there is more money, there will be more production" was an iron law of economics.[43] It is true that few Politburo leaders were educated in anything beyond Marxist-Leninist approaches to economics, but records of Politburo meetings and documents from the Council of Ministers show that many Soviet officials understood that there was a link between money supply and inflationary pressure.[44]

Gorbachev publicly argued that increasing the supply of money without equivalent increases in production caused nothing but inflation and, in the context of price controls, shortages.[45] In a prominent speech in September 1988, he explained, "Comrades, we could print rubles—whatever quantity we need, we could print. That does not require as much paper as the newspapers; we could find it. But what does that mean, if we look at the crux of this issue seriously? It means that money was issued that was not tied to the end product."[46] Increasing the supply of money—and the supply of credit to industries—did not make the Soviet Union better off, Gorbachev asserted, it simply shifted resources between different social groups, while the inflation it produced degraded the country's economic institutions. Politburo records show that Soviet leaders fully understood their options in dealing with the deficit in 1986 and 1987. They could close the deficit through tax hikes or spending cuts. Alternatively, they could continue printing money to fund the difference between revenues and expenditures, and thereby pass on the costs to the population via higher prices and more shortages. No one thought that inflation was an optimal outcome. But political gridlock meant that Gorbachev was unable to push through either tax hikes or spending cuts. The only remaining option was to print rubles.

The Debate over Price Increases

Soviet leaders saw that inflationary pressure was building. In April 1987, Finance Minister Gostev bluntly informed the Politburo that "the financial system is reaching a point of crisis. Inflationary processes have begun."[47] Soviet leaders did not want inflation to continue, but they were even less willing to take the steps needed to fight it. Gorbachev explained the dilemma at a Politburo meeting in 1986. "Finance is in a critical condition," he told his colleagues, because "wages came into conflict with productivity. There is more money than there are goods. And now the situation has us by the throat."[48] The budget needed to be balanced, but Soviet leaders could not agree who should pay the price.

Because imposing cuts on the country's farms, industries, and military proved politically impossible, attention turned toward Soviet consumers. Subsidies in the form of low prices on consumer goods, Finance Minister Gostev pointed out, cost the government far more than the decline in revenue from oil exports or alcohol taxes. Soviet leaders knew that government programs to subsidize food and other consumer prices constituted a multi-billion-ruble annual spending program, eating up 10 percent of the USSR's GDP.[49] Food subsidies were by far the largest component of the Soviet welfare state, dwarfing spending on pensions or education, for example. Through subsidized prices, the government paid nearly one-third of the cost of every loaf of bread that was purchased, over half the cost of every gallon of milk, two-thirds of the cost of butter, and a whopping 72 percent of every kilogram of beef.[50] The main beneficiaries of this spending were not the poor, but the wealthy.[51]

Slashing consumer subsidies would have resolved the Soviet budget crisis. It would have reduced, Finance Minister Gostev noted, expenditure levels by 100 billion rubles per year by the end of the 1980s. But Gorbachev believed, probably correctly, that raising prices was politically impossible. "Some people are demanding price increases," he said. "We won't do that. The people have not yet received anything from perestroika. They haven't felt it materially. And if we raised prices, you can imagine the political results: we would discredit perestroika."[52] Discrediting perestroika meant discrediting himself. It also meant empowering those among the Soviet leadership who opposed any economic reform. Gorbachev was unwilling to take that risk. Soviet leaders remembered the riots in the southern city of Novocherkassk after the price increases of 1962. Gorbachev knew that a similar revolt could easily cause his opponents to oust him.

Setting food prices at exceptionally low levels not only exacerbated the Soviet Union's budget deficit, it also led to painful shortages. As the government printed more rubles to fill the budget deficit, the value of rubles on the free market—black markets, in this case—fell. In a market economy, that would have translated into higher prices, because there were more rubles chasing the same number of goods. Indeed, on the Soviet Union's black markets and at farmers markets where prices freely responded to supply and demand, prices increased dramatically.[53] Yet most prices in the Soviet Union couldn't rise, because they were fixed by law. Because prices remained low—and declined in real terms, along with the

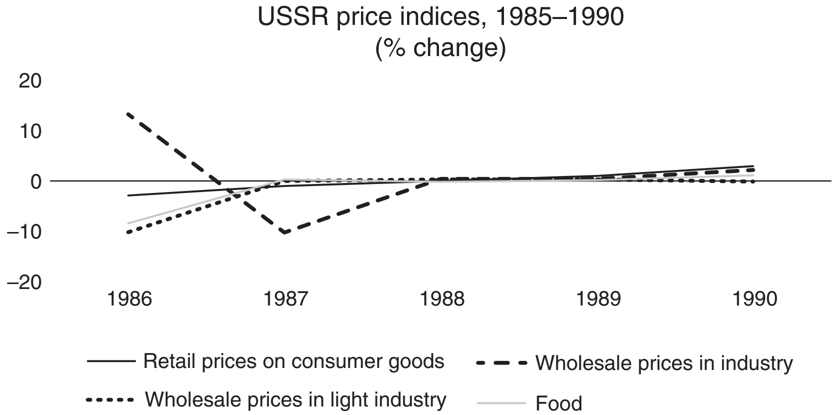

CHART 6 The money supply increased rapidly over the late 1980s, but prices were held roughly constant, causing persistent shortages. Source: Sergey Sinelnikov-Muryvlev, *Biudzhetni Krizis v Rossii, 1985–1995* (Moscow: Evrazia, 1995), 25.

fall in the value of the ruble—it became far less worthwhile for individuals and enterprises to sell things. Even if a baker made the same number of rubles per each loaf of bread as before, the rubles he received now bought far less on black markets. Shortages meant that those same rubles could barely buy anything in state stores. So why bother baking?

As inflation made it less worthwhile to sell goods, enterprises brought fewer products to market and placed fewer items on store shelves. Long lines and disastrous shortages were the result. Shortages were a persistent problem in the USSR, but during perestroika the situation got far worse. The top leadership knew it was a problem. "When there were shortages on specific products, we could live through it," Gorbachev told the Politburo, "but when there are lines for everything it's unbearable."[54] By the end of the 1980s, one Soviet economist calculated, the value of the time that Soviet citizens wasted while standing in lines at stores was equivalent to 75 percent of average incomes.[55]

Gorbachev and his economic advisers knew that the only way to eliminate shortages was to increase prices, allowing enterprises to make more money, and thereby increasing their incentive to bring products to market. As Gorbachev told the Politburo in May 1987, "the question about prices is principle, fundamental. If it's not solved, there won't be self-accounting for enterprises, nor self-financing, and perestroika will not work. But you know how hard it is to start a new policy [perestroika] with price increases! Something, however, has to be done. But how, in what stage, and what to concretely propose? While everything around us is in a fog. We need to start a discussion and simultaneously work on the problem of prices."[56]

Yet nothing happened. There were no significant price increases until 1990. Even as inflation raced out of control, shortages spread, and lines lengthened, the Politburo declined to loosen consumer price regulations. The politics were too tough. The Politburo and Council of Ministers regularly discussed price increases during 1987 and 1988.[57] Yet Gorbachev was deathly afraid of the political consequences. Vadim Medvedev, a top Gorbachev adviser, cited the influence of a "massive campaign against the revision of consumer prices in the print media" that was "impossible to counteract."[58] Gorbachev understood that public opinion was strongly against higher prices. "In general we should make it a rule now: such questions [prices] will never from now on be decided without a detailed discussion with the nation, without consulting with people. . . . Announce about prices . . . and confusion will erupt. And the people will say: 'Why do we need all this?' "[59]

Many Politburo members remained skeptical of price increases. Politburo member Nikolai Slyunkov, for example, suggested postponing the question for half a year, or at least for three months—anything to get such a controversial topic off the agenda.[60] The politics were toxic, as Gorbachev himself admitted. "We'll soon be throwing punches," he predicted, because "this Politburo is already on the verge of a serious split."[61] Gorbachev advocated price revisions in principle, but never proposed a concrete policy. "On the subject of price controls. If we don't come to an agreement, it means that we're afraid," he argued. But he was afraid, and sensibly so. Gorbachev realized, as he explained to the Politburo, that if prices do not "correspond with reality, we won't have any mechanism of economic governance. But most importantly: changes in prices shouldn't undermine the standards of living of the population, or economic development at the present time."[62]

This was the basic dilemma: raising prices to approximate free-market levels would help resolve the country's growing economic problems, but price hikes were opposed by many in the Politburo. Even if Gorbachev had been able to push through price increases over his opponents' objections, the public backlash against higher prices would give Gorbachev's rivals a propaganda coup and let them derail perestroika. The issue came up repeatedly at the highest levels of government, but it was never resolved. In April 1988, the Politburo debated yet another plan to increase prices. Valentin Pavlov, head of the State Price Committee, called for 8 billion rubles of price increases, three-quarters of which were designed to eliminate subsidies and shortages on children's products.[63] Yet Gorbachev hesitated, insisting that this discussion was just "the first reading of this difficult problem." His concern was living standards. "We need to keep in mind," he admonished his colleagues, "in terms of meat and milk, a large portion of the population buys these on the market. Increasing prices will be felt immediately," he argued, especially by "56 million pensioners and 92 million youths below the age of 17."[64]

Gorbachev weighed up the Politburo's options: "Pavlov proposes to change wholesale prices from January 1, 1989, consumer prices from June 1, 1989. What will we do? Nikolai Ivanovich [Ryzhkov] says, that without this step . . . the economic mechanism will not work. . . . While we maneuver, adapting everything to the plan, economic [market] methods are stalling. And the administrative system"—self-interested bureaucrats and industrial bosses—"continues to call the tune. Life brings us to a very difficult position in the country. Discussion of this question shows us the necessity of deepening radical economic reforms."[65] What Gorbachev meant was radical change in other aspects of economic governance, but not in prices. He was still looking for fixes such as changes in enterprise structure, which did not cross vested interests or empower his political rivals. "Increase prices?" he asked at one Politburo meeting. "That means social tensions, threatening perestroika."[66] The opposition was just too strong, Gorbachev believed, to ram through price increases.

Gorbachev was left with a terrible dilemma. The budget could not be balanced. Raising consumer prices would have been politically fatal, resulting in Gorbachev's political marginalization, if not complete removal from power. That would have frozen efforts to liberalize industry and agriculture. At the same time, Gorbachev lacked the political influence to reduce spending on the parts of Soviet society most able to absorb cuts—the USSR's massive military-industrial complex, its bloated industrial ministries, or its perennially inefficient agriculture sector. Reducing these groups' subsidies was so politically untenable that it was not seriously discussed.

Yet the gap between revenues and expenditures had to be filled, even if by printing rubles. If the budget could not be balanced immediately, the only other solution was to tolerate deficits today with the hope that a pick-up in growth would reduce the relative cost of the deficit in the medium term. Gorbachev thus embraced a strategy of market reform without a balanced budget. He hoped this would spark higher growth. At Politburo meetings, Gorbachev suggested a wide range of options to boost growth rates, desperately trying to avoid forcing painful economic medicine on the Soviet people. Greater use could be made of "cooperatives and individual labor activities," he suggested. Housing, too, provided plenty of room for efficiencies. And the USSR needed to "raise the efficiency of existing enterprises." This combination of policies, he hoped, might "correct the financial situation."[67] Searching for win-win solutions that would stabilize the Soviet economy without angering any powerful groups, Gorbachev began the second stage of perestroika in mid-1986. His goal was to avoid tough choices about budget cuts—cuts so controversial they would threaten not only Gorbachev's own rule, but the stability of the Soviet political system. The strategy was risky, because if these new policies did not spark higher growth, the Kremlin would struggle to mop up the new rubles it was injecting into the economy, and inflation would take off. But because immediate budget cuts or tax increases were politically impossible, Gorbachev had no other option besides abandoning reform.

Chinese-Style Reform without Chinese-Style Budget Discipline

Several socialist countries in Eastern Europe managed to enact far-reaching price increases, but by 1986, their example was not much use to Gorbachev. His political position was too weak to risk a political conflict such as that sparked by higher prices in Poland—a struggle that ultimately led to the emergence of organized political opposition in Poland and the imposition of martial law. Gorbachev needed a model that resolved political conflicts rather than sharpened them. The socialist country that came closest to meeting these criteria was China. The policies Beijing had adopted since the late 1970s caused growth that was strong enough to buy off the opposition. Rather than fighting over the distribution of resources, the Chinese managed to grow their economy in a way that made all groups better off. Given Gorbachev's weak political position and the interests of many powerful economic groups, trying to follow China's lead was his only real option.

The first instance where Gorbachev and his allies sought to follow China's example was in restructuring Soviet enterprises. China showed that subjecting state-owned firms to market incentives improved productivity in a way that benefited the state, which could cut subsidies, but also benefited employees and managers, who received wage increases. Big state-owned firms made up the bulk of the Soviet economy, so finding a way to make them work better offered potentially massive economic gains. Restructuring enterprises offered hope of higher efficiency without massive social or political costs. It was a rare reform that, in theory, might offer benefits to both parties. The government could improve its fiscal position by reducing subsidies to loss-making businesses, while enterprise directors gained flexibility in managing their firms. If adjusting enterprise structure encouraged greater efficiency and innovation, society would also benefit.

Politics also made focusing on enterprise law an attractive option in 1987. For one thing, the Soviet Union had a long history of tinkering with how the relationships between enterprises, ministries, workers, and other enterprises were structured. For example, the measures pioneered in the 1960s by Alexei Kosygin, who was the chairman of the Council of Ministers under Brezhnev, sought to introduce some rudimentary market logic to enterprise financing and decision making. Kosygin sought to reduce the number of decisions about prices and output that were controlled by central ministries and to give enterprises more control over their businesses—and more responsibility for their profitability. Kosygin's policies failed to transform Soviet industry, largely because of persistent opposition from enterprise managers, but they nonetheless set an important precedent by insulating future reforms from the threat of being labeled contrary to Marxist-Leninist doctrine.

A second focus was agriculture. Gorbachev and his advisers knew that in China liberalization began in the agrarian sector, and that farmers became more productive and much better off. Soviet farming was a swamp of inefficiency, wasting millions of rubles each year on unnecessary capital investment and losing millions more to barely functioning supply chains. Gorbachev and his allies hoped that, like China, they could find a way to improve farm productivity that would win the support of workers and managers of state and collective farms. If agricultural productivity increased, it would remove an immense strain from the Soviet budget, relieving the government of the need to spend precious foreign currency on food imports.

A third area of market reform with similar potential political benefits was foreign trade and investment. China's experience showed that, given the right conditions, foreign investment could encourage enterprises to improve productivity while introducing new technology and management practices. The bureaucracy that governed Soviet trade would lose from liberalization, but enterprises and other economic ministries would gain. Thus, freeing trade would have powerful political supporters among Soviet economic elites. As with enterprise restructuring, if foreign investment succeeded in improving productivity and boosting enterprise profitability, it could provide further cover for the central government to cut subsidies without dangerous opposition.

The main factor shaping Gorbachev's approach to market reform in these spheres was politics, not in the sense of ideological debates about the meaning of Marxism-Leninism, but rather the more mundane business of counting Politburo votes. Like every other Soviet political institution, formal vote tallies in the Politburo had no practical ramifications because most contentious issues were settled in informal negotiations. Even though Gorbachev governed a state that brooked little public dissent, he nonetheless faced serious political opposition. On contentious questions he needed most of the Politburo on his side.

If he crossed too many powerful interests, he could have easily been forced out, retired, jailed, perhaps even shot.[68] Gorbachev's predecessor Nikita Khrushchev was toppled in a military-backed coup, while Romania's last communist leader, Nicolae Ceausescu, was gunned down in 1989.[69] Gorbachev knew he always stood on a knife's edge. Any wrong move could cost him his job, or worse. Many were surprised that the August 1991 coup against Gorbachev took so long to come. Within the USSR, it was no secret that Gorbachev's policies were controversial and the politics treacherous. "Everybody talks about it in the Soviet Union," one prominent sociologist reported. "I've heard people say in various circles, 'What risks he [Gorbachev] is taking! It is so dangerous!' "[70] The Soviet leader recognized the threat, warning reformists not to push him to move too rapidly, or else "we'll all be hanged."[71]

Gorbachev's embrace of market reform was dangerous, politically and economically. The immense power of economic interest groups in Soviet politics severely limited the number of policy choices that were realistically possible. By the end of 1988, Gorbachev had gone all-in on a risky gamble. Balancing the budget with tax increases, spending cuts, or price increases would have been politically devastating. Both he and his allies believed such a strategy would have resulted in his removal from power, like Khrushchev before him. Gorbachev had only two options: to abandon reform, or to go for growth. He chose the latter, keeping fiscal and monetary policy loose, ensuring that there was plenty of consumer demand and ample credit for business investment. This was not sustainable over the long run, he knew. Gorbachev's gamble was that new enterprise structures and foreign investment would accomplish in the Soviet Union what they had done in China—improve economic efficiency and spark enough economic growth in the medium term to let him balance the budget without painful cuts. It was a risky gamble. Gorbachev had no choice but to roll the dice and to hope that what worked in China could revitalize the Soviet economy, too.

4 Soviet Industry, Sichuan Style

Gorbachev's Enterprise Reforms

"What distinguishes socialism from capitalism?" Andrei Gromyko asked other members of the Soviet Politburo in early 1987.[1] He thought the answer was self-evident. Gromyko was born to a working-class family eight years before the Bolshevik revolution of 1917; he joined the Communist Youth organization as a teenager, came of age under Stalin, and served as Soviet foreign minister for three decades.[2] When he asked the Politburo about the differences between socialism and capitalism, he meant it as a rhetorical question. Was it not obvious? Had his life experience not confirmed the answer? Clearly socialism meant state control of the means of production. Only state ownership could defend the working class from exploitation.

Yet the Politburo to which Gromyko spoke in 1987 was much changed from the days when he first joined the Communist Youth. The socialist world had changed, too. By the mid-1980s, Mikhail Gorbachev was in the midst of a campaign to restructure the Soviet economy by embracing market incentives and creating a private sector, threatening the institutions that old-school Bolsheviks such as Gromyko believed were the essence of socialism.

The Soviet economy was managed by thousands of enterprises, the communist equivalent of business corporations. When Gorbachev set out to increase the efficiency of the Soviet economy, he turned first to fixing the country's enterprises, from small shops to industrial behemoths. That was a logical step, for two reasons. First, the Kremlin had extensive experience in experimenting with ways to make enterprises work better. Many Soviet officials had participated in a project of enterprise restructuring, under Prime Minister Alexei Kosygin during the 1960s. Kosygin's restructuring efforts were thwarted by opposition from enterprise managers and bureaucrats, but the debate he sparked left many officials with experience and ideas about how enterprises could be improved. Unlike Kosygin, however, when Gorbachev came to power he had an additional force backing his efforts. That force—the second reason that it was logical for Gorbachev to tackle inefficient enterprises—was China. As this chapter shows, Gorbachev's plans to restructure Soviet enterprises mirrored China's experience. Gorbachev repeatedly pointed to China's restructuring to argue that enterprise reforms would spark growth in the Soviet Union.

Opponents of change, like Gromyko, vigorously resisted Gorbachev's attempt to redefine socialism. Gromyko and his many allies succeeded in delaying change. More importantly, they extracted from Gorbachev a big increase in capital spending in exchange for their tolerance of industrial restructuring and the legalization of a private sphere. Soviet bureaucrats justified this surge of capital spending on the grounds that it would jolt industries back to life, but in economic terms, the spending accomplished little, and much of it was wasted. The main result of the capital spending binge was political, in that it won Gorbachev industries' acquiescence while he pushed through structural reforms. By 1990, after five years of perestroika, Gorbachev had broadly succeeded in implementing Chinese-style reforms to Soviet industry. The cost, however, was a new spending program that placed enormous pressure on the Soviet budget.

The Soviet Rust Belt

The USSR's industrial economy was forged in two periods of rapid and traumatic growth. First, the shock industrialization that Stalin initiated in the late 1920s expanded the country's manufacturing potential, creating vast steel works, factories, and power plants. From the beginning, Stalin insisted that economic mechanisms serve concrete political goals. Feeding factory workers in urban areas was an important political objective, for example, so agricultural produce was diverted to cities, despite hunger in the countryside. Stalin demanded rapid growth in heavy industry, and because his diktats—not supply and demand—drove production decisions, light industry and the service sector grew much less quickly than they would have otherwise. Germany's invasion of the USSR in 1941 spurred a second period of chaotic change, as whole factories were relocated to faraway cities east of the Ural Mountains to protect them from Nazi attack. This was a wartime necessity, but like the shock industrialization of the 1930s, it left painful consequences. Factories and their workers were spread across the far reaches of Siberia, hundreds of miles from other cities, sharing limited transport links and suffering from brutal winter cold. Siberia boomed as the USSR industrialized. Between 1926 and 1959, the population of Chelyabinsk increased from 59,000 to 689,000, Norilsk from zero to 118,000, and Yakutsk from 11,000 to 74,000.[3] Yet a sizeable portion of this apparent growth actually destroyed wealth. Because costs in Siberia were up to 50 percent higher than in other parts of the USSR, workers and factories would not have moved there on such a large scale were it not for government diktat. Stalin's industrialization succeeded in forging an industrial base and in winning World War II, but saddled the country with a huge long-term burden.[4]

After Stalin's death in 1953, Soviet policymakers began to reconsider the country's industrial strategy. Even in the 1950s and 1960s, of course, no Soviet leader questioned the basic infrastructure of central planning. But it was clear that, even as growth continued during the immediate postwar decades, inefficiencies were building up and resources were being wasted. The reason was that neither enterprises nor individuals faced clear incentives to act efficiently. The most direct attempt to tackle this problem occurred in 1965, just after Brezhnev came to power. The chairman of the Council of Ministers, Alexei Kosygin, devised a three-pronged strategy to fix the planning system. Centralizing power would ensure that Moscow's orders were obeyed. Prices would be increased to more closely approximate market levels. Finally, rejigging incentives would create a system of costs and benefits and give enterprises and people clear reasons to perform economically useful activities.[5]

The logic of Kosygin's policies was sound—better incentives and rational prices would have reduced waste—but they had little practical effect. One reason was that the timing was inauspicious. In 1968, just after the reforms were beginning to be implemented, anti-Soviet protests erupted in Prague, prompting the Kremlin to send in the Red Army to crush the revolution. That experience discouraged ideological innovation within the Soviet Union.[6] The bigger problem, though, was that the changes Kosygin envisioned lacked political support. They failed to win the backing of enterprises themselves, which saw many downsides and few benefits in the new policies.[7] Enterprise managers, who had access to privileges and elite social status, saw little reason to embrace change.[8] Above all, Brezhnev had no interest in Kosygin's reforms, or in economic efficiency more generally. Soviet citizens had limited ability to pressure the government for more rapid growth, and so long as the country's external account was balanced—which was easy in the 1970s, because oil prices were high—Brezhnev was uninterested in the economy. He was plagued by illness, and even when healthy and sober he avoided dealing with economic questions.[9] On one occasion when Gosplan head Nikolai Baibakov tried to brief Brezhnev on the country's economic ailments, the Soviet leader complained that the report had "too many figures," and ordered it shelved, "so I never have to see it again." They went hunting instead; Baibakov hit 14 ducks, Brezhnev 21.[10]

By the end of the 1970s, however, the economy stalled, making it harder to ignore the inefficiencies in the Soviet economy.[11] Many Soviet economists argued that the USSR needed to shift its focus from "extensive" growth—expanding production by increasing resource use—to "intensive" growth, relying on productivity improvements.[12] These economists believed that the problem was not simply to throw more labor, capital, and natural resources at existing enterprises in the hope that they would produce more goods. Such methods had been used repeatedly since the first industrialization push under Stalin. Extensive growth built the USSR's industrial base, but its usefulness declined steadily since then. Reckless use of natural resources caused terrible environmental degradation. Hundreds of thousands of workers were forced to work and live in inhospitable Siberian cities, employed in jobs that often served little purpose. People responded by showing up to work drunk. "They pretend to pay us, we pretend to work," went the popular saying. Many Soviet enterprises received generous credits from the government despite having lost money for years. Many enterprises actually destroyed wealth—producing less in useful outputs than they took in as inputs.

There were two arguments about how to improve industrial efficiency in the USSR. One approach, preferred by industries and the bureaucrats that governed them, was to spend more on upgrading production processes and investing in new technology. New spending programs promised to meet many of the goals of Gorbachev's perestroika program. Gorbachev long emphasized the need to keep pace with the revolution in information technology that Soviet leaders saw taking place across the world. One response was to increase capital investment, overhauling old factories, building and buying new machinery, and adopting more capital-intensive manufacturing processes. Like America's Rust Belt, Soviet industry needed huge sums of new investment if its factories were to be profitable again. New technologies, and therefore additional resources, were a necessary part of any solution.

On top of this economic rationale, increasing capital investment also had a clear political purpose. Higher investment appealed to the major lobby groups within Soviet politics. The military-industrial complex, the energy industries, and the state and collective farms all benefited from more spending.[13] For bureaucrats and managers in each sector, more funds meant more opportunities for patronage and corruption, and more resources to spend on pet projects. Rates of machine building grew by 24 percent from 1981–85, but during the second half of the decade, Soviet officials aimed for growth in machine building of 80 percent, marking the most sustained investment push that the Soviet Union had seen for a generation.[14]

The investment program that began in the early perestroika years clashed, however, with Soviet economists' second strategy for revitalizing the USSR's industrial enterprises. Many Soviet economists believed the key to restarting the Soviet economy was to improve efficiency and to do more with existing resources. Most such proposals sought to change how enterprises were structured and how they interacted with the government's economic plans. The basic insight was that few people in the Soviet economy—whether laborers, enterprise managers, or the bureaucrats who allocated resources—were given reasons to economize or to increase efficiency. The difference in wages between workers and managers was kept low, meaning that many employees saw little benefit from hard work. Such wage differences as did exist were often rewarded for political prowess, so they did little to boost economic efficiency. Enterprises were judged by dozens of different indicators, many of which were too vague to coherently measure. The most important determinant of an enterprise's success was not its output, profit, or productivity, but its political connections, which guaranteed it future resource handouts. This also reduced efficiency because it encouraged enterprise managers to focus not on streamlining their businesses or improving their products but on political intrigues within the Communist Party.

Planning officials in the state bureaucracy faced slightly better incentives, because they were occasionally punished by the political leadership if economic goals were not met. But they were constrained by faulty information—enterprises fudged the data they submitted to central authorities—and by politics, too. Central planners were expected to run the economy efficiently, but they were prohibited from interfering with politically influential projects. Yet such pet projects were often the most wasteful. For example, the hugely expensive Baikal-Amur Mainline, a second railroad across Siberia that was built in the 1970s, lost massive sums of money to inefficiency and to outright theft, but because it was strongly backed by political leaders, planning officials could not cancel it.[15]

Experimenting with Enterprise Reform

Faced with mounting losses, by the early 1980s the Soviet economic planners began to look for new approaches. To determine what, exactly, should be changed, policymakers designed dozens of small experiments to test methods of improving enterprises' incentives and boosting productivity. At the time, none of the Soviet leaders envisioned these experiments as opening the door to radical change, because there was little appetite for any significant restructuring of the country's economy. Most of the experiments were described as efforts at "modernization" or "improvement."[16] In fact, the experiments, though small-scale, called into question the main principles governing the Soviet economy. Would allowing enterprises more control over their workforce increase labor productivity? Would giving workers a share of profits help? What if enterprises were judged not by dozens of different and conflicting indicators, which guaranteed that they could never actually be punished or rewarded for performance, and instead were assessed by three or four objective measurements, above all, by profit? Would they become more efficient?

Soviet economists set out to answer these questions by organizing experiments across the USSR. In 1982, for example, the rules for construction contracts in Belarus were revised. Previously, customers were charged for any costs associated with a construction project. Construction firms, as a result, faced no incentive to keep costs down, or to finish projects rapidly—so they did neither. The experiment in Belarus changed this. It mandated that firms and customers agree on a price before construction began. If the final cost was lower than the agreed-upon price, both parties received bonuses from the cost savings. The Belarus construction experiment sought to strengthen enterprises' incentives to economize by rewarding them if efficiency increased—and the results were impressive. Average construction times fell by one-third, and costs were reduced by 5 percent. Given the right incentives, Soviet enterprises could improve productivity.[17]

The results of the Belarus construction experiment corresponded with those of a different strategy to improve labor productivity, called the Shchekino method. This technique provided Soviet enterprises with an incentive to economize on labor. Usually, if an enterprise used fewer workers in a given year, it was punished by receiving a smaller allotment for wages the following year. That meant that enterprises rarely laid off workers, and most had surplus employees. The Shchekino method encouraged enterprise managers to use less labor by guaranteeing that enterprises and their employees would retain the same amount of funding for wages regardless of the number of employees—so if an enterprise managed to do the same work with fewer employees, the remaining workers would get a pay raise.[18] A sulphuric acid shop that tested this method reported that the new incentives increased the time workers actually spent working from 66 percent to 90 percent. This result suggested that both enterprises and employees could find plenty of efficiencies if they had reason to do so.[19]

This finding was replicated in a number of other experiments. Georgia's regional government, for example, made organizational changes to a bus company and a shoe factory, with positive results.[20] Estonia began leasing small service industries such as catering and repair shops to their workers, giving the new managers a strong incentive to increase profits. Labor productivity doubled.[21] Experiments were soon tried on heavy industries, such as the Sumy factory in Ukraine, which produced natural gas extraction equipment, and at VAZ, a car manufacturer. The government gave these two enterprises greater control over their finances and let them keep their profits minus a tax paid to the government. This gave the management a strong incentive to increase profit. Here, too, results were positive, with Sumy reporting higher profits and lower debt after being given more financial independence.[22]

In the mid-1980s, because of the success of these early efforts, the Kremlin decided to undertake what was called the "large-scale economic experiment." In July 1983, a decree allowed certain ministries to give enterprises new incentives to improve efficiency. The experiment also sought to strengthen enterprise managers' incentives by reducing the number of indicators by which their success was judged, and by increasing bonuses.[23] At first, the experiment focused on five ministries—Heavy Industry, Electrical Industry, Belarus' Light Industry, Uzbekistan's Food Industry, and Lithuania's Local Industry—but it was quickly expanded to twenty-one ministries, which made up 12 percent of the USSR's industrial production.[24]

Yet as the experiment expanded, its impact was diluted as ministries and other bureaucrats prevented the experiment from actually testing enterprise independence on a large scale. The economists who worked with the experiment were largely positive about the possibilities it entailed; one cited the 1965 Kosygin reforms as an example of where this experimentation might lead. In the instances where the experiment was actually implemented, the results were positive.[25] Yet on the whole, economists who helped manage the large-scale economic experiment were disappointed. "It was not possible to fully realize the basic idea," of experimenting, one report complained. "Basic principles could not be fully introduced in practice."[26]

The reason was politics. The ministries that controlled the Soviet economy obstructed experimentation. Andropov was the only Soviet leader before Gorbachev willing to invest political capital in economic reform, and the large-scale economic experiment was initiated while he was in power. But Andropov spent most of his fifteen months in office struggling with illness, unable to shape Soviet politics or to pressure the bureaucracy. Censorship meant that scholars who supported greater use of market mechanisms played a minor role in popular discussion of economic questions. No matter how carefully Soviet economists designed experiments, they could not force enterprises and bureaucracies to test their proposals without support from top political leaders.

Indeed, the experiment's failure—on the political level, not on the economic level—was an early sign that powerful interest groups were lining up to oppose measures that threatened their interests. In the case of enterprises, this meant above all the ministries that benefitted from controlling the Soviet Union's industrial economy. Indeed, the obstructionism of ministries was a common topic of discussion and complaint among Soviet leaders. After Mikhail Gorbachev took power in 1985, he brought up the issue in the Politburo, noting that "new leftists have appeared, mourners, who really worry about the 'retreat' from the principles of socialism. But in fact—this is aggressive demagoguery."[27] Though opponents of liberalization clothed their arguments in orthodox Marxism-Leninism, Gorbachev pointed out that they shared political and economic interests that would be threatened if the Soviet Union's economic experiments were expanded. "We need to go on the offensive on all fronts," Gorbachev said, but political opposition repeatedly stymied progress. "The ministries are impeding enterprise independence. They control every step, climb into every matter, not only on the enterprise level, but on the level of brigade and section. And many local committees control even the milking of cows." The apparatus that governed the Soviet economy wielded immense power, and it showed little interest in loosening its grip. Indeed, the bureaucracy was engaging in secret intrigue, Gorbachev told his Politburo colleagues, against those who threatened its privileges. "The government apparatus, which is stuck in bureacratism, is trying to compromise what the party has started. And people see that."[28]

Yet opponents of experimentation, including both planning officials and enterprise managers, succeeded in marginalizing the large-scale economic experiment. When the experiment was finally put into practice, it was allowed only to test minor changes to the relationship between enterprises, workers, and planners. The experiment's effects were minor, too. Delivery of goods increased 1–2 percent, while industries' labor forces were cut by less than 1 percent.[29] The official verdict on the experiment cited some improvements, including increases in plan fulfillment and decreases in goods produced but not delivered. But the official economists' report concluded that, overall, the expected efficiency increases "did not occur."[30]

Compared with the tremendous productivity increases that resulted from previous experiments, the large-scale economic experiment was a failure. It proved two important points, however. First, it showed that the Soviet Union needed bold changes to its economic structure to actually improve the efficiency of its economy; small-scale tinkering would only produce small-scale results. Second, it illustrated the political challenges that serious economic restructuring faced. Powerful interest groups benefited from existing policies and would suffer from change. Market reform would mean that enterprises were no longer guaranteed credit, and suppliers were no longer guaranteed markets. Patronage networks that developed over decades and which, in the absence of functioning markets, greased the wheels of the Soviet economy, would be upended. Relationships between employees, enterprise managers, and ministry officials would have to be reworked. In the past, these groups' relations were built as much on social and political ties—what Russians call *blat*—as on economic usefulness. These ties would have to be shattered and replaced with a new logic of market efficiency.

Resistance was tremendous. Enterprise managers understood the need for change, one official complained, "but for egoistic reasons they don't want to move, since work will get harder for them."[31] Gorbachev echoed these complaints. "We have to go forward. . . . But we are still conducting experiments: one ministry calculates for three years ahead, another one for one year, and the third doesn't want to do anything at all. Above all, everyone is busy keeping control for themselves."[32] Resistance from enterprise managers and officials in the planning bureaucracy was so strong that the small burst of experimentation that began at the beginning of the 1980s slowed sharply by the time Mikhail Gorbachev was named general secretary in 1985. The large-scale economic experiment was underway, but bureaucratic resistance guaranteed that its effects were not large scale at all.

At the same time, however, another large socialist country, which used a Soviet-style economic planning mechanism, was reshaping the relationship between planners and enterprises and boosting productivity. The Soviet Union had closely watched China's enterprise reforms since they began in the late 1970s. By the mid-1980s, Soviet analysts concluded that China's new policies were working well. Just as it seemed that Soviet experimentation was dying out, suffocated by political opposition at home, support for restructuring was reinvigorated by the widely discussed success of similar efforts in China.

Soviet Analyses of Chinese Industrial Reform

By the mid-1980s, it was increasingly clear that the largest experiment in reforming the Soviet Union's centrally planned economy was taking place neither in Belarus's construction industry nor in a Georgian shoe factory. While Soviet policymakers tinkered with contracts and wage payments, China was remaking the Soviet-style central planning it inherited from Mao and Stalin, rapidly dispensing with planning and replacing it with markets. While small shifts in incentives could improve productivity on the margins, the Chinese experiment tested whether markets could transform a Soviet-style economy, as prices, not bureaucrats, determined what was produced. Soviet scholars and policymakers watched carefully.

From the early 1980s, Soviet leaders had plenty of information with which to assess China's experiment with enterprise incentives. Analysts in Soviet research institutes that studied China diligently reported on Beijing's new industrial management techniques. The main goal of China's policies was to improve industrial productivity. Chinese factories were far less efficient than comparable facilities in other countries. Many enterprises had lost money for years. Chinese policymakers had two options to improve productivity: invest in new, more efficient equipment, or redesign institutions in a way that would reduce waste. China lacked the capital to fund a full-scale industrial investment program, although it did upgrade technology in some priority industries.[33] Mostly, though, Beijing's attention during the late 1970s and 1980s focused on improving industrial efficiency, which meant finding ways to give factory workers and managers better incentives.

China's first big experiment took place in Sichuan province in the late 1970s, when Zhao Ziyang, a top ally of Deng Xiaoping, was governor. Zhao later became China's premier in 1980, and many historians believe that his restructuring efforts in Sichuan province laid the foundation for China's subsequent economic success.[34] Soviet analysts recognized Sichuan's importance from the beginning. In 1980, just as Zhao was moving from Sichuan to Beijing, the USSR's Far East Institute prepared a report assessing the Sichuan experiment. The province's goals were straightforward, the report argued: "to create a more flexible system of management for the enterprises, to strengthen discipline of contracts, to provide material stimulation to the workers, to reduce cost, to increase profit."[35] Previous incentives for industry were structured so poorly that simple improvements yielded huge increases in output and efficiency. The results in Sichuan were so promising that Chinese policymakers decided to replicate the experiment on a national level.

Soviet analysts closely followed China's progress. In 1978, China's Finance Ministry granted Sichuan-style independence to 100 industrial and transportation enterprises across the country.[36] The following year, research by the USSR's Far East Institute noted, these privileges were expanded, allowing many high-performing industries "to keep . . . part of their profit for their own use."[37] Before this, Chinese enterprises remitted all profit to the state, meaning that they faced a "tax" of 100 percent. Few enterprises sought to make a profit because they received no benefit for doing so. Sichuan-style policies changed that, giving firms an incentive to make a profit by increasing efficiency.[38] In this respect, the Sichuan reforms mirrored the Soviet experiments of giving enterprises financial independence. But whereas the USSR tested these changes on specific industries, in Sichuan they were implemented throughout the province. Soon China was implementing Sichuan-style policies across the country.

Initial Soviet reporting on China's industrial experiments did not explicitly assess the results of Sichuan-style management, because in the early 1980s it was politically challenging for Soviet scholars to praise market reforms. Nonetheless, Soviet analysis made clear that China's leadership saw the new policies as a success. The new taxes levied on enterprises, Soviet analysts noted, "directly increase budget revenue," giving the government a new source of financing. Meanwhile, new incentives functioned as a "definite economic motivator to use funds more effectively." By 1980, 7 percent of all enterprises in China had been given economic independence.[39]

Soviet analysts also noted that Beijing sought to empower small-scale industries in addition to large, capital-intensive factories. This marked a shift from the practices of many socialist countries, whose political leaders embraced gigantic industries to showcase advanced technology. China, too, had a lobby that pushed for investment in large industrial projects, and which argued that large-scale industrial development would improve China's technological capabilities.[40] Most Chinese leaders were not focused on technology, though, but on efficiency, a standard by which heavy industry performed poorly. Soviet reports noted that Chinese officials believed subsidies for heavy industries constituted "a blind chase after large scale in excess of what the state could afford," which "fails to provide society with the output it needs."[41]

Soviet analysts admired China's focus on small- and medium-size enterprises for two reasons. First, expanding small-scale production helped reduce unemployment. Higher levels of labor productivity in Chinese agriculture meant that many peasants were seeking non-farm employment.[42] This was a positive development, but it created a new dilemma: what to do with surplus labor in the countryside? Chinese sources quoted by Soviet scholars suggested that agriculture would soon employ less than one-third of the workforce. At least 100 million people would be looking for new jobs by 1990. "Industry, transport, construction, [and] trade" were among the sectors that Chinese policymakers hoped could help boost employment in the countryside. Beijing expected small enterprises to lead the way and encouraged investment from individuals and from local governments. In May 1984, Chinese Premier Zhao Ziyang noted that China needed "to stimulate the rural population" so that they helped provide the capital that small-scale industries required. Wan Li, China's deputy premier, echoed Zhao's line. It was necessary, Wan argued, to "stimulate" village economies using villages' "own funds and money collected by peasants."[43] Only by giving residents incentives to invest, Wan and Zhao argued, could industries grow rapidly enough to soak up China's excess labor.[44]

Small-scale industries presented another advantage to China's market reformers, argued Soviet analysts, because they proved that private ownership worked. Especially in China's countryside, but increasingly in cities too, small enterprises were likely to be de facto privately owned or controlled.[45] In theory, Soviet scholars noted, China's firms were owned either by government or by collectives.[46] But many small enterprises were de facto privately owned. "A new tendency to be observed in the development of China's small scale industry today," Soviet scholars reported, "is the reduction . . . of the number of state-run small plants, and the increasing number of individual and especially collectively owned enterprises."[47]

Many collectively owned enterprises, called "township" or "village enterprises" in Chinese parlance, were actually owned or controlled by a small number of individuals. In the West, they would have been called partnerships.[48] These semi-private enterprises were particularly important in the countryside. In 1982, one Soviet report noted, such firms "employed 31.1 million people, over 10% of the country's able bodied rural population . . . [and] generated over one half of total farm production income."[49] These de facto private companies were increasingly joined by firms that were de jure private. The number of "private entrepreneurs granted licenses rose by 340,000 during 1982 alone, to reach 1.47 million." That was 33 times the figure in late 1979.[50]

China's market reformers argued that rapid growth in the number of firms meant that central planning was no longer feasible. Chinese journal *Jingji Yanjiu* argued, "We are unable to plan directly the entire economic activity. . . . Small scale industries, which are plentiful and produce a great many products, should be regulated by the market." Soviet analysts saw where this logic led. "Market regulation may cause other side effects, such as a capitalist style of economic management and a wrong style of work," the Chinese journal continued. "But this should not be feared." Indeed, Soviet scholars noted that China was introducing legislation that formally upheld the right to private business activity, providing for "protection of the lawful rights and interests of individually owned economic units."[51]

The results of China's support for small businesses were impressive, Soviet researchers argued. Small private firms began to play an increasingly important role in China's economy. The output from rural enterprises grew at 26 percent annually during the early 1980s, producing half of China's phosphorus fertilizers, 15 percent of pesticides, 75 percent of farm tools, 80 percent of roofing tiles, plus significant shares of consumer goods such as silk, salt, and sugar. The two million rural enterprises that existed by 1984 employed 70 million people. Many of these jobs were new, as people left increasingly efficient farms to work in trade or manufacturing.[52] Industrial efficiency increased too, Soviet data showed. Net enterprise profits increased 6.5 percent in 1983 and labor productivity increased by 7.7 percent, even as losses at unprofitable enterprises fell by one-third.[53] These stellar results were due, Soviet analysts argued, to the incentives provided by de facto privatization. "Collectively owned [i.e., partnership-owned] plants in the city of Ningbo in 1978 turned 32.2 yuan of profit per 100 yuan of assets, whereas the figure for the state-run plants was 22.68 yuan," reported one article published by Soviet researchers. They found similar results in Guangzhou, where collectively owned enterprises generated twice as much profit per asset as did state-run plants.[54] Because of these changes, the Chinese economy wasted less and produced more, Soviet analysts concluded.[55] Soviet officials found China's example so interesting that China's decrees on restructuring state enterprises were translated into Russian and published in leading journals.[56] As the experiments with enterprise reform that began in Sichuan spread across China, and as news about their success reached the USSR, policymakers in the Kremlin began to take note.

The Law on Individual Labor Activity of 1986

News of China's success in implementing incentives arrived as similar efforts in the Soviet Union were stuck in a political rut. The experiments of the early 1980s provided some hope of change in the USSR, but even though their results were broadly positive they failed to shift the political consensus, which continued to favor tinkering rather than transformation. After coming to power, Gorbachev spoke about restructuring the Soviet economy, yet the policies of his first year in power did little to rationalize incentives. Prodded by China's success, however, during the late 1980s the Soviet Union began to copy China. Minutes of Politburo meetings—a source mostly ignored by previous histories of the Soviet economy—show that as early as 1986, Gorbachev began advocating new initiatives to make the Soviet economy more efficient: decriminalizing work outside of state-owned enterprises, restructuring how enterprises set production targets and received funds from central planners, and, ultimately, legalizing de facto private businesses, which the Soviets called cooperatives.[57]

All of these initiatives faced fierce opposition from Gorbachev's Politburo colleagues, who accused him of rolling back socialism's gains, threatening to impoverish the population, and—worst of all—reintroducing capitalism. Gorbachev's opponents managed to subvert many of his reforms, and they severely delayed each of his major initiatives, a problem about which he complained regularly. The changes to Soviet enterprises that Gorbachev was pushing may have been radical, but they were not new. Variations on Gorbachev's proposals to loosen controls on industries and to allow private business had been tried before in Soviet history—during Lenin's New Economic Policy and under Brezhnev, as well as in other socialist countries, such as Yugoslavia, Hungary, and China. Indeed, China provided the clearest argument in support of liberalization, as Gorbachev and his allies repeatedly underlined. In the Politburo, Gorbachev underscored the importance of taking a realistic view of China's efforts. "We need to stop going to extremes," he argued. "First, everything is great with them, then it is a poor country with lots of problems. We don't need to get wound up by this. . . . Let's be mature. China's path in recent years deserves serious analysis."[58]

One of Gorbachev's first steps in expanding the role of market forces was to follow China in providing a stronger legal footing for individuals to work outside of state enterprises. Even before perestroika, not all nonstate work was illegal. The 1977 Soviet constitution explicitly recognized a role for individuals working on their own. "Individual labor activity," the constitution promised, "in the sphere of handicrafts, agriculture and consumer services for the population, as well as other types of activity, based exclusively on the personal labor of citizens and members of their families, is permitted in the USSR in accordance with the law."[59] Yet the constitution itself highlighted the strict limits on individual work. For one thing, only certain types of work were legal; even basic manufacturing, to give one example, was explicitly banned. On top of that, hiring others—starting businesses of more than one family—was prohibited, since that constituted capitalist-style exploitation.[60] Under Deng Xiaoping, the Chinese justified letting businesses hire up to seven workers based on an obscure quote from Marx, and Soviet reformers searched for similarly creative justifications for legalizing private business in the USSR.[61]

Expanding the rights of Soviet citizens who wanted to work on their own was a main goal of Gorbachev's. There were two simple reasons: plenty of people were looking for more work, and state enterprises repeatedly failed to provide consumer goods and services that independent workers could easily provide. As one official explained, "state and cooperative enterprises and organizations still [do] not fully satisfy the population's demand for goods and services," so individuals have begun fulfilling consumer demand. However, the official argued, the black market in consumer goods created conditions "for a segment of the population to derive unearned income and to manifest private ownership aspirations that are alien to our system. . . . There is an urgent need to put in order and improve this whole area of endeavor."[62] Rather than tolerate a black market in services from home repair to taxis, Gorbachev reasoned, it was far better to simply legalize them.

Legalizing individual work in consumer services seemed like a straightforward compromise. Soviet citizens' desire for more paid work was widely discussed in the Soviet press; one survey found that 17 percent of people with full-time jobs also worked for pay on the side, while 27 percent of those surveyed did not have side jobs, but wished they did.[63] The existence of seasonal migrant workers provided additional evidence that planning mechanisms were failing to make full use of the USSR's labor resources. Soviet newspapers ran stories about *shabashniki*, people from areas with surplus labor, such as the Caucasus, who temporarily moved to regions with labor shortages to harvest crops or work on construction sites. These migrant workers were particularly problematic because they often received high wages, as they were more productive than workers with guaranteed jobs. Many Soviet policymakers increasingly admitted that, regardless of legal prohibitions, individual labor was happening anyway, and continuing to criminalize it simply increased opportunities for corruption. Illegal work provided half of consumer services, the Soviet press reported, including 50 percent of shoe repairs, 45 percent of house repairs, and 40 percent of car repairs.[64] Far better, Gorbachev and his advisers reasoned, to legalize private work.[65]

The politics of expanding individuals' right to work, however, were more complicated than simply passing one law. Many Soviet leaders, including some of Gorbachev's Politburo colleagues, concluding that working for pay outside of state enterprises was exploitative. They worried that legalized private work would pave the way for the return of capitalism. Proposals to expand legal individual labor sparked a furious backlash in the upper echelons of the Communist Party. On May 28, 1986, as the Law on Individual Labor Activity was being debated, traditionalist party leaders launched an attack on "unearned income."[66] The term was undefined in law, so it was impossible to know what constituted a violation.[67] Courts could punish at will nearly anyone whose work was not directly sanctioned by the state, and the Soviet press was full of stories such as tomato growers who were accused of being "speculators" and of living "a parasitic life style." Police fined the offenders, seized their tomatoes, and destroyed their greenhouses—not a conducive environment for encouraging work.[68]

Gorbachev opposed the campaign against unearned income, but because it was supported by top Soviet leaders such as Yegor Ligachev, Gorbachev was unable to stop the campaign outright. At first, he sought to redirect its focus, emphasizing the threat of "unearned incomes from public property"—that is, theft.[69] When that effort failed, and as local officials continued clamping down on normal trade, Gorbachev spoke out more vigorously. In the Politburo on March 27, 1986, he argued, "we can't simply declare individual activity always parasitical. How many decisions have we taken and laws on parasitism, on pilferers, on illegal migrant workers! And not one of these decisions is carried out, not one problem solved. . . . If we close everything off, then we create unbelievable difficulties. . . . Is Gosplan thinking about this? Where will people get materials? This is real life."[70] Trying to suppress individuals' desire to work had failed, Gorbachev argued. It was time to try something new.

To provide more scope for individuals to work freely, the Law on Individual Labor Activity was passed in November 1986 and went into force in May 1987.[71] The legislation significantly expanded working rights. For one thing, it let those without jobs in the state sector work for themselves. "Housewives, pensioners, invalids, students," and others without formal work responsibilities were now free to create their own jobs.[72] Because these groups made up roughly one-fifth of the Soviet population, this represented a tremendous expansion of the legal labor force. The law also clarified the sectors in which individual labor was permitted, including "housing construction and renovation, motor car repair, hairdressing, private taxis, care of the elderly," and others.[73] Family-run restaurants and hotels were legalized, too. The legislation retained the prohibition on hiring others, meaning that while opening a family restaurant was permitted, it remained illegal to hire a waiter who was not a family member.[74] Nonetheless, the law significantly expanded individuals' working rights and began to create a legal framework for a private economy.

However, the law remained controversial among many party leaders, who obstructed its enforcement. In the Politburo debate on November 13, 1986—just days before the legislation was finalized—Gorbachev was still quarrelling with his colleagues. Gorbachev noted that individuals had yet to receive the right to buy materials necessary for work. "If we don't make provision for handymen, so that they can get materials, then theft will start again," Gorbachev noted.[75] He also urged an expansion of the list of permitted activities. The legality of apprenticeships was one area of debate; hard-line Politburo members were skeptical, but Gorbachev pushed hard for legalization. "Individual apprenticeships! That's a great matter. A master puts his heart into his youngsters. And we called that 'exploitation.' . . . We're afraid to encourage apprenticeships, as if they undermine socialism."[76]

Gorbachev's exhortations helped push the legislation through the Politburo, but opposition remained. Just before the law went into effect, on April 17, 1987, the Politburo debated how to tax individual labor income. Some, such as Finance Minister Boris Gostev, supported high taxes, but Gorbachev pushed back. "Well, are we going to strangle it [individual labor] or let it live?" Gorbachev asked. "You, Boris Ivanovich, don't need to fear non-standard things. . . . We need people to work." The Soviet leadership needed to think less ideologically and more pragmatically, Gorbachev said. "It isn't perfect socialism, but dirty socialism that will build things," he argued. "How did Lenin reason about this? . . . The full initiative of citizens, give freedom to entrepreneurship. That's socialism. In Lenin everything is clear. But it hasn't been clear to us thus far. . . . Whoever decides to undertake individual activity, we immediately say: parasite, kulak." Instead, Gorbachev argued, the government and the party should openly support individual workers against tyrannical bureaucrats. "In communication about this meeting of the Politburo, let's make clear what has been said. And Afanasiev [editor of the newspaper *Pravda*] and Skliarov [of the Propaganda Department] should make use of all methods—press, radio—to debunk local bosses, local bureaucrats, who squeeze individual activity, but themselves get the best goods and products from the stores' back doors."[77]

Despite the opposition, the Law on Individual Labor Activity significantly expanded the scope for private trade and commerce. As in China, the Soviet Union now had a legal framework for private business, though unlike the Chinese, Soviet liberals were unable to get the Politburo to let private businesses hire workers. Even as the Law on Individual Labor Activity illustrated Gorbachev's desire to move in the same direction as the Chinese—and his willingness to spend political capital in doing so—the controversy surrounding the legislation signaled that further efforts at liberalization would spark even more conflict within the Communist Party leadership.[78]

The Law on State Enterprises

The Law on Individual Labor Activity provided new opportunities to those without full-time employment. That was an important victory for Gorbachev, but he had far grander designs. The bulk of the Soviet labor force worked in state-owned enterprises, and Gorbachev knew he had to tackle them next if he was to cut waste and increase productivity. These enterprises were similar to capitalist corporations in that they produced a wide variety of goods—from cars to coal to cardigans. But unlike the capitalist world, Soviet enterprises made decisions about production not based on market demand or profitability but in response to government orders. Because the state could not manage every production decision, the central planners in Moscow gave each enterprise a series of targets—often dozens of targets—measuring output, quality, and the cost of inputs. Many of these indicators were vague or contradictory, so shed little light on whether an enterprise was well managed.

As early as 1986, Gorbachev sought to change this. Following China's example, he began pushing for a radical restructuring of Soviet enterprises. On July 11, 1986, he reprimanded his colleagues in the Politburo for dragging their feet. "On certain slogans and organizational work we aren't doing what's needed. We need economic methods," not the command methods that traditionally governed Soviet industry. "And for that, we need a realistic analysis. That's the cornerstone. But our comrades are still having fun with data. They cannot see the reality, they see just the figures. This weakness of analysis is present in the central administration, in the Central Committee and in its branches."[79] The targets set by central planners were unrealistic, Gorbachev argued. Worse than that, they set too many targets in the first place. Gorbachev thought that decision-making should be decentralized. "The faster we include the people in the economic mechanism, the easier we can resolve these problems," he argued. The results of decentralization, Gorbachev believed, spoke for themselves. "Look at the results of self-financing. When based on contracts [rather than guaranteed salaries] labor productivity is 15–20% higher."[80] He returned to this theme in a Politburo meeting on September 25, 1986, stressing that market reforms were moving far too slowly. "The question about perestroika," Gorbachev argued, "is a question about the life of the country. We need to move forward" with enterprise restructuring.[81] "The law that we will pass," Gorbachev declared, "should be oriented toward *full* cost-accounting," so that enterprises make decisions considering the full cost of their inputs. Gorbachev turned to address Finance Minister Gostev: "People are waiting for the passage of the Law on State Enterprises. We need to bring forth talented people, give them decisive support, encourage them—let them live and thrive."[82]

Yet the Politburo did not enact legislation reforming state enterprises for a year. Many other Soviet leaders were unconvinced of the need for change, and Gorbachev lacked the political strength to move forward without them. He repeatedly advocated using "self-financing" and "full cost accounting" to ensure that enterprises faced sensible incentives. By his second year in office, Gorbachev regularly lectured his Politburo colleagues about the economic benefits of decentralization and the downsides of bureaucracy. He insisted that the USSR needed not more central control, but less. On December 16, 1986, for example, Gorbachev admonished his colleagues for tolerating old-style command methods. "We've taken 23 decisions on computers," Gorbachev said, exasperated. "Now we have to develop them. But I'm thinking, have we gotten to enterprises . . . or does [this policy] remain in the depths of the ministries?"[83]

Instead of strengthening incentives, the bureaucracy was doubling down on command methods. Consider the quality control agency, Gorbachev suggested. It "touches on the whole economy. And look what difficulties result—even among those who receive the 'mark of quality' " from the agency. Even they were hamstrung by excessive bureaucracy.[84] The problem was not only that Soviet officials strangled enterprises. Ludwig von Mises, a noted economist, pointed out in the early twentieth century that central planners were often unable to aggregate sufficient information to make sensible plans. Letting individuals make their own decisions actually improved society's collective decision making, von Mises argued. In early 1987, Gorbachev himself took up this theme, mocking bureaucrats for being afraid "to give up 'your' direct connections [with enterprises]. But the economy is about 250 million points of mutual exchange. It's not possible to regulate this from the center. No computer could manage."[85] Neither, Gorbachev believed, could Soviet planning officials.

Yet many of Gorbachev's colleagues, especially those with close ties to industries, saw little benefit in the changes Gorbachev proposed. Most enterprises liked the existing set-up, especially those that were the least efficient. Moves toward self-financing or cost accounting would impose sharp costs, so they tenaciously fought change. For example, Andrei Gromyko, the former foreign minister and old Bolshevik, attacked Gorbachev's policies in a Politburo meeting in March 1987. Because of perestroika, Gromyko argued, "in the social sphere the ice has been broken." Gromyko saw evidence of problems in what he called the "social sphere," but which referred not to social welfare programs, but to industries. "It's tough for military factories," Gromyko explained. "They don't want to produce civilian goods. Textile industries are lame in both legs, there is no movement. Equipment is extremely old, it hasn't been replaced for decades. That's the case in Kalinin, in Novgorod Oblast—everywhere." All of the problems that Gromyko outlined had a straightforward solution, he believed: more credit for investment, more subsidies from the center. The problem, in Gromyko's eyes, was a lack of funds. If Moscow transferred more money to enterprises, Gromyko believed, the economy would pick up. Arguments such as Gromyko's explained why, as Ryzhkov put it in the same Politburo meeting, "the general economic idea—self-governance, self-financing—is basically not being realized. There is no movement." The reason, Ryzhkov argued, was simple: many powerful political groups were opposed to change. "The working class doesn't understand what it needs to do. Directors [of industries] understand, but don't want to move from their egoistic position, since work will get harder for them. Fewer and fewer volunteers will move toward self financing."[86]

Despite the opposition, Gorbachev did not back down. In the spring of 1987 he launched a new push for enterprise restructuring. In a Politburo meeting on April 30, 1987, Gorbachev interrupted a presentation by Gosplan, the government planning commission, to demand that the bureaucracy back decisive change. "The attempt at reform in the 1950s and 1960s [under Kosygin] choked specifically because no one at the top wanted to give up their rights," Gorbachev argued. "And look, now we are listening to a presentation on perestroika from Gosplan. But are any radical reforms visible?" None were. "You," Gorbachev said, addressing Gosplan chairman Nikolai Talyzin, "tell us that the ministries agreed with your ideas. Well why did they agree? Probably because you let them keep all their rights. . . . They want to keep everything in their hands, to keep giving orders." Gorbachev attacked Talyzin's proposals. "Look—all the profit is planned from the top. When there is a real need for a product, production shouldn't be limited by some control numbers. Yes, it is connected with the balance of resources. But who said that you, sitting here, in Gosplan, know better how much one factory or another can produce? Aren't we restraining initiative and independence here?" Gorbachev thought an important principle was at stake. "A very sharp debate is going on. How can we govern the country if we don't say in advance how much profit there will be? The Politburo is getting these questions. But I answer: how do you know, how much some enterprise or branch will make in profit?" That, of course, was von Mises's critique of centrally planned socialism. This was not only an economic question, Gorbachev believed. "When we say—'Here is your target for profit, and no less!'—there democracy ends and reform ends," he argued. "This is the question of questions, the central question of the new planning. We need to create a system in which people consider all resources."[87]

Gorbachev finally cajoled the Politburo into passing the Law on State Enterprises in June 1987, a full year after he began pushing for such changes.[88] The legislation modified Soviet enterprises in three ways, each of which mirrored China's policy. First, the law transferred control over enterprises from the state to workers. Now, at least in theory, workers were empowered to elect management as well as a work council. Second, commands—the traditional way that the center controlled enterprises—were replaced by "state orders" (or "state purchases"), which covered production that was considered essential. Finally, enterprises moved toward self-financing, as the number of indicators by which enterprises were measured was sharply reduced, with revenue or profit often becoming the most important indicator. This gave enterprises coherent incentives. Self-financing meant that enterprises would have to be profitable to survive. Indeed, the law included provisions by which enterprises could close if they consistently lost money—a socialist version of bankruptcy.[89]

The legislation left much room for debate, and in practice the central planners retained much control. The difference between the new state orders and the old commands was far from clear, for example. Often state orders applied to the entirety of a factory's production, in which case they left no room for market forces. On top of that, profit taxes were extraordinarily variable, running between 0–90 percent. At the upper end, enterprises had limited incentive to make money because the government took 90 percent of any profit.[90] Still, the legislation moved the Soviet Union significantly closer to the path of other socialist countries, such as Hungary, Yugoslavia, and above all, China. The law's limitations were evidence not of Gorbachev's lack of interest in increasing the use of market incentives, but of intense political battles within the top Soviet leadership, and of Gorbachev's constant need to compromise. Abel Aganbegyan, an economist who advised Gorbachev, publically stated as much, arguing that the legislation should be seen as an intermediate step rather than as the final solution to the USSR's economic problems.[91]

Compromise, Capital Investment, and the Budget

Industrial interests tolerated the Law on State Enterprises and other similar reforms for several reasons. Because Gorbachev had to compromise with interest group pressure, the Law on State Enterprises did not impose especially strict incentives on enterprise managers. Managers found they were not much worse off. Indeed, by the late 1980s, some enterprise managers realized they could take advantage of the nascent private sector to seize legal control of their enterprises, transferring wealth from the state to themselves. Yet the most important reason Gorbachev was able to convince industries to tolerate his structural reforms is that during the early perestroika era they were receiving large cash infusions from the Soviet government.

The surge in capital spending in industries was named "acceleration," a title suggesting that the program would accelerate the USSR's industrial development. At first glance, as chart 7 shows, this new investment had positive results. Capital investment increased by 17 percent in 1986, as production of capital goods, from foundry equipment to agricultural machinery, spiked upward.[92] Growth jumped too, at least initially. The average growth rate of the Soviet economy during the first half of the 1980s was slightly less than 2 percent, but as the first phase of new investment surged through the economy, growth rates doubled, hitting 4 percent in 1986.[93] In the medium term, however, practical benefits of the investment program were harder to find. Acceleration pushed more money through the Soviet industrial system, but the system itself was no more effective than in the past. Much of the increased production remained stuck in warehouses, never actually getting distributed to industries in need. Other capital was tied up in construction projects that took years to complete. Construction delays were a source of constant consternation in the Soviet Union. Gorbachev knew it was an issue—"Why," he snapped at an official from the Central Committee's construction division during one Politburo meeting, "is our investment cycle 8–10 years, while in the United States, it is two and a half?"—but he never managed to improve things.[94]

Because the new wave of capital spending was not invested more efficiently than previous efforts, it did not lead to a long-term increase in productivity or in production. Table 1 shows that the increased investment in capital goods was coupled with a sharp decrease in the efficiency with which capital was deployed, as new machines piled up in inventories and

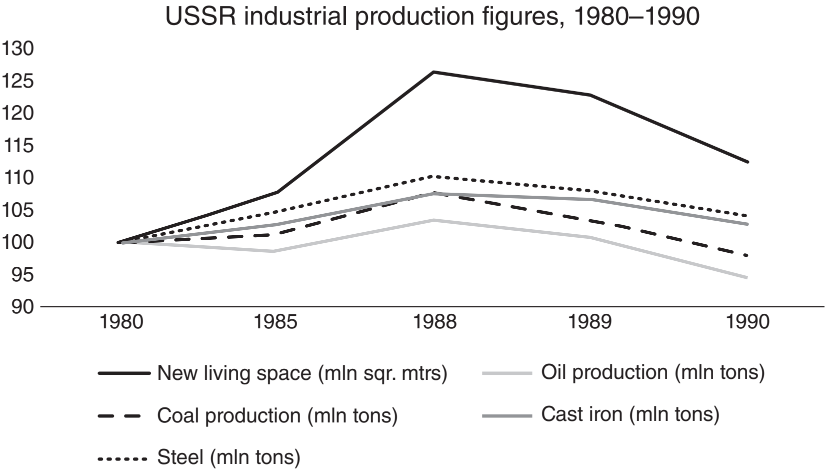

CHART 7 Higher investment via the "acceleration" program boosted industrial production, but the results were short lived. Source: Sergey Sinelnikov-Muryvlev, *Biudzhetni Krizis v Rossii, 1985–1995* (Moscow: Evrazia, 1995), 29.

warehouses, unused. As the table shows, by 1988 there was twice as much agricultural equipment in inventories. Production increased, but the new agricultural equipment was never delivered, so had no effect on farm output. The decreasing efficiency of investment was also visible in production figures: in agriculture, for example, the capital stock—the net value of all the tractors, plows, and fertilizers used on farms—grew 15 percent from 1985–89, but production fell by 8 percent. The new investment, in other words, actually made Soviet farms less effective. Machine building showed similar results: despite the new investment, by 1987 machine building fell back to 1985 levels.[95] Most of this new investment had no positive long-term effects.

Industrial officials continued to insist that the level of investment was still too low. Gorbachev and his allies held their noses, knowing that the command economy's investment mechanism was enormously wasteful, but also realizing that the acceleration program was crucial to maintaining industries' political support. Gorbachev had little hope that this new capital spending would revitalize Soviet industry. Yet once started, the investment binge proved extraordinarily difficult to wind down. Industries had powerful patrons within Soviet politics, and after a subsidy was created it was impossible to wean them off. By 1989, capital expenditure was over 20 percent higher than in 1985, even though the additional investment had done hardly any good.[96] The increase in investment funds

TABLE 1 Excess equipment in inventories, 1980s (millions of rubles)

	1981	*1986*	*1988*
Metal-cut lathes	98.3	163.6	173.9
Foundry equipment	12.7	15.7	22
Electronic equipment	52.4	99.7	107.7
Agricultural machinery	15.7	23.2	34.6

Source: Petr Aven, "Economic Policy and the Reforms of Mikhail Gorbachev: A Short History," in Peck and Richardson, *What Is to Be Done?,* 187.

More production was stuck in inventories rather than used in production, showing that much of the brief industrial boom created by the "acceleration" program was not economically productive.

that accompanied acceleration remained one of perestroika's most enduring—and expensive—features.

The Law on Cooperatives and the Rebirth of Private Businesses

Even as debate raged over making state enterprises more efficient, Soviet politicians began preparing for a new clash over legalizing private businesses. Many Soviet economists believed that allowing cooperatives—businesses owned jointly by a group of people—could boost efficiency by giving managers clear incentives. Gorbachev called such enterprises "cooperatives" to obscure the similarity with private property. Similar schemes had been tested in other socialist countries, most notably in China, where they formed the backbone of a small-businesses boom.

Though Gorbachev hoped the language of cooperatives would conceal his goal of legalizing private businesses, opponents in the Politburo mobilized against the proposal. In January 1987, well over a year before legislation on cooperatives was adopted, Andrei Gromyko began building the case against change. Gromyko tore into a presentation by Nikolai Ryzhkov, criticizing it for equating workers with owners. Gromyko drew attention to the conflict between Gorbachev's legislation and the Soviet Union's traditional interpretation of Marxism. "What does this mean for factories?" Gromyko asked. "Collective ownership? That goes too far. The question of ownership was resolved in October, 1917." Proposals to legalize cooperatives, under which "a collective has the right to sell an enterprise, the means of production," struck at the heart of what socialism meant, Gromyko argued. "Lenin and the Party strongly rejected syndicalism, that is, communal property. They were for public property."[97]

Over time, Gorbachev managed to assemble a coalition in favor of change, and in spring 1988, he launched an offensive against traditionalists who opposed Chinese-style cooperatives. On February 19, 1988, Gorbachev assaulted Gromyko in a Politburo meeting, noting that "Andrei Andreevich [Gromyko] is against calling collective property 'consistently socialist.' Because there is supposedly a science of the 'political economy of socialism.'" Gorbachev thought this was ridiculous. "Well, try to drastically modify our economic system with such an approach."[98] Gorbachev accused Gromyko of trying to derail perestroika. He retired in October 1988, reiterating in his valedictory remarks that the Soviet Union was a "land of socialism—and, I repeat, land of socialism."[99] He died a year later.

On May 26, 1988, the Politburo passed the Law on Cooperatives, giving Soviet entrepreneurs legal rights similar to those received by township and village enterprises in China.[100] The legislation granted cooperatives wide legal sanction to operate like businesses in capitalist countries, selling shares, hiring workers, and participating in any activity not explicitly prohibited. Workers could join cooperatives without the approval of their employer, and cooperatives did not need to be approved by local governments. This reduced local authorities' ability to extract bribes or defend local monopolies.[101]

Cooperatives would still face restrictions. Price controls limited their ability to sell products profitably, for example. Raising capital was challenging, too, since private banks were just beginning to emerge. Opponents of private property tried to suffocate cooperatives in other ways. One proposal sought to tax non-salary income at a top rate of 90 percent, which would have eliminated the financial incentive to participate in a cooperative. Reformists successfully rallied against this tax.[102] Despite continuing threats and restrictions, the Soviet Union's embrace of Chinese-style cooperatives proved immensely popular. By mid-1989, only a year after they were legalized, 133,000 cooperatives had been created, employing 2.93 million people. Employment in cooperatives doubled in the first half of 1989 and continued growing rapidly. The services, consumer goods, and construction sectors received particularly strong boosts from new cooperative enterprises.[103] "In short," one Soviet analyst reported in 1989, "the cooperative movement is gaining strength."[104]

By the late 1980s, in the sphere of enterprise reform, the Soviet Union was heeding the calls of pro-market economists and shifting decision-making about enterprises from central planners to managers who faced incentives. In embracing these changes—in legalizing individual labor, sharpening the incentives the state enterprises faced, and allowing de facto private businesses—Gorbachev was trying to move toward market socialism. The USSR was not the first country to combine socialist ideas with market incentives. Hungary and Yugoslavia tried some of these techniques in the 1950s, 1960s, and 1970s, though by the time of perestroika their political and economic problems made them unimpressive models. It was China that provided the most politically potent example of applying incentives to state-owned enterprises. Soviet advocates of liberalization closely studied the policies of China's Sichuan province, and they regularly pointed to China's success.[105]

By the late 1980s, China was most influential not as a source of specific ideas, but as a trump card in political debates about reform. If the USSR restructured its enterprises like China did, Gorbachev and his allies argued, it would experience similarly rapid growth. Wielding this argument, Gorbachev sought to bulldoze the opposition and to push through a series of tough changes that, leading Soviet economists explained, constituted "an attempt to implement the Chinese model."[106] Citing China helped push reforms through a recalcitrant bureaucracy. But persuasion was often not enough, and Gorbachev was forced to hike industrial subsidies. This bought support from ministries and industries that were skeptical about markets but keen on the new handouts provided by the acceleration program. The power of these entrenched interests meant that the price of their consent was enormous. Capital investment averaged less than 170 billion rubles per year from 1981–85; but under the acceleration program, which was needed to retain industrial support, capital spending reached 206 billion rubles in 1987 and surpassed 218 billion rubles in 1988. The increase in capital spending was equivalent to over 5 percent of GDP—an extravagant spending hike in a time when the budget was already careening out of control.[107] Yet the clout of the industrial managers and ministries meant Gorbachev had no other way. In political terms, the deal-making made possible by higher capital spending worked. By the end of the 1980s, Gorbachev had succeeded in recasting the Soviet Union's business law in innovative Sichuan style. But these political compromises piled yet more spending on the Kremlin's tottering budget.

5 A Soviet Shenzhen?

Copying China's Special Economic Zones

"Time is money and efficiency is life!" declared a billboard outside of the special economic zone in China's southern city of Shenzhen.[1] The special economic zones that China created during the 1970s and 1980s—small territories carved out of cities and given special legal systems designed to attract foreign investment—were filled with historical irony. At the turn of the twentieth century, China had been forced to hand control of many coastal cities to foreign powers, who established their own courts and legal systems to better protect business interests. Foreign concession zones inflamed Chinese opposition to imperialism during the early 1900s. The Chinese Communist Party—whose first party congress was held, not coincidentally, in the French Concession in Shanghai—capitalized on this anger, riding to power on a wave of anti-imperialist feeling.

Today, the building that housed the Chinese Communist Party's first congress is surrounded by expensive artisanal coffee shops, while the French Concession, with leafy streets and bohemian boutiques, is perhaps the most pleasant neighborhood in all of China. The economic growth that made this possible was in part a result of Beijing's willingness to revisit its experience with concessionary zones. After Deng Xiaoping consolidated power, he embraced the idea of giving foreign investors special privileges. In Xiamen, Tianjin, Dalian, and elsewhere, cities that had once been under foreign control were now designated special economic zones. Foreign firms were given tax breaks and regulatory relief in exchange for investment. It was a concept that fit uneasily with Marxist-Leninist declarations about defending the workers' interests from capitalist—and especially foreign capitalist—exploitation. In state-owned factories, China's government could claim that its push for higher production and greater efficiency was justified by the public interest. In special economic zones, factories were owned by investors from countries that had previously carved up China. The principle, "time is money, efficiency is life" was applied to Chinese workers in foreign-owned textile factories, creating a situation not unlike the state of affairs before the

Chinese Communist Party had liberated the working class from foreign oppression.

China was not worried by the apparent similarities between past and present methods of promoting foreign investment. Nor were the Soviet admirers of China. Tolerating foreign capitalists was worthwhile if it provided investment and economic growth, many Soviets believed. Reformist Soviet officials urged top leaders to look closely at China's use of special economic zones, which they credited with attracting billions of dollars in foreign investment. Yet Soviet opinion was more divided than in China. Powerful Soviet foreign trade bureaucrats, for example, opposed trade liberalization lest it make their jobs redundant. The military, meanwhile, feared that opening ports to foreign traders presented a security threat. Yet with active political support from the top leadership, including Gorbachev himself, these impediments to liberalization were slowly overcome.

As in his attempts to restructure industry, Gorbachev's agenda was obstructed by Marxist-Leninist ideology and entrenched interest groups—industries fighting for subsidies and economic planning officials defending their bureaucratic turf. The Kremlin's plan to restructure the Soviet Union's foreign trade system suffered an additional enemy: timing. As in other spheres, Soviet officials tasked with rewriting trade and investment laws studied the experience of other socialist countries. Here, too, China's successes helped create a political consensus in favor of liberalization. Expanding trade and attracting investment require a growing economy, however. By the time the Soviet Union liberalized its trade policy, the country's economy was in a freefall. The USSR succeeded in copying China in establishing special economic zones, but not before the economy had began to collapse.

Soviet Analysts on China's Approach to Foreign Investment

As early as 1980, Soviet researchers noticed that China was radically shifting its approach to foreign investment. For much of the 1960s and 1970s, China received little foreign investment at all, because of the radical and isolationist policies of the Cultural Revolution. At the end of Mao's life, however, the pendulum of attitudes toward foreign investment swung back toward a more accommodative stance. It was not until Deng Xiaoping consolidated power at the end of the 1970s, however, that creating conditions conducive to foreign investment again became a top concern of Chinese policymakers. As Beijing's policy toward foreign capital shifted, Soviet analysts took note. Sergei Manezhev, an analyst on China at the Far East Institute, prepared a report in 1980 that underlined China's new belief that foreign capital could support Deng Xiaoping's strategy of the "four modernizations"—modernizing agriculture, industry, defense, and science.[2] To attract foreign investors, China's leaders now believed, they needed to provide clear opportunities for profit. Manezhev noted that China had lower tax rates than many of its neighbors, which he saw as evidence that "in comparison with the majority of countries, the PRC has created considerable benefits for foreign partners in attracting cross-border investment."[3]

Nonetheless, Manezhev's analysis suggested, China's leaders realized the need to do more than simply cut taxes on foreign funds. Markets for capital in Asia were highly competitive, because investors from the United States, Europe, Japan, and Southeast Asia could choose among many countries when deciding where to invest. Taiwan, South Korea, Singapore, and Hong Kong all had experience seeking foreign partners. China's wages were lower than wages in countries such as South Korea, but labor costs were also low in other countries in the region, such as Indonesia and India. To appeal to foreign businesses, China not only needed to offer cheap labor, it needed to provide a legal and regulatory system that foreigners understood and trusted.

Given China's communist ideology and the previous three-decade struggle against private property, building foreign businesses' trust in the country's legal regime was challenging. Beijing turned to "special economic zones"—territories with looser regulations and lower taxes—to overcome its regulatory and reputational challenges. Many other countries in Southeast Asia used special zones to boost investment, and in 1980 China's Communist Party approved the creation of several zones in coastal cities in Southern China, including at Shenzhen, just across the border from Hong Kong.[4]

Manezhev immediately realized that China's special economic zones marked an important shift, and he prepared his first report on the subject just months after the zones were established. "Conditions created in the export zones for foreign capital," he pointed out, "are markedly more beneficial" than previous legislation envisaged. "In particular, the tax rates are here reduced 10–15%" and the " 'tax credit' is extended for 3–5 years. Import of commodities and equipment into the special zone, like the export of finished products from them to foreign markets, are duty free."[5] In fact, Manezhev pointed out, the zones were administratively separate from the rest of China. This was important because it signaled to investors that, while the People's Republic of China still claimed devotion to Maoism, the government was serious about running the zones according to different—capitalist—rules.

Indeed, Manezhev noted, the differences between the zones and the rest of China extended far beyond the lower taxes. Regulations were looser, too. "Unlike other regions of China," Manezhev reported, "official permission is given to [create] businesses fully owned by foreign investors. More than that, some zones themselves are now practically given to foreign companies."[6] To support exports, China spent about 20 million dollars on infrastructure in the zone at Shekou in Guangdong province, Manezhev noted. Even more surprising, the "authorities of Fujian province created an export zone on Lanki Island jointly" with Bechtel, an American infrastructure firm.[7]

The combination of regulatory flexibility and infrastructure investment was, in Manezhev's view, a potent combination. "The Chinese government thinks that the export zones will become basic centers for long term foreign investment in China," he wrote. Yet even if the zones succeeded in attracting investment—which Soviet analysts thought was likely—this was not in itself revolutionary. It was possible, he noted, that the zones would become "capitalist enclaves with limited production and commercial connections within China's economy, like the 'open ports' in prerevolutionary China." In that case, they would provide an opening between China and the outside world, but little else.[8] Yet Soviet analysts also emphasized the possibility that the special economic zones would play a far broader role in China's economic modernization, facilitating "the gradual spreading of capitalist business beyond the zone," and helping to reintroduce private enterprise in China.[9]

In 1980, the year China's special economic zones were founded, it was difficult to foresee how they would develop. But the Soviet Union's China experts believed they deserved to be followed closely. As early as 1981, only a year after the first zones were created in Guangdong province, an article in *Far Eastern Affairs*, the journal of the Far East Institute, noted that the zones were "an attempt by the Chinese leaders to experiment with an 'open doors' policy"—in other words, an important tool to reverse the economic isolationism that marked China's economic policy under Mao.[10] Two years later, Manezhev, the leading Soviet analyst on China's special economic zones, published an article in *Far Eastern Affairs*, "The Role of External Factors in China's Economic Development," that argued that foreign trade and investment were an important facet of China's broader economic reforms.[11]

In 1985, Manezhev prepared an article titled "Foreign Entrepreneurial Capital in the PRC's Economy." He quoted *Hongqi*, a leading Chinese journal, which explained, "Now that China is implementing socialist modernization, large investment resources are needed. . . . To speed up economic development and to augment our ability to rely on our own strength, it is useful and necessary to turn to foreign capital."[12] In executing this strategy, Manezhev wrote, special economic zones played a crucial role because they "virtually ensure a 'favourable investment climate' for foreign investors."[13] China's income tax rates in the zones were 15 percent, lower even than in low-tax locales such as Hong Kong and Singapore.[14] Return on capital in some businesses reached 20–25 percent, which explains why foreign investors brought $6.5 billion into the zones.[15] Indeed, Manezhev noted, the initial four zones in Guangdong and Fujian were so successful that the Chinese government soon decided to create fourteen additional zones in coastal towns, and to open Hainan Island to foreign investment.[16]

Could Special Economic Zones Overcome Bureaucratic Resistance?

China's experience in attracting foreign capital was particularly important because Mikhail Gorbachev was considering loosening rules governing foreign investment. Freeing Soviet enterprises to take advantage of profitable opportunities for trade was an early goal of perestroika. By June 1985, one scholar of Soviet trade practices noted, "Gorbachev had damned the noncompetitive character of Soviet manufactured goods in the world market and the low level of exports, stating flatly, 'it is impossible to tolerate this any longer.' "[17] Soviet intellectuals criticized the USSR's unwillingness to integrate with international markets. S. Yu. Medvedkov, a senior scholar at the USA-Canada Institute, echoed the conventional wisdom among perestroika thinkers that "international experience shows that full participation of a country in the international division of labor is one of the most effective levers of optimizing its economy."[18] That was particularly true, Medvedkov argued, for countries such as the USSR that depended on low-value-added commodity exports such as oil and gas. Unpredictable price variations meant that "commodities cannot provide stability of foreign exchange for purchasing imports."[19]

In the long term, intellectuals such as Medvedkov argued, "the existing structure and mechanism of foreign economic relations between the USSR and the West deprive us of necessary 'freedom of maneuver' in trade policy and increase the vulnerability of the Soviet economy."[20] Cooperation with multinational corporations did not make countries dependent on capitalists, many Soviet intellectuals insisted, even though the USSR's own propaganda parroted that claim. Instead, one scholar argued, "so far as the transnational corporation is concerned, the profits they receive . . . are dependent in much greater degree on the work of their subsidiaries."[21] The benefits to cooperation with foreign companies, in other words, flow not only to the companies themselves, but also to the countries that host them. The Soviet Union had nothing to fear from working with capitalist businesses.

Gorbachev and the political leaders of the perestroika era agreed with these ideas, and decided from an early stage that increasing trade should be a central goal of perestroika.[22] A series of policy shifts soon followed. In 1986, the USSR formally applied for membership in GATT, the trade group.[23] That same year, the Foreign Economic Commission of the Council of Ministers was given more staff and greater authority to propose new trade initiatives. The largest shift in Soviet trade policy, however, was the 1987 legalization of joint ventures with companies from capitalist countries.[24]

Despite these steps, the volume of investment remained low, largely because of restrictive ownership and currency regulations imposed by existing trade regulators.[25] Some Soviet officials supported Gorbachev's trade reforms, but many bureaucrats were skeptical of change, in part because they faced material incentives to obstruct trade. With regulatory authority to determine who was allowed to conduct business abroad, trade bureaucrats were able to extract bribes and patronage. Because the proposed changes reduced their authority, giving enterprises more ability to make trade decisions without first seeking approval from ministry officials in Moscow, the trade bureaucrats sought to defend their privileges. Politburo directives changed, but regulatory officials ensured that implementation lagged behind. By 1988 only 213 enterprises had received permission to directly participate in foreign trade.[26]

Slow trade growth disappointed Soviet reformers. The USSR's economy was one of the world's largest. The Soviet Union had wealthy and influential diasporas, including Russians in New York, Armenians in France, Ukrainians in Canada, and Koreans in South Korea who could easily deploy their capital and expertise in the USSR if they sensed an opportunity for profit—and many eventually did so during the 1990s.[27] Despite these advantages, regulatory holdup meant that the Soviet Union's initial experience with joint ventures was unimpressive. Leading economist and Gorbachev adviser Abel Aganbegyan noted that while the USSR had less than 200 ventures with foreign firms, China had several thousand, involving twenty times more foreign capital than in the USSR.[28] The problem, Aganbegyan argued, was the USSR's investment climate.[29] "In other socialist countries where conditions for the creation of joint enterprises are more favourable," he noted, referring above all to looser regulations, "there are considerably more of them. . . . Hungary for instance already has more than a hundred joint ventures, while Poland has around 700. . . . But the most obvious example to study is China, where there are more than 5 thousand enterprises with a total capital of 20 billion dollars. I think we shall need hundreds, maybe thousands" of such ventures, he argued.[30] One way to provide a quick boost to foreign investment, Aganbegyan suggested, was to create special economic zones. He hoped these zones could overcome the regulatory hurdles faced by would-be foreign investors by devolving regulatory power to local governments, cutting Moscow-based bureaucrats out of the regulatory process. "We are also looking at the possibility of creating zones where conditions for joint enterprises will be particularly favorable," he explained. "Such zones exist in China, and have on the whole been successful." In fact, Aganbegyan noted, "we have examined the possibility of creating such zones in the Far East."[31]

Could Special Economic Zones Work in the USSR?

It was not until Mikhail Gorbachev launched perestroika in 1985 that Soviet officials began to make the case that the USSR could learn from China's experience with special economic zones, or that the Soviet Union should create its own zones for foreign investors. One of the first analysts to support the creation of special economic zones in the Soviet Union was A. I. Iziumov, an analyst at the USA-Canada Institute. Iziumov visited China in 1986 and was impressed with China's foreign economic connections. After returning home, he drafted a memo on China's foreign trade policies, which was sent to high-level officials in the Soviet Union's economic policymaking bureaucracy.[32]

Like analysts from the Far East Institute, Iziumov and his colleagues were surprised by the rapid change in China's relations with foreign investors. In just seven and a half years since China began actively seeking foreign investment, the country had initiated 6,850 projects with the participation of foreign capital, with a total of $21 billion invested. Iziumov reported that investors included firms from the United States, Japan, Australia, and West Germany, but over 70 percent of capital in the early years came from investors of Chinese descent, especially from Hong Kong, Singapore, and elsewhere in Southeast Asia.[33] Many of the initial ventures were in services such as tourism and hotels, though Iziumov also noted manufacturing projects, such as new West German and American car factories—whose combined production he expected to reach 100,000 cars a year by 1990—as well as Japanese factories making color TVs. On top of that, Iziumov pointed out, China was beginning to participate in high-tech production, assembling "more than 30,000 personal computers with the help of international partners."[34] Indeed, China's partnerships with foreign companies were growing increasingly diverse, with the first mixed-venture bank opening in Xiamen in 1986.[35]

Iziumov attributed much of China's success in attracting foreign capital to its new legislation, which greatly improved the country's attractiveness to foreign businesses. He reported on the provisions that convinced businesses that investing in China was secure and profitable. Foreign ventures were organized as limited liability companies, he noted, meaning that "they are liable only for their capital," helping to reduce investors' risk. Tax rates were low, with income taxes at 30 percent for mixed ventures and between 20–40 percent for entirely foreign-owned enterprises; repatriated capital was taxed at only 10 percent. On top of low taxes, China simplified its regulatory system by letting local councils, rather than the central government, make decisions about small- and medium-sized investments. Shanghai, for example, was granted the right to approve all projects smaller than $30 million without consulting Beijing.[36]

Iziumov was most impressed, though, by his visit to China's special economic zone in Shenzhen. "Located in an area near Hong Kong, larger than 300 square kilometers, this Special Economic Zone managed to attract more than $1.1 billion of foreign investment," he reported. "From

1979 to 1986, the zone's industrial production grew 50-fold."[37] Shenzhen and China's other special zones fulfilled several aims, Chinese interlocutors told Iziumov. They improved the level of technology in Chinese production, introduced new management techniques, helped China accumulate foreign currency with which to pay for imports, and introduced Chinese workers and managers to the international economy. All foreign investment accomplished these goals to a certain extent, but Iziumov thought the Chinese were right to think that special zones were particularly effective at attracting capital. The main reason was that the zones guaranteed a "good investment climate." Iziumov reported that Deng Xiaoping was so concerned about China's investment climate that, in 1986, he personally reassured visitors from the New York Stock Exchange that they faced few risks in China.[38]

Even though China's special economic zones encouraged collaboration with capitalists—and even though the country's low wages were a major reason foreign firms did business in China—Iziumov argued that the zones did not conflict with Marxist-Leninist principles. For one thing, his report noted, workers in the zones received free health care, social benefits, low rent, and unemployment insurance, limiting the negative effects of capitalist exploitation. Indeed, he pointed out, "Chinese economists and scientists hold the opinion that the system of special economic zones and open cities is the main Chinese supplement to the principles worked out by V. I. Lenin in the 1920s about the science of state capitalism."[39] Just as Lenin worked with capitalists during the era of the New Economic Policy, China's communists collaborated with capitalists today. Indeed, many Chinese writers made similar arguments in defending the zones against attacks from orthodox Chinese Marxists.[40] If special economic zones were compatible with a Leninist vision, Iziumov suggested, surely they would be ideologically acceptable in the Soviet Union, too.[41]

Iziumov stressed the compatibility of special economic zones with Marxist-Leninist principles because he believed that the Soviet Union should copy China's zones. "An important difference between our decrees [about foreign investment] is the lack of decrees about special economic zones," he argued.[42] Perestroika was only two years old in 1987, when Iziumov prepared his report. Gorbachev's attempt to attract foreign capital was just getting under way. Like China, the USSR was creating new corporate structures that permitted foreign companies to partner with Soviet enterprises. But Iziumov thought China's experience showed that Soviet efforts did not go far enough.[43] "Taking into account the fact that in the beginning of 1987 our country issued the Decree about Mixed Ventures . . . it seems worthwhile to compare the changes the decree introduced with those of similar laws and decrees issued in China. Comparing the two it is clear that our laws create a less attractive climate for foreign investors than the Chinese ones do."

For one thing, Iziumov argued, Soviet law "doesn't allow creating 100%-foreign-enterprises," but instead requires foreign companies to work with Soviet enterprises. Additionally, Iziumov pointed out, USSR law "limits mixed ventures to 49% of the capital owned by foreign investors." In China, by contrast, foreign capital "can't be *lower* than 25%."[44] Where the Soviet Union was still treating foreign capital as a threat, China's regulatory system encouraged foreign investment. Iziumov reported a conversation with a Chinese official who recounted that "in the first year of 'open door politics' we also postulated that the Chinese side should have control in mixed ventures. However, we cancelled this demand upon realizing that . . . foreign companies don't pose a threat to the economic sovereignty of China."[45] It was time, Iziumov suggested, for the Soviet Union to reach the same conclusion. The USSR needed to become more welcoming to foreign capital, he believed, and China's experience suggested that special economic zones were an obvious place to start.

Throughout the late 1980s, Soviet researchers and analysts became increasingly interested in whether such zones might work in the USSR. Sergei Manezhev and other scholars at the Far East Institute continued to write about China's experience with foreign investment and the lessons the USSR might learn.[46] *Far Eastern Affairs* published an article in 1985 titled "Some Legal Aspects of China's 'Open Door' Policy," while Manezhev himself wrote an article the following year titled "Foreign Capital in the PRC."[47] The journal continued to emphasize the importance of special economic zones, publishing a survey of "China's Special Economic Zones" in 1986, an examination of the "Development of the PRC's Littoral Areas" in 1988, and a study titled "Open Ports: A Major Factor of Economic Efficiency" in 1989.[48]

The Far East Institute also continued preparing unpublished reports for Communist Party leadership. In 1988, for example, the institute wrote a report, "The Strategy of Accelerating Economic Development in the PRC's Coastal Regions," using the word "acceleration" to highlight lessons for the Soviet economy.[49] Indeed, as perestroika progressed, scholars at the Far East Institute were increasingly explicit in drawing lessons from China for Gorbachev's policy of economic perestroika in the USSR. In 1988, Manezhev prepared a report titled "The Creation of a Favorable Investment Climate in the PRC" for B. L. Tolstoi, the chairman of the State Committee for Science and Technology. In his research for Tolstoi, Manezhev explained how the USSR could learn lessons from China and improve its own attractiveness to investors.[50] The following year, in addition to a report on the regulation of joint ventures in China, Manezhev authored a briefing titled "The Experience of the Use of Foreign Capital in the People's Republic of China," which argued that the USSR's advanced economy meant it should be even more capable than China of attracting foreign investment.[51]

Manezhev collected his research in a book titled *Foreign Capital in China*, which was published in 1990, and which again emphasized that China's special economic zones "play a strategic role in the modernization" of the country's economy.[52] Manezhev reiterated the usefulness of the zones in helping China obtain "deficit financing and material-technical resources, modern technology, [and] lessons from foreign experience of economic management."[53] Indeed, he pointed out, exports from Shenzhen in 1987 were 70 times the level in 1978.[54]

Because of data like this, interest in China's special economic zones soon spread far beyond the small circle of Soviet sinologists. By 1987, cities such as Shenzhen and Xiamen, and the special regulatory arrangements that propelled their economic ascent, were widely known among the Soviet leadership. They came up repeatedly in the press. *Literaturnaia Gazeta* ran a report in 1988 on the economy of China's Fujian province, home to Xiamen, the historic port city and location of one of China's four initial special economic zones. Xiamen's unique regulatory status and subsequent economic success—including vibrant light industrial and construction sectors—was a major theme in *Literaturnaia Gazeta*'s reporting.[55] Other publications, such as *Izvestia* and *Za Rubezhom*, also published on the same theme.[56] Indeed, the Soviet Union wasn't the only socialist country to notice China's successes. A group of visiting Hungarian scholars told Soviet economists that they feared China's growing ability to attract Western capital would reduce the ability of other socialist countries to get loans from Western banks. The "Chinese factor," the Hungarians reasoned, "will play a marked role in the formulation of international economic relations."[57]

But most Soviet officials were less concerned about Chinese competition than they were about learning from China's accomplishments. A series of Soviet officials visited Shenzhen and China's other special economic zones. Deputy Prime Minister I. V. Arkhipov, for example, traveled to

Shenzhen in December 1984 and announced that the city had "a magnificent plan for the future."[58] Gorbachev adviser Yevgeny Primakov visited several such zones in May 1989, just before Gorbachev's first trip to China.[59] Even youth delegations went to China's special economic zones; one Communist Youth group visited Shenzhen in 1987.[60] The reason was simple: a broad array of the Soviet leadership thought their country should learn from China's achievements and create its own special zones to spur foreign investment. Politburo member Nikolai Ryzhkov, for example, was known to support the creation of Chinese-style zones.[61] Many Soviet officials openly admitted they wanted to copy China. "Our officials are being much more selective" regarding special economic zones, Evgeny Konovalov, head of the China Department at the Far East Institute, told the *Wall Street Journal* in 1987. "Still, we can't help admire what they have done in China."[62]

Special Economic Zones in Soviet Economic Thought

As Soviet economists tried to find ways to boost investment, they also turned to special economic zones. By the late 1980s, it was clear that bureaucrats were obstructing policy changes, and that perestroika needed a new strategy for liberalizing trade and investment. Economists' interest in special economic zones spread quickly. The Soviet Union's flagship economics journal, *Voprosy Ekonomiki*, published a series of articles on the subject in 1990 and 1991, including pieces by prominent scholars.[63] Soviet economists were even more explicit than sinologists about the need to learn from China. One article noted that the main reason China's zones were successful was that they embraced decentralized economic management. China, this analyst explained, "took the path . . . [of granting] great independence to the provincial and local administrative authorities, removing questions of operational control of the zones from the jurisdiction of the central government."[64] Soviet economists believed this was an important lesson for the USSR's reform efforts.

Soviet experts' excitement about special economic zones was echoed by foreign economists. The United Nation's Centre on Transnational Corporations, for example, produced two reports on the subject, each of which urged the Soviet Union to consider creating special zones.[65] The UN's experts argued that "free economic zones may . . . provide an opportunity to overcome some bureaucratic inefficiencies. The zones could be viewed as a means for overcoming (at least for specific areas) the infrastructural weaknesses [above all, poor transport] of the host country and, last but not least, for building up the entrepreneurial spirit and capacity of local enterprises."[66] This mirrored what many Soviet economists were already thinking.

Both the UN and the USSR were looking at the same source for inspiration: China. The UN's analysts argued that China was the only socialist country to have successfully implemented a free economic zone, and they specifically advised the USSR to study China's experience.[67] China created its first special economic zones in areas well-placed to attract foreign investment, both for geographical reasons (proximity to the coast) and social reasons (ties to wealthy diasporas abroad). Similarly, the United Nation's experts suggested that zones would be "particularly appropriate in the more outward-oriented regions of the Soviet Union, such as the Baltic republics or the Far Eastern region."[68]

Based on this advice, the USSR's Council of Ministers decided in December 1988 to allow special zones. The proposal was eagerly embraced by local leaders.[69] In Leningrad, for example, Mayor Anatoly Sobchak placed special economic zones at the center of his proposals to reinvigorate the city's economy. "There is a light at the end of the tunnel" of economic depression, Sobchak promised Leningrad residents, "and I would describe it as quite bright. There is a solution. . . . [t]he creation of a free economic zone. This is an idea that I have been developing since 1987, and I believe that in the case of Leningrad this would be an ideal choice in converting to a market economy, an ideal option for solving the crisis."[70] Sobchak recruited his economic aide, later Deputy Prime Minister Anatoly Chubais, to prepare an article for the journal *Voprosy Ekonomiki* that trumpeted the possibilities of turning Leningrad into an export powerhouse by attracting foreign capital.[71] There was also discussion of setting up a special economic zone in the Estonian SSR.[72] But the most important proposal—and the one that fit most closely with the general orientation of Soviet economic thought—was the creation of a special zone on the Pacific, where, on the territory and islands surrounding Vladivostok, Soviet officials were diligently trying to expand their ties with the booming economies of East Asia.

The Vladivostok Initiative: A Soviet Shenzhen?

In 1988 Mikhail Gorbachev traveled to the Siberian city of Krasnoyarsk to deliver a speech setting out his plans to revitalize perestroika. He admitted that the economic results were disappointing, but promised a new strategy of giving "dynamism to foreign economic ties." To do that, the Soviet government was loosening regulations governing trade.[73] New regulatory flexibility would be coupled with "the establishment of special joint enterprise zones in the Far East." Soviet trading partners would be very interested, Gorbachev promised, noting "statements in the Chinese press on the possibilities of developing Chinese-Soviet-Japanese trilateral economic activity in mutually advantageous conditions," and promising a willingness to cooperate closely with the Chinese on matters relating to the special zone. "Dear comrades," Gorbachev concluded, "we are only at the beginning of the path to the future of the world's great Asian and Pacific region."[74]

It was no coincidence that when policymakers in the USSR began planning a special economic zone, they immediately focused on the Soviet Far East. Vladivostok, the region's capital, is not far from the border with China, and only several hundred miles from South Korea and Japan—so it was well placed to take advantage as Asia's economic growth created new possibilities for trade. Between 1983 and 1987, for example, the Soviet Far East's fertilizer trade with China expanded twenty-fold.[75] Some analysts saw similar possibilities in the export of frozen fish to China. Meanwhile, Soviet industries in the Far East, facing a persistent deficit of labor, were eager to employ Chinese workers in their factories.[76]

Businesses from other countries were excited about the prospect of opening up a new export market. The Soviet Far East's rich natural resources—lumber, fish, minerals, oil, and gas—offered many opportunities. Japanese business delegations visited the region, seeking to assess possibilities for trade and to establish contacts with Soviet leaders.[77] Niigata, a Japanese prefecture, created a special fund to finance investment in the USSR, and its governor, Kyoshi Kaneko, toured Khabarovsk, Vladivostok, and Nakhodka. New airline and shipping routes were established between Vladivostok and Niigata.[78] Representatives from the Japanese embassy in Moscow met with officials at Gosplan, the state planning agency, to inquire about opportunities for Japanese businesses.[79] One Japanese firm, Toho Securities, submitted its own proposal for a special economic zone to the Soviet government.[80] The Far East's main impediment to investment, argued Minoru Watanabe, executive secretary of Japan's Chamber of Commerce and Industry, was that "for an entrepreneur to play an active role, a minimum of two factors are needed: a good infrastructure and settled legislation. At present these do not exist."[81]

Soviet policymakers set out to address these issues. On December 2, 1988, the Council of Ministers issued a decree providing a framework for the creation of special economic zones.[82] The decree created tax incentives for Soviet enterprises in the Far East that established joint ventures with foreign firms. Taxes were cut from 70 percent to 30 percent of a joint venture's profits. In addition, no taxes on profit were levied for three years after the venture first declared a profit. The decree also authorized subsidized rent and credit.[83] However, much of the administrative work—as in China—was left to regional authorities.

The Communist Party Committee of Primorsky Krai, the region in which Vladivostok is located, soon began planning to open such a zone in the city of Nakhodka, located on a great bay where the Partizanskaia River reaches the Sea of Japan, only fifty miles southeast of Vladivostok. The entire town as well as the surrounding territory was designated a free enterprise zone.[84] The city was an obvious choice. It was a trading post even during tsarist times, and at the turn of the twentieth century hosted European and American merchants.[85] Most trade between the Soviet Union and its Asian neighbors flowed through the port, and even before the special zone was created, the port processed 25 million tons of trade each year.[86] Because Nakhodka was home to the Dalintorg Foreign-Trade Association, Primorsk Maritime Company, and several timber enterprises, all of which engaged in international trade, the city had experience working with foreign businesses.[87] Nakhodka had four ice-free ports, one of which alone could process 40 million tons of trade, so there was room for expansion. The city also boasted sizeable industries, including fishing, fish processing, and ship repair, which produced one billion rubles of output annually. On top of this, the city had space on which to construct the "industrial, transport, storage, administrative, dwelling and recreation facilities" that a full-fledged special economic zone would require.[88]

Though the local government actively supported the establishment of a special economic zone, and though opinion polls showed that a "large majority" of the local population also backed the zone, the project struggled to get off the ground.[89] Officials targeted investment in processing raw materials such as "timber, metallic ores, fish, sea products" and in serving as a hub for expanded trade between the USSR and its Asian neighbors.[90] The city attracted some large investments, including from a Chinese timber firm and from Hyundai, the Korean conglomerate.[91]

But where China's special economic zones were teeming with new businesses from the moment of their founding, Nakhodka struggled to make progress. One factor was structural differences between the Soviet and Chinese economies. When China opened its first zones in Shenzhen and elsewhere, Chinese wages were among the lowest in the world, so businesses had a strong reason to build new factories there. Soviet workers' wages were lower than wages in the West, but they were significantly higher than in China. Indeed, in the Soviet Far East, businesses faced a labor shortage and hoped to import cheap Chinese labor. The situation was the opposite in China: Shenzhen had plentiful labor but needed foreign capital; Nakhodka's businesses needed cheaper labor. There was never any chance that the Soviet Union could attract serious investment in textiles or basic manufacturing—the type of industries that drove growth in many East Asian countries.

But the USSR's relatively high wages were not the only reason Nakhodka was underperforming. Proponents of special economic zones blamed Soviet bureaucrats for giving local authorities insufficient flexibility.[92] By mid-1990, fed up with rules that prevented the types of policies sought by foreign investors, the Russian republic-level government declared the creation of a zone in Nakhodka.[93] All state-run enterprises in the zone were to be made independent from the ministries that controlled them. Foreign investors received additional rights to invest in banks and to lease land.[94] Local governments, under the new legislation, received authority to determine the zone's "fiscal system and tax privileges."[95] The Nakhodka city council responded by announcing plans to cut profit taxes to 10 percent. Authorities hoped that the subsequent five years would see investment in "engineering and transport infrastructure and building facilities" as well as tourism and agriculture. Officials planned an airport, a trade center, an international hotel, as well as a telecoms and exhibition center, which were to be finished by 1992.[96]

But the regional government's probusiness shift came too late. As Nakhodka was ramping up efforts to attract foreign capital, the Soviet Union was dissolving around it. Fearing chaos, investors stayed away, even though in subsequent years many promising industries were sold for a fraction of their future value. No matter how well designed, Nakhodka's special economic zone could not function in a vacuum. Investment depended on the stability of the Soviet economy and efficacy of its government. By the time the special economic zone in the Soviet Far East had finally freed itself from overbearing officials, the country was disintegrating. Even in the atmosphere of economic depression, by 1993 Nakhodka had attracted foreign investors from 29 different countries, who financed 271 local businesses.[97] That was evidence that Nakhodka's officials were correct that foreign firms saw potential in the country's industries. Indeed, over the course of the 1990s and 2000s, foreign investment played a major role in transforming some of Russia's largest industries, from autos to energy to technology. But the wave of foreign investment that eventually arrived was delayed by the economic crisis of the early 1990s. No matter how carefully Nakhodka officials crafted their business climate, they struggled to attract business interest amid the implosion of the Soviet state. In Nakhodka, the handful of new investment projects that occurred helped soften the pain caused by the economic crisis. But a Soviet Shenzhen this was not.

The Fate of Soviet Special Economic Zones

In the end, there was no tremendous inflow of foreign capital to the Soviet Union, nor did the USSR and its successors enjoy a manufacturing renaissance spurred by foreign trade and investment. By the early 1990s, special economic zones were associated more with tax evasion than with economic reconstruction. As the central government continued disintegrating in the early years after the collapse of the Soviet Union, local and regional governments in Russia took advantage of special economic zones to help individuals and corporations reduce their taxes, much as offshore banking centers such as Bermuda and the Cayman Islands do for multinational corporations today.[98] A zone created in Ingushetia—a small, conflict-ridden province surrounded by the Caucasus Mountains and located far from international trade routes—was estimated to have cost the Russian government $5 billion in lost tax revenue in 1994.[99] This was no path to economic rejuvenation. Yet abuses such as this are evidence not that the Soviet Union's foreign trade strategy failed but that the central government's ability to enforce basic rules had all but collapsed.

Had the Soviet Union not disintegrated amid a terrible economic crisis, special economic zones might have yielded some benefits. Indeed, as late as 1991, Soviet specialists were carefully developing their understanding of how to make such zones work. In May 1991, for example, the Institute of the World Economy and International Relations hosted a seminar, "The Creation and Functioning of Special Economic Zones: Comparative Analysis of the Experience of the PRC and the USSR."[100] The seminar provided an opportunity for Soviet academics and officials to share ideas and seek advice from Chinese experts.[101] The seminar took the form of a question-and-answer session, with Soviet officials airing problems their special economic zones faced, and Chinese officials suggesting lessons from China's experience.[102] Ma Yuanlian, the deputy director of the Institute of Scientific and Technical Information of Shanghai, pointed out that Shanghai's special zones for economic and technical development succeeded because they provided significant tax benefits: joint ventures paid no tax on foreign currency earnings for the first three years, and 40 percent after that.[103] One Soviet scholar, A. Anisimov, argued that Soviet zones had not worked because Soviet enterprises were not structured like Western corporations. Others suggested they were simply too small. B. Filatov pointed out that "one zone could hardly create a market environment" because it did not constitute a "critical mass of competing enterprises, which are necessary for a well-functioning market." "Many of the participants," noted the official account of the meeting, "raised questions about the legal provision and governance mechanism of zones." Legislation chartering the zones, the report argued, began "without the presence of a shared conception" of what the laws would entail.[104]

In the aftermath of the Soviet Union's collapse, many critics in Russia and in the West castigated Soviet and later Russian policymakers for paying insufficient attention to the institutions that underlie a market economy, such as the rule of law, secure property rights, and effective regulation.[105] Some scholars have suggested that weaknesses in the country's political institutions explain the severity of its economic troubles in the 1990s. Yet the Soviet Union's study of China's special economic zones suggests the opposite conclusion. In 1990 and 1991, Soviet leaders were seriously grappling with how to create laws and regulations that would make markets work. They extensively engaged with China's experience, because that country had successfully used such zones to attract foreign investment, boost technology, and expand trade links. They knew, too, that China's growth was driven by low-wage manufacturing, whereas the USSR had to focus on more advanced production. The problem was not that Soviet policymakers naively believed that markets did not need effective laws and regulatory institutions. They were in the midst of diligently constructing these institutions when their economy and their government unexpectedly collapsed.

6 Of Subsidies and Sovkhozes

Restructuring Soviet Agriculture

"Whenever I talk to Sovietologists," wrote leading economist and Gorbachev adviser Abel Aganbegyan in 1989, "they always return to the same question: why did we not do as in previous reforms and start out perestroika with agriculture?"[1] Everyone agreed that the Soviet Union's agricultural system needed to be made more efficient. Since Stalin collectivized farmland in the 1920s and 1930s, the Soviet Union had suffered repeated crop failures and persistently low levels of agricultural productivity. Stalin's decision to eliminate most private farming and to group farmers together in collective farms created structural problems in Soviet agriculture that persisted half a century later. Grain had been one of Russia's main exports under the tsars, but during the 1970s and 1980s the Soviet Union had to import grain to feed its population. Such grain as was produced domestically required increasingly large capital investment. Fixed capital investment in agriculture increased 4.7 times from 1965 to 1981, even though output less than doubled. That meant capital investments were becoming less productive.[2]

Despite declining returns on investment, Moscow's central planners plowed tremendous resources into the agricultural sector, and Soviet farms used tractors, fertilizer, and labor at far higher rates than comparable countries.[3] During Brezhnev's premiership, fertilizer usage doubled and tractor deliveries tripled, even as productivity stagnated.[4] This nearly limitless supply of funds supplied to the Soviet countryside constituted the largest farm subsidy program in history.[5] But because Soviet farms were so wasteful, new investment did relatively little to boost farm output. If perestroika was to succeed in lifting the Soviet Union out of stagnation, the country's farms would have to be made more efficient.

It is often argued that Gorbachev did little to address the USSR's agricultural problems. In particular, many historians believe that Gorbachev erred in not following China and tackling agriculture first.[6] Such a strategy, say its proponents, could have resolved the USSR's food shortages, reducing grain imports and taking pressure off the budget. In fact, an agriculture-first strategy was regularly discussed in Moscow during the 1980s, including by intellectuals who were close to Gorbachev. For example, Oleg Bogomolov, an influential academic, repeatedly advocated addressing agricultural problems at the beginning of perestroika.[7] Bogomolov based this recommendation on China's experience, and visited China in 1987 to learn about its country's agricultural policies.[8] Yet many historians argue that Soviet leaders ignored such recommendations. One historian recounts an instance when Gorbachev "interrupted Bogomolov in the middle of his presentation and cut it short, . . . apparently thinking the ideas were too radical."[9] Fedor Burlatsky, the writer who played a leading role in introducing the Soviet leadership to China's new policies, also advocated dealing with agriculture at the outset. If only Gorbachev had listened to his advisers, these historians suggest, Soviet reforms might have been as successful as China's.[10]

Yet the argument that Gorbachev and his allies ignored agriculture misses four important facts. First, Soviet leaders were as keenly aware of China's agricultural resurgence as they were aware of Beijing's industrial and trade reforms. China's farm policies were widely discussed among the Soviet intelligentsia, and Gorbachev was impressed by China's accomplishments. Second, the USSR had a decades-long history of experimenting with its farms, so Soviet agricultural experts understood what types of administrative changes were needed to boost productivity. Third, Gorbachev himself had long worked with agriculture. In the 1970s he implemented efficiency-enhancing farm reforms while serving as party secretary of Stavropol Krai, an agricultural region.[11] From 1978–85 he was central committee secretary for agriculture.[12] Even his wife, Raisa, had studied Soviet farms, completing a dissertation on Stavropol Krai's collective farmers while a student at Moscow State University.[13]

The most important reason that Gorbachev was unlikely to have ignored agriculture is that he and his family had suffered immensely from Soviet farm policies. Gorbachev was born in 1931 to a family of peasants in the midst of one of the biggest man-made famines of the century. Stalin's decision to collectivize agriculture caused hunger across southern Russia and Ukraine, and Stavropol Krai, where Gorbachev's family lived, was at the epicenter. Gorbachev's grandfather, Andrei, had first received land after the revolution and was loath to surrender it to a collective farm. Andrei chose to retain his private farm, but he could not save his family from famine. Between one-third and half of Gorbachev's hometown of Privolnoye died of hunger; at least three of Gorbachev's relatives were among them.[14] Andrei's refusal to join a collective farm marked the family for political retribution. In 1934, Andrei was arrested for failing to sow a sufficient number of seeds—even though, because of the famine, there were not enough seeds to sow. He was declared a "saboteur," sentenced to a labor camp, and shipped to Siberia.[15]

His family's unhappy experience with collectivization left an imprint on Mikhail Gorbachev, implanting enduring doubts about the wisdom of the Soviet Union's farm policies. As general secretary, if there was one sector whose problems Gorbachev most intuitively understood, it was the Soviet Union's troubled farms. From his earliest days in power, Gorbachev began preparing a careful assault on the most fundamental planks of the party's farm policy, seeking to remake Soviet agriculture by reestablishing individual families' control over their land and their harvest via long-term leases. Gorbachev initially hoped that lease-based individual agriculture could flourish within the system of collective farms, thereby sidestepping controversial and ideologically charged questions about the fate of Soviet kolkhozes. Yet as the agro-industrial complex resisted Gorbachev's leasing proposals, by the late 1980s he realized that to overcome the faulty economics of Soviet collective farms, he also had to reduce the political influence of the collective farms and the officials that managed them. By the final years of the USSR, therefore, Gorbachev sought to tear down the entire system that had governed Soviet agriculture since Stalin, and to replace it with one predominantly based on individual family farming.

The Autonomous Link in Soviet Agriculture

The perestroika era was not the first time the Soviet Union had questioned official doctrine on collective farms. After the disasters of collectivization, Soviet policy oscillated between strict adherence to collective farming and experiments to give individual families more incentives. Debate centered on a policy called the "autonomous link," which was a means of organizing and compensating agricultural labor. Unlike in most collective farms, where workers were grouped into brigades of dozens of workers, an "autonomous link" was a much smaller group, between five and twelve people, who were often family members.[16] In a brigade, laborers were paid by the amount of work they completed rather than the size of their harvest, a system that provided no incentive to increase harvests. Indeed, some evidence suggests that average salaries were higher on loss-making collective farms than on profitable ones, meaning that workers may have had an active incentive to make their farm unprofitable.[17] By contrast, workers under the autonomous link system were given land from a collective farm, and were tasked with managing it like a private business. Such workers rented equipment from the collective farm, purchased supplies, and determined their own production processes. They were paid based on output, not work: better harvests meant higher pay.[18] Because brigade workers were paid regardless of how much their farm produced, they had little reason to work carefully. By contrast, link workers were paid only if they harvested crops, so they harvested more than their poorly motivated peers.

Brigades clearly fit better with the logic of collectivization, but the realities of farming repeatedly obstructed socialist goals. After the famines of the early 1930s, Soviet agricultural officials compromised their ideology and embraced the autonomous link system, despite its reliance on seemingly capitalist incentives, in order to guarantee harvests. The link system remained common through World War II, yet two factors led to its partial demise by the 1960s.[19] One reason was ideology: the link system was widely believed to threaten collectivization. The second factor was bureaucratic: farms under the link system were not controlled by the agriculture bureaucracy. Planners set purchase prices for various crops, but under the link system farmers were otherwise free to farm as they wished. If they did not want to buy a new tractor or extra fertilizer, they were not forced to do so. The fertilizer and tractor industries understandably preferred a system of centralized procurement. If all decisions about tractor purchases were made in Moscow, the industry had only to lobby a handful of planning officials to ensure that targets were met. This was far easier than producing high-quality tractors that farmers actually wanted to buy.[20]

The combination of Stalinist ideology and interest group lobbying meant that by the 1950s the link system was on the defensive. In the 1950s and 1960s, Soviet leaders who backed the policy were criticized by the press for supporting private farming.[21] In Stalin's final years, the link was replaced by brigade-style collective farming. Under Khrushchev, the autonomous link system was sporadically reintroduced, including in Stavropol Krai, where Mikhail Gorbachev became familiar with it. Brezhnev sought to return the USSR to fully collectivized farming by eliminating the autonomous links that had reappeared under Khrushchev. Despite Brezhnev's conservatism, Soviet officials continued to vigorously debate the link system. Gennady Voronov, an ally of reformist Prime Minister Alexei Kosygin, managed to briefly reinvigorate links in the early 1970s before he was abruptly sacked and pushed out of the Politburo, in part because of this deviation.[22]

The link policy clearly impressed Mikhail Gorbachev because, despite the political risk, when he became first party secretary of Stavropol Krai he let the region's farms adopt the link.[23] Gorbachev had an extensive background in agricultural management. He had graduated from Stavropol Agricultural Institute and his performance as a Stavropol party official had been exemplary. Under his leadership, the region's farms increased production of grain, wool, and lamb.[24] Even before Gorbachev's rise to power in Stavropol, the region was known for its relatively loose economic planning structures, which were less strict than elsewhere in the Soviet Union. The private economy, for example, was far more developed in Stavropol Krai than elsewhere in the Soviet Union, and the region's farm markets did not face government-imposed price ceilings. Labor movement was freer, too, and temporary workers, called *shabashniki*, played a significant role in the region's workforce.[25] When Gorbachev came to high office in Moscow, he had a clear understanding of the role that market forces could—and, he believed, should—play in agriculture.

Gorbachev's work as the central committee's secretary for agriculture during the early 1980s was not, however, marked by rapid reform. At first glance this is surprising because, during Gorbachev's tenure as secretary for agriculture, the Soviet Union's agricultural system suffered its greatest crisis since the famine of the late 1940s. In the early 1970s, the country had exported 7 million tons of grain per year, but by 1982, the USSR had to import 45 million tons, at a price of $18 billion, to feed the population.[26] These imports were nearly one-third of overall grain production in the USSR. In 1981 and 1982, the food situation was so dire that some large cities had to reintroduce food rationing.[27]

There were some minor steps toward liberalization during the first half of the 1980s. Rules regarding farming on private plots of land, which provided an important source of vegetables, were relaxed.[28] Regulations about raising cattle were also loosened, so that individuals—rather than collective farms—could be made responsible for rearing farm animals. Because "privately tended cattle required much less feed and time before being slaughtered than collectively tended livestock," explained one economist, this increased the supply of meat.[29] At the same time, the Politburo tacked back toward the autonomous link system, agreeing in 1983 to let farms give worker brigades contracts for production, tying pay to output and providing an incentive to work efficiently.[30]

Many of these ideas came from Gorbachev's experiences in Stavropol Krai. Gorbachev also cultivated close ties with liberal intellectuals who advocated market-based policies. One of the USSR's most creative thinkers on agricultural questions was sociologist Tatiana Zaslavskaya. Zaslavskaya had studied physics and economics as a student at Moscow State University, but when she arrived in Akademgorodok, a town not far from the Siberian metropolis of Novosibirsk, she immersed herself in studying sociology. Official ideology in the USSR saw sociology as a bourgeois academic discipline, because under communism, society had achieved equality, so there were no social differences to study. Zaslavskaya and other Soviet sociologists knew this was not true, and regularly faced censorship in their effort to gather and analyze data on Soviet social life. Not all of this censorship was particularly sophisticated. Once, a censor prohibited Zaslavskaya from publishing data on dissatisfaction, but assented when she asked "could we please publish instead a table showing percentages of respondents who *are* satisfied."[31] Other times, however, political pressure was more menacing. After Zaslavskaya's 1983 "Novosibirsk Report," a frontal assault on Soviet agricultural management's reliance on "administrative over economic measures," was leaked to the Western media, the KGB visited her office and she was interrogated for "anti-party" activity.[32] She was censured by the Politburo in 1985 for failing to promote "progressive forms of work."[33]

Yet KGB agents were not the only Soviet officials interested in Zaslavskaya's work. Mikhail Gorbachev was also intrigued, not because he suspected antiparty activity, but because he was impressed by Zaslavskaya's conclusions. She researched farms in the Altai region that adopted the autonomous link system, and her assessment of the results—production up by 58 percent, capital productivity up by 55 percent, labor productivity up by 34 percent—corresponded with Gorbachev's experience in freeing agriculture from the strictures of collective farms.[34] Despite her controversial reputation, Gorbachev was interested in what Zaslavskaya had to say. At their first meeting in the early 1980s, she spoke critically about the Soviet Union's system of agricultural management. To Zaslavskaya's surprise, she later recounted, "he agreed with me."[35] In April 1982, Zaslavskaya and Gorbachev met for three hours to discuss the Politburo's plans for its 1982 Food Program, the centerpiece of which was a vast increase in farm subsidies. Zaslavskaya recounted that Gorbachev was critical of the program. He had just returned from Canada, where tours of that country's farms underscored the inefficiency of the Soviet model.[36] But he "made it clear," Zaslavskaya said, "that he was not in a position at that time to pursue anything more radical." Instead, Gorbachev explained, the changes he sought were "going to be emasculated even further" by his Politburo colleagues and by interest group lobbying.[37]

Indeed, Brezhnev's 1982 Food Program, which sought to address the country's agricultural problems, failed to change any of the incentives in Soviet agriculture. Instead of the structural reforms that were supported by analysts such as Zaslavskaya, the farm sector was given even higher subsidies: 30 billion rubles worth of debt write-offs for unprofitable farms along with higher purchase prices for crops.[38] Higher purchase prices did provide greater incentive for farms to turn over crops to the state. But they failed to address structural flaws within the country's state and collective farms. Their main effect was to transfer resources from the state budget to farms and related industries.

The 1982 Food Program also included more direct methods of increasing transfers to the agricultural sector. Deliveries of new trucks to farms were to be 7 percent higher in 1990 than a decade earlier, while fertilizer deliveries were to increase by 57 percent—despite the fact that most Soviet republics already used more fertilizer than the most efficient and capital-intensive farms in Western countries.[39] The Soviet farm sector, including industries that provided capital goods to farms, was to receive at least 33 percent of overall investment in the USSR.[40] After the 1982 Food Program, the profitability of Soviet state farms rose drastically, from net losses of 1.6 percent in 1982, to profits of 20.1 percent in 1983.[41] Yet this remarkable "turnaround" was based not on efficiency, but on higher handouts. The biggest farm subsidy program in human history was now even bigger.

Under Brezhnev, Gorbachev supported market-style reforms, including greater use of contracts that incentivized efficient production. But even though Brezhnev's government tolerated such policies, they were not widely implemented. By 1985, one study reported, "the brigade contract system had spread to only a small percentage of Soviet farms."[42] Despite his formal title, Gorbachev had little influence over farm policy because Brezhnev and Chernenko were personally interested in the subject.[43] A second reason was the pervasive interest of ministry officials and farm leaders who stood to lose power and prerogatives if agriculture were decentralized.[44] Zaslavskaya noted that ministry officials opposed experiments to increase market mechanisms in agriculture, because if the experiments were to work, "it would mean their jobs had become superfluous."[45]

The 1982 Food Program's adoption of higher subsidies and more investment occurred in spite of widespread understanding of the sector's deep problems. Soviet analysts pointed out glaring inefficiencies in the Ministry of Water Economy, for example, but the ministry's 10-billion-ruble budget was left untouched.[46] Reformists such as Zaslavskaya urged Gorbachev and other Soviet leaders to make the agriculture bureaucracy financially accountable. Gorbachev said that the question of financing the 1982 food program "haunted" him.[47] Zaslavskaya proposed replacing the multitude of existing ministries and committees with a single organization, the State Committee for the Agro-Industrial Complex, which she hoped would force decentralization on a reluctant bureaucracy. Gorbachev was sympathetic to the idea, and when he became general secretary he implemented a similar proposal. But Gorbachev knew that so long as Brezhnev was general secretary, such ideas had no chance of success. Zaslavskaya recounted that upon hearing her proposal, Gorbachev asked, "Do you think if I wrote that in the draft program, I would still be sitting in this office?"[48] The answer, he believed, was no.

This should give historians pause in concluding either that Gorbachev did not understand agriculture, or that he underestimated its importance. The evidence suggests not only that Gorbachev had detailed knowledge of the USSR's farms—as the former leader of an agricultural province, how could he not?—he also believed Soviet farms needed better incentives. At issue was not Gorbachev's desire for change, nor was it that he and his allies did not know what types of changes they wanted. Zaslavskaya and other scholars prepared detailed plans, and they presented them directly to Gorbachev.

The main factor preventing Gorbachev from more strongly pushing reforms was the fearsome array of political forces positioned against an expansion of the link system. Local party leaders benefitted from patronage networks that reached from the top of the Politburo down to collective farms. Managers of industries that produced tractors, fertilizer, and irrigation works depended on high levels of agricultural investment for political power and economic well-being. Ministry officials knew that decentralization would reduce their influence. All of these groups vigorously opposed change, arguing that Gorbachev's ideas were naive. Valery Boldin, a one-time adviser to Gorbachev who later betrayed the general secretary during the 1991 coup, recounted that Gorbachev "argued that as soon as agriculture was freed of its shackles . . . there would be plenty of food for all within a year or two." When Boldin objected that this was unrealistic, Gorbachev disagreed. "Don't you know anything about the way peasants think?" he remonstrated Boldin. "Just look how fast things moved in China."[49]

Soviet Analysis of Chinese Agriculture Reform

China's farm reforms were carefully watched by analysts in Moscow's research institutes. In the mid-1980s, rapid growth in China's agricultural regions propelled the country's economy forward.[50] New institutions that incentivized grain production were the main reason for higher harvests. At the end of the 1970s, Soviet analysts noted, "A Chinese farmer produces dozens of times less grain than a farmer in the industrialized countries." In 1979, an average Chinese farmer grew 1,040 kg of grain, compared to 20,155 kg per farmer in France and 95,332 kg in America.[51] Chinese peasants were also far less productive than the country's industrial workers, Soviet analysts noted. Output per Chinese industrial worker in 1980 was 9,000 yuan, compared with merely 450 yuan in the countryside.[52]

The data about Chinese productivity were unambiguous. For China to get wealthier, it needed to move peasants into urban jobs, where their productivity would be many times higher. To do so, agriculture had to become more efficient, so that China could feed itself even as the share of the population working on farms decreased. Beijing had two options for increasing labor productivity in the countryside. The first, Soviet scholars argued, was to give peasants better technology. New tractors or more fertilizer, for example, would increase the amount of crops a peasant could grow in a year. The second option was to provide better incentives by rewarding peasants for growing more.

Investing in tractors and fertilizer would have required imports of new technology and finished products. China simply did not have the funds.[53] Instead, Soviet analysts reported, Beijing focused on "organizational and economic measures, such as improvements in the system of administration and management, the organization and remuneration of labour, [and] material incentives."[54] Improving incentives was cheaper, but politically more challenging. The new incentives clashed with a main method of organizing collective agriculture under Mao, the "Learn from Dazhai in Agriculture" campaign. Dazhai was a village in China's Shanxi province, which, according to Maoist legend, increased harvests through self-sacrifice and devotion to Maoist political goals. Rather than providing farmers with material rewards for growing more food, the Dazhai campaign suggested that peasants needed frequent reminders of their role in fighting capitalist and imperialist oppression.

China's decision to abandon the Dazhai method amounted to a full-scale rejection of Maoist agricultural policy. "Chinese leaders had to admit," a Soviet analysis from 1982 explained, "that the extreme left-wing [Dazhai] methods of economic policy that had been fostered in the countryside for more than 20 years were impairing farming."[55] Change began in 1978 as Deng Xiaoping consolidated power. Soviet journals noted that Deng and his allies believed that "the main aspects of the 'Dazhaisation' of the countryside, such as leveling out [of wages], disregard for material incentive, organization of production and subsidiary crafts, and emphasis on labor enthusiasm alone" hindered agricultural production.[56] Reformists in Beijing even began criticizing collective farms, which were one of Mao's principal accomplishments.[57]

Shifting political winds soon led to a full-scale repeal of the Dazhai principle, as Chinese policymakers replaced ideological exhortation with material incentives. Soviet scholars studied the development of China's incentive schemes. The greatest change was to ownership rules. Under Mao, collective farms managed agricultural land, and individuals had few reasons to work hard. China's agricultural reforms sought to change this, Soviet analysis explained. "Changes in the different aspects of rural policy were wrought as part of the present Chinese leadership's economic course of using 'diverse forms of ownership and economic structures in the country,' " one Soviet article reported.[58]

In the countryside, ownership structures shifted rapidly. By 1979, just three years after Mao's death, peasants were given new incentives to work hard. By that year, Soviet data reported, large communes made up only .01 percent of agricultural organizations in China, while "big production teams" made up 1.02 percent and "production teams"—the smallest type of organization—were used on 98 percent of farms. Many "production teams," Soviet analysts noted, were actually households, meaning that individual families now received direct material rewards for harvesting more crops.[59] They could sell their produce on rural markets, many of which had been closed during the Cultural Revolution and were now reopened.[60] All this was a sharp change from the Dazhai days.[61]

To strengthen incentives, Soviet analysts reported that China invested "production teams with elementary economic rights and a certain amount of economic independence."[62] The size of production teams continued to shrink. According to Soviet data, by 1982, 74 percent of China's production responsibility agreements allowed individual farming, and about 40 percent mandated "households' full responsibility for production."[63] This did not mean full privatization, which would have been politically impossible. Soviet scholars detailed the challenge Chinese policymakers faced in walking a narrow line between providing individual incentives while avoiding charges that they were reintroducing capitalism. But the changes taking place were obvious. Peasants who formerly faced a 100 percent tax rate—everything they produced was taken by the collective—now had a 0 percent marginal tax rate because they kept all the grain they produced above a set amount.

The reintroduction of market incentives transformed China's countryside. One Soviet scholar reported that "social positions in the village are radically changing." Formerly rich peasants were no longer discriminated against, nor were the newly wealthy accused of being "bourgeois." Instead, one Soviet report explained, Deng's doctrine of "let some people get rich first" led to the removal of limits on profits, the cancelling of the political repression of the rich, and the restoration of property that was confiscated before the revolution.[64] Many agrarian workers treated the new household responsibility system as "private labor," the report suggested.[65] The Chinese government denied that this meant de facto capitalism. Yet no one—Chinese or Soviet—failed to realize that Deng Xiaoping's agricultural policies were reversing the socialization of the countryside.

But did they work? Did China's reforms boost agricultural output and productivity? Most Soviet scholars believed they did. Before delegating farming decisions to households, many Chinese policymakers worried that farmers would be unable to divide collectively owned resources such as tractors, which were too expensive for most individual farmers to own. In practice, the decollectivized farming worked well, Soviet analysts reported. "In Anhui Province, for instance, individual peasants or clusters of households jointly bought more than 40,000 tractors in 1981, which now constitute a third of the province's tractor fleet."[66] Similar results were evident in other provinces: "In Guangdong Province the peasants bought over 30,000 tractors," about 20 percent of the total.[67] The household responsibility system was implemented in both low- and high-income farming areas, proving that it also worked in areas where farming was mechanized.[68] Farmers could share tractors even where they no longer shared land.

Data on Chinese farm production convinced Soviet scholars that Beijing's reforms boosted output. "The Chinese press is unanimous" in concluding that the household responsibility system increased harvests, one Soviet report argued. Making peasant households responsible for production increases "output by 30 per cent and sometimes even by 100–200 per cent."[69] Labor productivity doubled, Soviet data reported, because the new incentives worked. Because of "the peasant's heightened interest in the results of his labour," and because "remuneration depends directly on a person's efforts and not on the state of affairs at the collective farm," productivity increased rapidly, Soviet sources explained.[70] Production between 1979 and 1981 grew faster than at any point in the preceding decades.[71] Grain yields continued increasing—by 7 percent in 1983—and other crops such as cotton, tea, sugar, and meat also saw increases.[72] Agricultural production during the period from 1981 to 1985 far exceeded the government's projections.[73]

Conferences between Soviet and Chinese agricultural experts provided further evidence to Soviet scholars who believed that Chinese farm policy was a success. After one such conference, which included visits to Beijing and to Jiangsu province, a participant in the Soviet delegation wrote to leaders in Moscow that China's "agrarian reform and the introduction of household contracting alleviated the problem" of food shortages. During the subsequent decade, "the collection of grain grew from 305 million tons to 435 million tons."[74] Soviet scholars were clear about the ramifications of their conclusions for policymakers in Moscow: "the experience of agricultural reform in China . . . is of considerable interest" for attempts to restructure Soviet farms.[75]

Gorbachev's Agriculture Agenda

From the moment Gorbachev was appointed general secretary in 1985, China's experience was already playing a large role in Soviet debates about agricultural reform. The basic thrust of Deng Xiaoping's farm policy was familiar to Soviet experts, because China's household responsibility system—which put families in charge of farming and paid them according to the size of their harvest—was similar to the autonomous link system that the USSR used, off and on, for decades. As China's new agricultural policy began to bear fruit, Soviet experts cited it when urging Moscow to revert to the autonomous link to boost farm productivity in the USSR.

Several other factors spurred Gorbachev forward. For one thing, Soviet economic research continued to show that management quality drastically affected farm output and productivity. But the Soviet Union did not incentivize good management.[76] The small number of farms that did experiment with self-financing, analysts noted, outperformed by a significant margin.[77] Based on research like this, many Soviet economists argued that peasants should be given clear incentives and decision-making power in order to increase productivity.[78] The existing command system needed to be cast off, some scholars argued, giving peasants "freedom to farm."[79] Tatiana Zaslavskaya, the scholar who had advised Gorbachev in the early 1980s, openly urged the adoption of a "family contract system," using the same language as the Chinese did.[80]

Gorbachev took this advice seriously. As soon as he came to power, he began by restructuring the country's agriculture bureaucracy, a change that Zaslavskaya had recommended several years earlier. In the early 1980s, Gorbachev did not have the power to implement such a reform. After becoming general secretary, he moved as rapidly as he could, abolishing five ministries and a state committee that worked with agriculture, and replacing them with a unified State Committee for the Agro-Industrial Complex.[81] Gorbachev believed this was necessary because he did not trust the existing agriculture bureaucracy to implement the changes he was seeking. "Since the bureaucracy exists, it searches for 'work' for itself. They invent work for themselves," Gorbachev complained to his colleagues in the Politburo. "We from Moscow demand a reduction of the bureaucracy, but we never receive proposals in return. No one proposes reductions."[82] By putting his own people in charge, Gorbachev reasoned, he would have a stronger chance of implementing change.[83]

After shaking up the bureaucracy and placing allies in positions of power, Gorbachev then turned to Zaslavskaya's second recommendation: adopting farm leasing on a wide scale. Gorbachev had been sympathetic to autonomous links—a form of de facto leasing—for decades, but only upon becoming general secretary had he accumulated enough political capital to push through a nationwide system of farm leasing. At the Twenty-Seventh Party Congress on February 25, 1986, Gorbachev announced plans for widespread adoption of the "contract and accord system at the level of brigade, link, and family."[84] Individual farming was back.

The first two years of Gorbachev's tenure as general secretary show that agriculture was a focus of his early efforts.[85] But the effects of these policy changes did not meet his expectations. The reason was that Gorbachev had to compromise repeatedly with the agriculture lobby to carry out his policies. In many instances, farm groups succeeded in obstructing the implementation of agreed-upon changes. In exchange for making farms self-financing, for example, Gorbachev and his allies had to agree that few collective farms would be allowed to go bankrupt. Otherwise the bureaucrats and collective farm bosses who made up the agricultural lobby would not tolerate Gorbachev's restructuring efforts. Yet prohibiting bankruptcy blunted the benefits of making farms self-financing.

Top Soviet officials repeatedly argued that Gorbachev's structural reforms were a distraction. More capital investment, they argued, was the real solution to the USSR's farm problems. Politburo member Viktor Nikonov, a trained agronomist who was the official responsible for agriculture, played a leading role in promoting the interests of the agro-industrial complex. Indeed, Nikonov did not limit his lobbying to budget debates. Unhappy with the dearth of TV shows about farms, Nikonov once charged into a television studio and demanded more agricultural programming—"or else!"[86]

His tactics for representing the farm lobby in Politburo budget debates were scarcely more sophisticated. At a Politburo meeting on July 11, 1986, for example, Nikonov suggested that the main problem with Soviet agriculture was a deficit of tractors and herbicides.[87] "There is a severe lack of complex agricultural machines and tractors for work in crop cultivation," Nikonov told his Politburo colleagues. And herbicides were lacking too, he argued: scientists "promised six years ago to create 70 types of herbicides, but they didn't create a single one. And grain suffers from 64 diseases."[88] The solution, Nikonov concluded, was higher spending on tractors and more investment in fertilizer and herbicides—investment that would do little to improve harvests, but would provide the farm sector with even more resources.

The minister of agricultural machine building, A. Yezhevsky, agreed, complaining that the government had only purchased 100,000 combines, rather than the 108,000 agreed to in the five-year plan.[89] But as a cursory glance at the data showed, more combines would do little to revitalize

Soviet farms. In comparative terms, the USSR already spent far more on farm machinery and chemicals than most other countries. But the farm lobby and its allies were tenacious in pushing their agenda and defending their turf.

Politburo members such as Nikonov were too powerful to be tossed aside, so Gorbachev had to compromise or maneuver around them. Pushback from the farm lobby meant that Gorbachev had little choice but to cut a deal. In exchange for the introduction of leasing of farms, Gorbachev tolerated higher agricultural subsidies, which took financial pressure off collective farms.[90] For the farm lobby, this helped to ameliorate the widespread fear of lower incomes. It also addressed agricultural organizations' strong political opposition to Gorbachev's new policies. As the farm lobby often pointed out, subsidy cuts would cause widespread pain, especially to farmers who were least able to adapt, such as the elderly.[91] Proponents of market reforms argued that higher subsidies blunted the benefits of agricultural self-financing by reducing incentives for efficiency, and they fought subsidies at every turn.[92] Gorbachev's allies succeeded in cutting back some investment spending, but they agreed to raise the price at which the state purchased crops from farmers, a step that directly increased farm incomes.[93] Gorbachev's allies compromised in other ways, too, including limiting the right to buy and sell land in the countryside. Creating a real market in agricultural land would have pressured farms to consider the opportunity cost of their land, but it threatened communist ideological taboos.[94]

The Farm Lobby Fights Back

Gorbachev's declaration of support for leasing should have transformed Soviet agriculture. Yet for several years, the Kremlin made hardly any progress in implementing leasing. The reason was that the officials who managed the Soviet Union's farm system deliberately obstructed leasing.[95] They had no interest in decentralizing decision making, or in giving up their authority over resources. Leasing threatened their power, so they used their influence to obstruct change. Managers of collective and state farms declined to provide land for leasing, and local party leadership did not pressure them to do so, even though the rules required it. Gorbachev was powerless to prevent this obstructionism. He could not fully devote himself to agriculture because he also had to worry about industry, foreign policy, and political reforms. Normally, Politburo decisions in agriculture were implemented by local party leadership, but in this instance the party hierarchy refused to follow orders.

For example, N. F. Vasilev of the Ministry of Land Reclamation and Water Management—a notoriously wasteful branch of Soviet agriculture—sent repeated letters to top Soviet officials highlighting the "special role" that his ministry played and threatening that subsidy cuts would cause smaller harvests. On November 1, 1989, for example, Vasilev wrote to Nikolai I. Ryzhkov, the chairman of the Council of Ministers, claiming that 83 percent of agriculture growth over the previous twenty years had been the result of irrigation and land reclamation, the activities undertaken by Vasilev's ministry. Vasilev's lobbying was relentless. Soviet agriculture was at risk of a "sharp decline," Vasilev told Ryzhkov, because of reduced investment in irrigation and land reclamation. Nor was Vasilev the only official lobbying for higher investment in irrigation works. A month later, a group of first party secretaries from agricultural regions wrote to Gorbachev, underscoring the connection between irrigation works and agricultural production growth.[96] The minister of Agricultural Machine-Building, A. A. Yezhevsky, pushed vigorously in Moscow and at the regional level to reverse a 7 percent cut in farm machinery orders.[97] The self-interest motivating these requests was obvious. But Ryzhkov felt compelled to forward these memos to the Politburo with the request that they be taken into consideration.[98]

The Soviet bureaucracy did indeed take the demands of the agro-industrial complex into consideration. On November 14, 1989, just two weeks after Vasilev's request to Ryzhkov, the deputy chairman of Gosplan and the deputy minister of finance prepared a memo on "the rehabilitation of the economic and financial condition of collective farms, state farms, and other enterprises of the agro-industrial complex." Noting the extensive debt the sector had run up—nearly 80 billion rubles, some of which was already in default—the officials urged a debt write-off plus the provision of "compensation for the additional costs of agriculture, related to improving the social condition of workers . . . [as well as] the introduction of fees for irrigation, new wholesale prices for feed, food waste, diesel fuel and freight." Gosplan and the finance ministry responded to repeated attempts at forcing farms to face market prices with a new subsidy that would shield the agro-industrial complex from any real budget cuts.[99] This was despite Gorbachev's repeated demands that the bureaucracy develop the exact opposite policy.

Gorbachev's main tool was exhortation. He gave repeated speeches supporting leasing and reform, and demanded that his Politburo colleagues—many of whom sympathized with the obstructionists—mobilize the bureaucracy to implement reform. On October 2, 1986, for example, Gorbachev called for action to make farms self-financing. Farms needed to think entrepreneurially, he argued, and should be given the regulatory autonomy to do so. "But we're still 'studying, studying,'—it's time to act."[100]

Many agricultural officials, however, preferred to study reforms, thereby delaying them, than to implement changes. The reason was not a lack of understanding, as Gorbachev himself underlined in the Politburo. The types of leasing arrangements that he wanted—the type that worked in China—had also worked in Stavropol Krai two decades earlier. "We have experience," Gorbachev reminded the Politburo in December 1986. "It is possible to move toward a new mechanism. We need to maneuver. Give fertilizer not to failing collective farm management, but to where success is visible. Support innovation."[101] Two months later, in February 1987, Gorbachev returned to the same theme, criticizing his colleagues for the lack of progress in implementing farm reforms. "Markets should play an increasingly big role," he argued, but because of obstructionism, they were not. "Permission to sell produce [on a market] is widely given, but only 1–2% [of produce] is sold. We destroyed this entire mechanism" of expanding markets, because local bureaucrats made sure instructions from the center about leasing and liberalization were ignored.[102] The reason, Gorbachev pointed out, was local party leaders and farm managers. "Local organizations are not trying to understand markets," he complained. "What could've been easier: take produce, sell produce, and receive money, profit. And production goes up."[103] But because the party's own officials were thwarting greater use of market mechanisms in agriculture, neither production levels nor productivity were increasing.

Gorbachev was particularly frustrated with the glacial place of leasing reforms because China had proved how transformative such reforms could be. In July 1987, V. P. Nikonov, one of the farm lobby's top allies in the Politburo, argued that farms needed more subsidies to improve production. "If you consider government assistance," Nikonov argued, "we give practically none to the peasant, but we give it to consumers."[104] This was not true, and Gorbachev was incensed by the constant attempt to wring out higher subsidies. "The task of the Politburo" regarding agriculture, Gorbachev retorted, "arose in connection with the message from

China. In two to three years China grew its collection of grain by 100 million tons. . . . What prevents us from unleashing this initiative? We have everything that is needed to do it in our hands. It is shameful that we aren't able to provide ourselves with food." To do that, Gorbachev underlined, "we need to set a goal of unleashing material incentives. To boldly nudge peasant initiative . . . to take off all limits" on peasant production. But this could only happen if the bureaucracy relinquished control. "We need to decisively remove unjustified limits on agricultural production," Gorbachev argued. "In order for a citizen to have a horse, they need permission from officials. State farms or collective farms can't sell horses." This made little sense, Gorbachev believed. Excessive bureaucracy prevented progress. The only solution was to "turn over thousands of farms" to households and other organizations.[105]

But many Politburo officials did not agree. Nikonov, the agriculture minister, was particularly recalcitrant. Gorbachev excoriated him for failing to back up talk of reform with serious action. "Nikonov says that in the agro-industrial complex all of our decrees are being smothered by [central planning] instructions. Fifteen thousand such instructions!" Gorbachev fumed. "Well what are you waiting for, Comrade Nikonov? Why don't you abolish them? Why not pass a decree canceling all the instructions that contradict the enterprise act? . . . You're always appealing to someone, but in the end, isn't it your job?" Nikonov's obstructionism, and the agricultural underperformance that Nikonov permitted, infuriated Gorbachev because it stood up so poorly by comparison with China. "The Chinese managed to feed one billion people in two years, didn't they?" Gorbachev seethed. "So what are we afraid of?"[106]

Despite Gorbachev's exhortations, the agro-industrial complex was tenacious in defending its interests, and it had representatives at all levels of the Soviet government. It had the power it needed to obstruct Gorbachev's policies. Indeed, Gorbachev's inability to push through change convinced him by early 1988 that he needed a new, more decisive, policy. First, Gorbachev concluded, the political might of the agro-industrial complex could only be reduced by a direct assault on the institutions that empowered it. That meant reform would now work against the agricultural bureaucracy, rather than through it. Second, cutting subsidies and deregulating agriculture was the most effective way to reduce the resources available to farm managers and to limit their ability to obstruct Gorbachev's reforms. Despite the political complexity, Gorbachev recognized the importance of agriculture reforms. "Everything boils down to this," he told the Politburo in April 1988. If agriculture could be improved, "80% of the problems of perestroika will be solved."[107]

In reforming the Soviet Union's industrial base, Gorbachev and his allies began by pushing for reforms that would increase efficiency in enterprises, such as self-financing, before turning to transforming Soviet enterprise structure and embracing privately held cooperatives. In 1988, Gorbachev adopted a similar position in agriculture. His early reforms had sought to let state and collective farms operate more efficiently by leasing out land to individuals. This did not change the political structure of collectivized agriculture, however, and Gorbachev concluded that bureaucratic obstructionism could only be broken if the system that governed Soviet agriculture since Stalin was fundamentally remade. As Gorbachev put it in a memo to top colleagues such as Nikolai Ryzhkov, Yegor Ligachev, and other Politburo officials, it was time for the Soviet Union to admit "that the inheritance of Stalin with regard to the agriculture sector is a ruined, enslaved village."[108] "The results of the rejection of the Leninist arrangement," Gorbachev continued, referring to Stalinist collectivization "by the force of political ambition . . . led to great mistakes in agrarian policy, above all, with regard to the peasants as a class."[109] Collectivized farming had failed.

This was a radical view in a political party that had long considered the collectivization of agriculture one of socialism's great achievements. Many top Soviet officials vehemently rejected Gorbachev's repudiation of collective farms. This question came to a head in the Politburo's discussion about the 1988 law on cooperatives. The officials who drafted the law sought to limit the extent to which it applied to agriculture. Gorbachev saw this as yet another attempt to restrain individual farming, and he pounced on his opponents. On February 19, 1988, he pointed out the contradiction in the cooperatives proposal: "Some cooperatives"—like those in industry—"will grow like mushrooms. . . . Others, where they are especially needed, like in the agricultural sphere, will not attract people."[110] Was this really a sensible solution? Gorbachev asked. "You tell me," he addressed the bureaucrats. Under current plans, "collective farms won't leave the agro-industrial system. But it's already a very common opinion, that it's time to finish with this system. Enough commands from the top." This was a revolutionary view, Gorbachev knew, because it questioned the very foundation of Soviet farm policy. But by 1988, Gorbachev was convinced of the need for drastic change. He explained to the Politburo that any system in which the bureaucracy controlled farms "would again reproduce a command system."

Instead of commands, Gorbachev backed "individual farming. It's a very basic question," he argued. "We need a respectful relationship to that sector of our society and our economy: it relates to millions of people."[111] Indeed, by 1988 Gorbachev was openly arguing in the Politburo that collective farms could never have a respectful relationship with farmers, or with the other Soviet citizens who funded the subsidies that sustained the collective farms. After all, Gorbachev pointed out, "collective farms were invented when they [the Communist Party] no longer could take bread from kulaks."[112] This was a drastic rewriting of Soviet history. Collective farms had traditionally been interpreted as a triumph of socialism, benefitting peasants and society alike. Now, the leader of the Communist Party was arguing in the Politburo that collectivized agriculture was a coercive tool designed to command and control peasants. Gorbachev embraced this position. "We need decollectivization," he declared to the Politburo. "We're letting time slip by. We're again not reaching people. People want to lease farms. . . . If we don't shake people up [in the bureaucracy], we're not going to get anything."[113]

Gorbachev concluded that the best way to shake up the Soviet Union's agricultural system, and to wrest control from the bureaucracy, was to cut farm subsidies and reduce the bureaucracy's regulatory control. He drew this conclusion, he explained, in part from what he had learned from China's experience. "Again I return to the example of China," he told the Politburo in July 1988. "People were simply given land and told: do what you want, and in spite of all their poverty, production has increased by 100 million tons of grain in only four years." The lesson, he concluded, was that peasants need to be freed from the grip of collective farm management. "I know the village," he reminded the Politburo. "We will achieve nothing if all we do is bawl: you must, you must, you must. It doesn't work."[114] Just as China had stopped exhorting peasants to produce for Mao's sake, and turned instead toward market mechanisms, the Soviet Union should do the same. "Party organizations time and again not only fail to suppress" excessive demands on farms from the bureaucracy, he complained in March 1988, "they participate themselves" in this meddling. "They create paperwork and then instruct peasants, as if they know better what to do and how to work the land. We need to clarify this—so that nobody will be able to issue commands."[115]

The Soviet Union did not need cosmetic changes, it needed a root-and-branch rethink, Gorbachev believed. He explained to the Politburo in July 1988, neither under Kosygin nor with Brezhnev's 1982 Food Program, "did we resolve the problem of agriculture."[116] The reason had nothing to do with the farm lobby's usual complaints of insufficient funding. "People talk about the technical base. But . . . from 1970 to 1985 this base grew by 40 to 50%, yet production that we receive is only 10% higher. . . . We won't receive output if we simply invest more. In a given hectare, we invest more than the USA. But there are no results. The most important is to receive output. But without changes to economic relations we won't get it."[117] He reiterated this same point at other Politburo meetings. "Organizational measures, enormous funds that we invest in agriculture, nothing will change if there isn't a fundamental economic transformation. That's the point of the question. We haven't touched the root: production relations. We have more tractors and combines in agriculture than in all capitalist countries."[118] In a separate memo to Ryzhkov and other Soviet leaders, Gorbachev reiterated his belief that "without fundamental changes in economic relations in the countryside, machines and all other resources won't work." Perestroika needed to "return land to people as owners, to give them great opportunities to display independence, enterprise, and initiative."[119] Without scrapping the existing system of managing farms, higher subsidies or new technology would make no difference, Gorbachev believed. Indeed, higher investment simply increased the power of the farm lobby, bolstering its ability to obstruct change.

The results of this obstructionism were widely evident. "We have taken over sixty decisions regarding agriculture since April 1985," Gorbachev pointed out, and "so far we only have 200 cooperatives across the entire country. But we need 200,000." Instead of cooperatives, the country was burdened with "six and a half thousand unprofitable collective farms," he complained.[120] "Therefore," Gorbachev argued in July 1988, "I am very skeptical when it is said that we need to put more and more resources into farming."[121] Existing plans, which discussed transforming agriculture in ten to fifteen years, were inadequate. "We need to change economic relations in two years."[122] That meant loosening regulations on agriculture, he insisted: "Give land for a long period, for 50 years. No one will take it for five years. Permit giving it as an inheritance. Give tax benefits."[123] This meant shattering not only ideological taboos, but also the bureaucracy that had governed Soviet farms since Stalin.

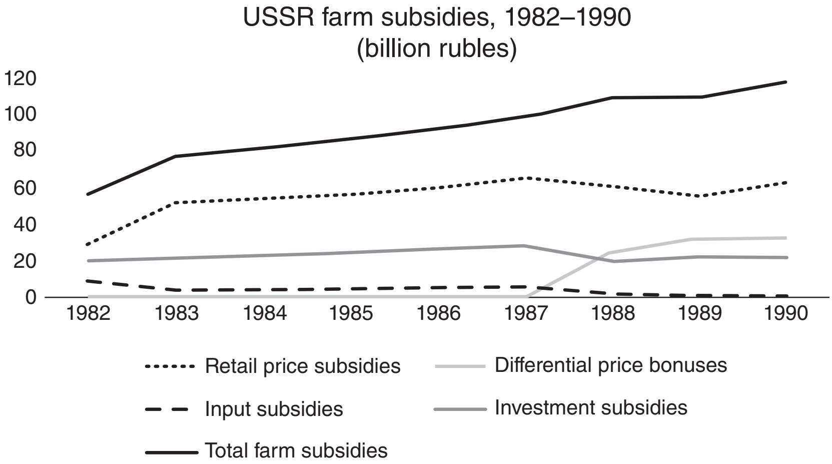

CHART 8 Farm subsidies, billions of rubles. Source: *The Soviet Agro-Food System and Agricultural Trade: Prospects for Reform* (Paris: OECD, 1991), 49.

Farm Leasing Takes Hold

By 1989, after much politicking and criticism of recalcitrant Politburo members, Gorbachev managed to assemble a coalition in favor of serious agriculture reforms. He declared to the Politburo in January 1989 that "agricultural firms have a right to exist," underscoring his insistence that farms could no longer be monopolized by the state.[124] He promised to "liquidate" state and collective farms that were not profitable. "Let powerful collective farms unite with weak ones, even if they are in a different region. Give land to industrial enterprises for subsidiary farming. Let this happen."[125] Gorbachev and his allies were spurred on by foreign examples of market-based socialist agriculture. Oleg Bogomolov publicly argued that agriculture was perestroika's "stumbling block," noting that "economic reform in China yielded results because it began with agriculture."[126] Anatoly Chernyaev, another top Gorbachev aide, agreed, reiterating that "the key question of restructuring economic relations in farming is leasing." Under the existing system, farm managers received comparatively high salaries, Chernyaev suggested, which gave them little incentive to embrace leasing, as it was unlikely to increase their income. "We should fundamentally reexamine this order of things," Chernyaev argued, by "tying salaries to the final product, and making them dependent on results." The politics were not easy—there were "five million managers in the agro-industrial complex" who sought to "hold back any serious change”—so the only solution was to “decisively break” the existing governance system. That required a big push from Gorbachev personally.[127]

Gorbachev agreed. Beginning in late 1989, he pressed through a significant expansion of the role of leasing in Soviet agriculture, seeking to reduce farm managers’ and bureaucrats’ ability to oppose change. A law on leasing was passed on November 23, 1989, followed by new regulations on land use and property. These laws marked a sharp change in Soviet agriculture legislation, shifting control away from Moscow and toward republics and local councils.[128] The government fully legalized private family farms in 1990, though implementation would take years.[129] On January 5, 1991, Gorbachev issued a Presidential Decree requiring local governments to turn over poorly used land to private farmers or leaseholders. Much of the land received by private farmers could be owned for life, and could be inherited, though—like in China—it could not be freely bought or sold.[130]

Gorbachev’s legislative push was coupled with a media campaign that criticized wasteful farm leaders and explained the benefits of leasing to Soviet farmers. “Today nearly one-third of agricultural commodities do not reach the consumer: they become lost, spoiled or wasted,” complained *Kommunist*, the Communist Party’s flagship journal, in 1989, pinning blame on the agricultural bureaucracy.[131] “How long can our endurance be tested?” asked newspaper *Sovetskaia Rossiya*. People had already put up with extensive waste in the agro-industrial complex, as well as the food shortages that farm managers’ inefficiency had wrought. It was time, the newspaper argued, for change.[132] Other journalists noted that Gorbachev’s leasing policy mirrored Lenin’s farm policies during the New Economic Policy, defending it against claims that it amounted to overturning socialism.[133] Gorbachev himself attacked farm workers, noting that leasing had been “received with caution by collective farmers and workers who have lost . . . the habit of working hard, and have become accustomed to steady incomes regardless of end results.”[134] By the late 1980s, Gorbachev’s political struggle against the farm lobby was beginning to pay off. A gap had emerged between incomes of workers who leased land and those who stayed on collective farms. The bigger that gap, the greater the incentive for collective farm workers to lease land—and, reformers hoped, to farm more efficiently.[135] But that result was still years away.

But the Soviet bureaucracy moved slowly. The main reason was continued opposition. Politburo members repeatedly spoke out in defense of state and collective farms, seeking to defend their subsidies and derail

Gorbachev's reforms. When the subject of eliminating collective farms was broached, the farm lobby's Politburo allies vigorously defended subsidies. "I am against punishing backwards [loss-making] collective farms," announced Lev Zaikov, head of the Moscow Communist Party organization, in the Politburo. "It will cause great discontent." Gorbachev pushed back, asking whether "millions of people really fell into this situation"—inefficiency and unprofitability—"by chance?" More likely, he suggested, they were doing shoddy work, which should be remedied rather than tolerated. Gorbachev suggested using a more diplomatic word than "dissolve" to describe his plans for collective farms, but Zaikov insisted that it was the policy, not the language, that "causes a negative reaction." "Come on!" moaned Gorbachev.[136] But he could not fire half of his Politburo colleagues without risking a dangerous political counter-reaction.

Yegor Ligachev, the Communist Party's second most powerful figure, fought persistently with Gorbachev over farm policy. When the general secretary reiterated his demand to move all of Soviet agriculture to a leasing structure, Ligachev objected that "the Czechs"—Moscow's socialist allies—"are very worried by our publications on agrarian questions; they say it is the capitalist road." "Bullshit," Gorbachev responded. But Ligachev kept pressing. "Collective farms provided for the country's home front during the [Second World] war," Ligachev noted, implying that this justified continued subsidies. "It is not correct," Ligachev continued, "to claim that we drove enormous funds into agriculture in vain. Collective farms and state farms are a main road" of socialism. Gorbachev ignored him: "We're at a transitional phase," Gorbachev declared. "Four years after the start of perestroika we have arrived at this conclusion: the previous policy regarding the agrarian question was mistaken."[137] But many Soviet leaders did not agree.

Soviet Agriculture in Chinese Perspective

Critics of perestroika, noted Gorbachev's economic aide Abel Aganbegyan, always said: "Look at China; they started their perestroika with agrarian reforms and achieved immediate results." Aganbegyan thought these critics had a point. "The measures we took to reform agriculture were not revolutionary enough," he wrote. "For example, we did not get rid of the administrative tyranny of the various local party authorities over the state and collective farms. With the benefit of hindsight, it is clear we ought to have done more."[138] Particularly after the Soviet Union's collapse, many agreed with Aganbegyan that Gorbachev should have adopted a Chinese-style agriculture policy.

The failings of the agricultural policy under perestroika cannot be blamed on the Soviet leadership's lack of interest in China. Soviet analysts understood why China's farm policy worked, and Gorbachev repeatedly cited China while advocating the expansion of leasing. Indeed, after much delay, Gorbachev actually succeeded in implementing Chinese-style legal changes, replacing state and collective farms with a system based on leases. By 1991, Soviet agriculture laws were not that different from China's: both countries were moving from a system based on collective farming to one based primarily on individual household farming.

Though the legal structure of Soviet farms was being transformed, their finances were not. Throughout the postwar era, Soviet farms were cosseted with immense subsidies. By 1988, the Soviet Union spent twice as much on farm subsidies as on old-age pensions, disability programs, and maternity leave combined.[139] Some of this was justified by the need to raise farmers' incomes, but a substantial portion of the resources transferred to farms was simply wasted, often on unnecessary investment in tractors and fertilizer. This inefficiency dragged down the Soviet economy, but the most problematic consequences were political. The gravy train of patronage and corruption created by Soviet farm spending gave rise to a huge political infrastructure dedicated to preserving subsidies, a network that stretched from the lowliest farmers up to top Politburo figures such as Yegor Ligachev. Defenders of collective and state farms couched their arguments in terms of ideology—a "main road" of socialism, Ligachev insisted—but the glue that held together the Soviet farm lobby was part socialism, part subsidies.

That was the biggest difference between Soviet and Chinese agriculture. Gorbachev and his allies had a clear vision of market relations in agriculture, but they faced tenacious political opposition.[140] Gorbachev made progress only through painful compromises, which often meant higher short-term subsidies in exchange for longer-term structural reform. Because of the farm lobby's political clout—and despite Gorbachev's declarations that he was "very skeptical" about putting "more and more resources in farming"—agriculture spending actually increased during the early years of perestroika.[141] The farm sector's outstanding debt, which was state-funded and functioned as a subsidy, increased until 1987 and did not start falling sharply until 1989.[142] Alternate measures show total farm subsidies growing until 1990.[143] By some estimates, government payments to the agro-industrial complex made up half of the Soviet Union's budget deficit in 1989 and 1990.[144]

Still, the farm bureaucracy continued to oppose the implementation of Gorbachev's reforms. Legislation permitting leasing was promulgated from the Kremlin but ignored in the provinces. As late as the mid-1990s, in some regions, privatization was only just beginning to take hold. The farms had every reason to oppose reform, since—having survived for so long on handouts and inefficiency—there was no way that most collective farm workers could prosper in a subsidy-free, market-based farm system. And if Soviet farms were drained of their subsidies, managers would have far fewer resources with which to construct patronage networks or to siphon off for personal usage. By the late 1980s, there was no middle ground between Gorbachev's vision and the farm lobby's perquisites, nor was there any hope of finding a win-win solution. No wonder Gorbachev struggled to control the bureaucracy that governed the Soviet Union's farms. "Gorbachev would have needed the full support of the entire party structure" to implement his desired reforms on a proper schedule, and without damaging compromises, Soviet economist Nikolai Shmelev explained.[145] Over six years of bitter political conflict, Gorbachev found that the biggest impediment to revitalizing Soviet agriculture was not drought or pestilence, but the farm lobby within his own political party.

7 Fiscal Crisis, the Tiananmen Option, and the Dissolution of the USSR

"Hail to the Chinese demonstrators on the streets of Beijing!" roared crowds in Moscow in May 1989.[1] The Chinese protesters' demands for democracy created a political crisis in Beijing, splitting the Communist Party leadership and leading to a brutal crackdown. In Moscow, too, the Tiananmen killings marked an underappreciated turning point. Before Tiananmen, China inspired Soviet advocates of rapid economic liberalization. After the crackdown in China, however, Stalinists in the USSR came to realize that China's post-Tiananmen policies held lessons for them, too. Soviet debate about Tiananmen focused not just on democratization, but also on inflation. China's political crisis, Soviet leaders knew, was sparked in part by rising prices. The Soviet Union was also struggling with its monetary system, as the budget spiraled out of control, and as the deficit was filled by printing rubles. After Tiananmen, Soviet hard-liners embraced Chinese-style authoritarianism as an antidote to crisis, even as Gorbachev struggled to assemble a political consensus to balance the budget via cuts on defense spending and subsidies. This political conflict—and Gorbachev's weakness—made it impossible for the Kremlin to resolve the crisis. As the money supply spiraled inexorably upward, political conflict sharpened, leading to a military coup and the collapse of the Soviet state.

The Roots of the Budget Crisis

By 1990, Gorbachev's efforts to reform trade, enterprises, and agriculture were increasingly overshadowed by the fiscal and monetary ramifications of perestroika-era politics. Though the Soviet Union had a roughly balanced budget when Gorbachev came to power, by the end of the 1980s, the deficit spiked toward 10 percent of GDP. In 1991, as the government lost control and the tax system collapsed, the deficit reached perhaps 30 percent of GDP.[2] Soviet political leaders could not agree on who should pay the costs of this deficit via higher taxes or lower benefits, so the budget was funded by printing money.[3]

The flood of new money crippled the command methods that still governed much of the Soviet economy. Because political leaders were unable to agree on how to balance the budget, enterprise managers were left struggling to adjust as the gap between official and black market prices grew ever wider. Devastating shortages soon followed as distribution networks froze. The entire economy ground to a halt. Black markets expanded as the state-controlled economy shrank, but the rapid increase in black market prices meant many people were unable to afford basic goods. The Kremlin was gridlocked by the clash between Gorbachev and the interest groups, even as inflation degraded the government's control over the economy. As central authority dissipated, the entire Soviet economic system collapsed.

Since 1991, many historians have argued that this financial disaster was inevitable. Some analysts blame the inefficiency of central planning, but the Soviet Union managed to combine inefficiency with stability for seventy years. Other historians point toward the country's dependence on oil exports, arguing that when oil prices fell in the 1980s, a fiscal crunch was unavoidable.[4] It is true, of course, that a large proportion of the Soviet Union's exports were commodities. But as chapter 3 demonstrated, the decline in oil revenue was equivalent to only several percent of Soviet GDP. It was just one part of a broader fiscal squeeze that included declining alcohol tax revenue, high consumer price subsidies, and a range of wasteful but politically potent investment schemes in industry and agriculture. Absent all of these other problems, the oil price slump was not, on its own, enough to bring down the Soviet Union.

Other historians have noted that the Soviet Union in the 1980s was struggling with its own rust belt of outdated and decaying industries, suggesting that the cost of industrial adjustment contributed to the country's economic malaise.[5] It is true that, like the United States and many countries in Europe, the USSR faced serious challenges in renewing its industrial base. Many factories were outdated—some were still working with tools seized as war reparations from Nazi Germany—and needed serious investment in new technology. Because new techniques tended to require less labor, adjustment meant moving millions of people away from factory jobs toward the service sector. Here, the Soviet Union's task was more challenging than the West's, but not impossibly so. Capitalist countries, after all, also experienced painful social tension and unemployment that resulted from industrial decay. Soviet revenues from commodity exports meant that the country had some resources with which to import new industrial technologies when necessary. And legalization of labor income in 1987 created new opportunities for self-employment in the service sector.

After all, even as oil prices began falling in the 1980s, the Soviet Union retained significant economic assets. The emergence of the newly industrializing Asian Tigers created a huge market for commodities such as nickel, copper, and coal—and, indeed, a commodity boom powered the Russian economy in the late 1990s and 2000s. The "information age" also created opportunities as well as threats. Thanks to mass literacy campaigns and sustained investment in education, the Soviet population was comparatively well educated, particularly when considering overall income levels.[6] The USSR lagged behind the United States and Japan in many computer technologies (the Soviets succeeded in creating the world's largest microprocessor, went one joke) but the country's technological accomplishments, from nuclear energy to the space race, provided a base for innovation.[7] It was not wholly unrealistic to think—as did Gorbachev and many of his advisers—that with a bit more flexibility and extra funding for new technology, the USSR could be a major beneficiary of the computer age rather than its most prominent victim.

Despite the many failings of the Soviet political and economic system, it had a remarkable ability to preserve itself. Soviet communism survived shock industrialization and Stalin's terror, then the Second World War and de-Stalinization. Given the terrible challenges their country had already surmounted, Soviet leaders saw no reason that they could not resolve deficits of consumer goods or technological backwardness. Indeed, in the early and mid-1980s, except for a handful of dissident economists, hardly anyone expected drastic change. That belief was not nearly as foolish as it looks in hindsight. The Soviet Union's industrial base was wasteful and stagnant, but it provided a baseline supply of goods. And even if Soviet industries were unimpressive, the state was, on paper at least, financially strong. In 1988, just three years before the Soviet Union fell apart, the American magazine *Institutional Investor* ranked the USSR 21st out of 112 countries in its ability to pay back its foreign debt—hardly a sign of imminent crisis.[8] From 1985 through 1989, the Soviet Union borrowed from Western capital markets at interest rates suggesting that investors thought it was no riskier than Portugal, Belgium, or Canada.[9] As chart 9 shows, the Soviet government had an impressively stable budgetary position, having avoided serious deficits for most of the postwar period, even running a small surplus in 1981. There was no reason to think this would change soon.

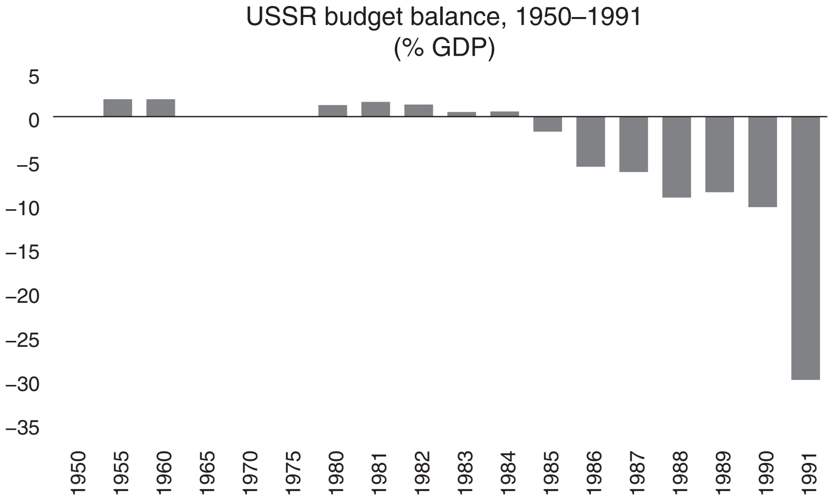

CHART 9 From 1950–80 data is in five-year increments; after 1980 it is annual. Data should be interpreted as a rough approximation.[1] Source: Sergey Sinelnikov-Muryvlev, *Biudzhetni Krizis v Rossii*, 1985–1995 (Moscow: Evrazia, 1995), Table 1.1-1. 1991 data from World Bank, *Russian Economic Reform: Crossing the Threshold of Structural Change* (Washington, D.C.: The World Bank, 1992), 8.

1. Soviet budget data is contested. What is not in dispute is that the budget deficit rose catastrophically in the late 1980s. See Anders Aslund, *Gorbachev's Struggle for Economic Reform* (Ithaca, N.Y.: Cornell University Press, 1989), 192–193; Kim, "Causes of Repressed Inflation in the Soviet Consumer Market, 1965–1989," *Economic History Review* 55, no. 1 (Feb. 2002): 115–17.

What, then, caused the country's financial collapse? Political decisions—and indecision caused by political conflict—destroyed the country's economy. Shortages and inflation were a problem of politics. Soviet leaders could not agree who should bear the cost of the budget deficit. Many people therefore argue that the Soviet Union would have benefited from more decisive, authoritarian governance.[10] Here, too, Soviet learning from China played an important role. Soviet discussion about fiscal policy between 1989 and 1991 took place in the shadow of China's crackdown in Tiananmen Square. Before the Tiananmen massacre on June 4, 1989, only Soviet liberals cited China's experience, arguing that China's economic success proved that liberalization unleashes economic growth. But after China's Communist Party crushed the student protests on Tiananmen Square and deposed Zhao Ziyang, its reform-minded general secretary, Soviet Stalinists suddenly found in Chinese decisiveness something to admire.

Comparisons between the USSR and China were particularly powerful between 1989 and 1991 because the Soviet Union was suffering from ailments that the Chinese had, after Tiananmen, managed to resolve. Before 1989, China faced increasing worries about government debt levels and about Beijing's ability to control its economy. Rising inflation, especially in China's large cities, where the cost of living increased by nearly 20 percent in 1988 alone, was an important cause of the public discontent that drove protesters to Tiananmen.[11] After the crackdown, and particularly after three years of austerity, during which Beijing drove down investment and consumption, China appeared to have vanquished inflation and solved its main economic problems.

China's post-Tiananmen experience stood in sharp contrast to the Soviet economy, which by 1991 was increasingly governed not by the Kremlin or by Gosplan, the state planning agency, but by a chaotic mix of local governments, managers of enterprises, and black markets. Even as Soviet liberals pointed to China as an example of why the private sector should be expanded, hard-liners argued that China's post-Tiananmen success proved the necessity of political discipline and Leninist democratic centralism. The coup against Gorbachev in August 1991—in which the KGB, the military brass, and leaders of big industries sought to reassert central control over the economy—marked the peak of hard-liners' attempts to emulate China's authoritarian approach to fiscal policy.

The coup's main effect, however, was to underline the sharp differences between Soviet and Chinese domestic politics. These differences had less to do with ideas about liberalism or authoritarianism than about the political clout of interest groups. Soviet farms, industries, and the military-industrial complex refused to relent on their demands for government subsidies, preventing the Kremlin from reducing the budget deficit and thereby fueling inflation. Unlike in China, the Soviet Union's industrial behemoths and collective farms wielded immense influence over economic policymaking. It was their political clout, and their demand for huge subsidies, that explains why the Soviet budget deficit spiraled out of control.

The Politics of Budget Cuts

Soviet leaders always knew that perestroika's economic reforms could lead to crisis. They embraced perestroika as a necessary gamble, though policymakers with different ideological perspectives—and those with ties to different interest groups—saw the gamble differently. For farms and industries, perestroika promised new investment spending, benefitting the workers and managers of those sectors. These groups did not want a budget crisis, but they hoped that other parts of Soviet society—the USSR's beleaguered consumers above all—would bear the costs of new spending programs. Gorbachev faced a different gamble: he saw higher levels of capital investment as all but inevitable given the industrial lobbies' strength. He hoped, however, that his market reforms would spark enough growth to let him plug the deficit in the medium term while sidestepping debilitating political clashes about budget cuts.

Gorbachev's decision to go for growth, and to try to solve his budget problems by expanding the economy rather than by raising taxes or cutting spending, was not as senseless as its results suggest. The Soviet economy had grown fast in the past. And other countries that were in the midst of liberalizing their economies, China above all, achieved rapid growth. The Soviet leadership knew that China posted a decade of impressive GDP growth after it began market reforms in the late 1970s. Chinese-style growth rates would have easily solved the USSR's budget problems. Because the Soviet Union was only just beginning to implement the types of policies that sparked China's economic transformation, Gorbachev reasoned, it was not unrealistic to expect an increase in growth.

Yet the results of Gorbachev's market reforms were the opposite of China's, largely because the politics were so toxic. Sizeable sections of the government bureaucracy, the Communist Party, and industrial managers opposed Gorbachev's attempts to nurture a private sector in the Soviet Union. They succeeded in delaying change, extracting expensive payoffs in return for their acquiescence when reforms were eventually introduced. From a productivity perspective, the enterprise restructuring efforts generally worked—but over the course of decades. Enterprises eventually became more efficient as they started responding to market signals.[12] But the benefits began to accrue only after Gorbachev was ejected from power. Delay caused by objections from Politburo members such as Andrei Gromyko created a gap between the long-term benefits of market reform and the short-term needs of the Soviet budget. Gorbachev's gamble began to go awry.

Why, then, did the Soviet government not raise taxes or cut spending? Even as tax revenue fell, government spending pushed continuously upward during perestroika. In 1987, Gorbachev tried winding down the higher capital investment included in his program of acceleration. But under the influence of the big industrial complexes, the higher levels of capital investment proved unassailable. Top politicians such as Vladimir Dolgikh, who had extensive ties to the metallurgical industries, vigorously lobbied for higher capital spending. Gorbachev later recounted being "inundated" with requests from Dolgikh for more funds.[13] This lobbying paid off. In 1988, despite Gorbachev's desire to slow spending, government investment increased by 6.5 percent.[14] Enterprises and collective farms received 8 percent increases on capital transfers from the government, an exorbitant handout given the budget crisis.[15]

Subsidy spending increased too, as the state agreed to pay higher prices for its purchases of coal and food. That meant the government spent more rubles buying goods from farms and coal mines—transferring resources from the state budget to these enterprises—but sold the goods for the same low price to consumers. The increase in the spread between the price at which the state bought goods from enterprises and the price at which they were sold in state-run stores meant that by 1988, government subsidies on consumer goods reached 15 percent of GDP. Perhaps one-third of this figure was on meat and dairy products alone. A number of other spending increases, including reconstruction costs after an earthquake in Armenia and a hefty 25 percent increase in the minimum pension, meant that the total government deficit had, by the International Monetary Fund's reckoning, reached one-tenth of GDP by 1988.[16]

Without politically impossible spending cuts or tax increases, the Kremlin's only choice was to fund the deficit by printing money. In the mid-1980s, the Soviet government was able to borrow easily on international financial markets, but by 1989 foreign financiers were losing faith in the Soviet government.[17] By 1990, the Soviet Union could only borrow when foreign banks received guarantees from their own governments, which Germany gave in 1990, or when loans were pledged against specific assets, such as the $1 billion raised in 1990 on the security of future Soviet diamond sales.[18] But there were only so many diamonds in the USSR, and only so much gold in the country's vaults. After these were pledged to foreign lenders, Moscow lacked options for raising funds abroad.[19] The Kremlin also had a domestic bond market, but Soviet citizens were unwilling to increase their bond holdings given the monetary malaise. By mid-1990, the domestic bond market made up only 2.5 percent of total domestic credit.[20] The Soviet Union was unable to borrow nearly enough to close its deficit. Because credit markets were closed, the Kremlin's only option was to rely on the printing press.

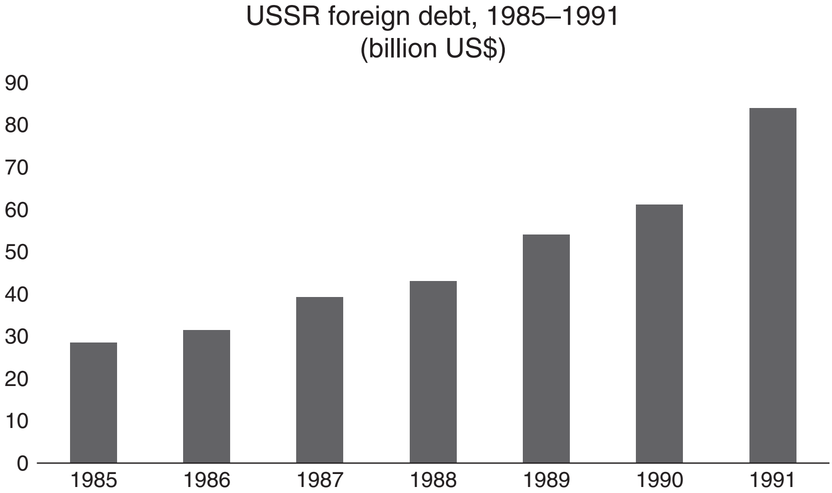

CHART 10 USSR foreign debt, excluding debt to socialist countries. Source: Sergey Sinelnikov-Muryvlev, *Biudzhetni Krizis v Rossii*, 1985–1995 (Moscow: Evrazia, 1995), 35.

Even though the government was unable to raise enough additional revenues to close the budget, it nonetheless continued creating new spending programs. In 1990, for example, the Kremlin hiked consumer subsidies by 1 percent in light of rising prices and raised social outlays by 2 percent.[21] The desire for more social spending was understandable given the stress the economic malaise placed on household budgets. The 16 percent nominal increase in social security payments, for example, looks less extravagant when considered next to double-digit inflation on black market goods. Additional sharp increases in social benefits in 1991, up 45 percent in nominal terms from 1990 levels, were also intended to shield citizens from inflation.[22] Protecting consumers was a noble goal, but it did not resolve the Kremlin's financing problems: if the Soviet Union's consumers were not going to pay for the budget deficit via higher prices, then who would?

Gorbachev and his allies hoped they could mobilize public pressure to make the military and the big industrial groups pay. Gorbachev repeatedly argued that the Soviet military was far too large. He told the Central Committee, "We are encircled not by invincible armies but by superior economies," suggesting that cutting military spending and redirecting resources toward economic growth was a strategic necessity.[23] Gorbachev was skeptical of the military in general, and he argued to the Politburo

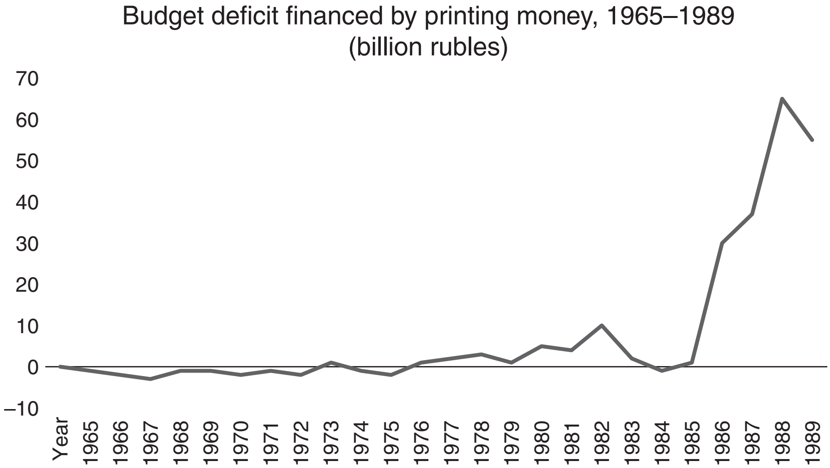

CHART 11 Budget deficit financed by printing money. Source: Byung-Yeon Kim, "Causes of Repressed Inflation on the Soviet Consumer Market, 1965–1989: Retail Price Subsidies, the Siphoning Effect, and the Budget Deficit," *Economic History Review* 55, no. 1 (February 2002): 121.

that the military leadership artificially created threats to justify their place in the command economy.[24] Many important facets of Gorbachev's foreign policy, such as improving ties with the West, or his 1988 promise to freeze military spending, were designed not only with international relations in mind, but with domestic economic policy, too.[25]

Gorbachev and his allies did score some small victories against the military industrial complex, and they succeeded in putting some pressure on the military to cough up funds in support of economic reform. After West German pilot Matthias Rust evaded Soviet anti-aircraft defenses and landed his Cessna on Red Square in 1987, Gorbachev used the occasion to sack the military leadership and to replace them with more amenable leaders who spoke publicly about the link between economic growth and national power. In theory, this set the stage for the argument that defense cuts might actually boost Soviet prestige and security by improving the economy.[26] In 1989, for the first time, Gorbachev publicly announced the size of the military budget to illustrate the scale of the resources the military-industrial complex consumed, though he almost certainly understated the true figure.[27] That same year, in response to public pressure, military leaders proposed a cut in arms production over two years and promised to shift production of civilian goods from 40 percent of military factory output in 1989 to 60 percent by 1995.[28] The next year, the military reported that civilian goods made up half of its factories' production.[29]

Yet most of Gorbachev's apparent progress in cutting the resources consumed by the military was a mirage. Even proponents of change within the military were not actually interested in defense cuts. For example, Nikolai Ogarkov, an influential spokesman in favor of modernizing the Soviet military, regularly criticized the spending priorities of the military establishment. But in underlining the need for new technologies, Ogarkov wanted not cuts to defense spending, but increased funds for technological modernization.[30] There was virtually no one in the military-industrial complex who supported cuts.

Some defense officials sought to address popular demands for belt-tightening by promising that military factories would begin producing more civilian goods. In September 1990, for example, the Politburo held a meeting to discuss the conversion of military factories to civilian uses.[31] But despite much talk about the conversion of defense factories to civilian production, there is little evidence that this actually reduced military spending. Pro-perestroika intellectuals argued that conversion programs actually increased spending on the military, because it gave factories a ready excuse for further state-funded investment, ostensibly for retooling production lines.[32] Gorbachev may have understood that defense conversion did not save money, but nonetheless supported it in the hope that it would give the military-industrial complex a greater incentive to back market reforms. But they never did.

Gorbachev's aide Georgy Shakhnazarov wrote that "demilitarization" was the "hardest part" of perestroika because the military had the political clout to veto any serious change.[33] Even as late as 1989, as the country's budget deficit reached 10 percent of GDP, the Soviet military managed to fend off serious defense cuts. It had recently received two new aircraft carriers and was in the midst of building a third one.[34] Georgy Arbatov, a reformist intellectual and Gorbachev ally, explained at the time that Gorbachev "understands that we must move forward on demilitarization, but faces strong resistance from the generals and the military-industrial complex, and thus needs help and support." Arbatov spoke out openly in the Congress of People's Deputies, calling on the government "to substantially reduce military expenditures" and arguing that "our economy has been literally eviscerated by military spending."[35] Gorbachev finally managed to halt increases in defense spending in 1989. Defense spending was probably reduced—though only slightly—in 1990 and 1991.[36] Yet, slowed by resistance, Gorbachev could only move slowly. He was consistently disappointed by the meager progress in transferring resources away from the military and toward more productive uses.[37] As Gorbachev pointed out in February 1991, the USSR had "the most militarized economy in the world and the largest defense expenditures."[38] He still saw plenty of room for further defense cuts, if he could find a way to push them through without a coup.

Inflation: Political Causes, Political Consequences

As the Soviet Union's budget deficit grew, inflation quickly followed. The money supply expanded by roughly 15 percent per year from 1987 to 1989, while the economy stagnated.[39] As the number of rubles in circulation rose, so too did prices on black markets and on farmers markets which, unlike other prices in the USSR, were not state controlled. This inflation eroded incomes, but the worst effect of the rapidly growing money supply was shortages. The government continued to set prices far below market levels, so businesses lacked incentive to sell products. In theory, the government also set production qualities, so enterprises should not have had scope to reduce production. In reality, the gap between the government's spending promises and its resources meant that discipline broke down. This was most evident in the agricultural sector, where supply chains simply stopped functioning. For example, during the second half of the 1980s, the Soviet Union produced, on average, nearly 200 million tons of grain per year. In 1991, the harvest was supposed to bring in 180–90 million tons, but in reality, Prime Minister Valentin Pavlov reported to the Politburo, it would bring in no more than a third of that figure, or 50–60 million tons. Farmers hid a significant part of their harvest from the state to avoid taxes. Some of this grain was eventually sold on black markets. Yet much production was simply halted because low official prices meant farms had little reason for increasing harvests.[40]

Shortages began affecting all types of products—not just luxuries, but even basic foods. By April 1991, only 12 percent of survey respondents reported seeing sausage openly sold in markets, while only 8 percent saw butter, 7 percent saw fish, and 7 percent saw flour. Of those surveyed, 48 percent reported that they didn't see anything available for open sale. State-issued ration coupons were little better; four out of five Soviet citizens reported problems using ration coupons, with a third saying that it was difficult to convert coupons into food.[41]

The effects of inflation were not only economic. Just as inflation was caused by political gridlock—a disagreement about who should bear the costs of budgetary adjustment—it also had serious political consequences. Though Gorbachev was beginning to move the Soviet Union toward a market-based system, the country's economy was still largely based on command methods. Commands from the top were followed because failure to do so resulted in punishment. Inflation changed this calculus because it laid bare the political chaos at the center of the Soviet state. It sent a message to mid-level Soviet officials that rules no longer mattered. Carefully controlled prices previously had been a central tool of the Communist Party's authority over society and economy; changes in relative prices were how the state mediated between different interest groups and redistributed resources. But where prices previously represented the state's power, by 1988 they provided further proof of an increasingly desperate struggle between Gorbachev and his opponents in Moscow. No one was in charge.

For those who had long chafed under Moscow's direct control, the political conflict about economic policy provided an opening for them to bolster their own independence. This led to a process that one political scientist has likened to a "bank run," as local officials sought to seize control of factories and resources before someone else did. Soon there were few resources left.[42] Regional governments, especially those in ethnic minority regions, used their new autonomy to remit fewer taxes to the central government. Enterprise managers, meanwhile, took advantage of feuds among the political elite to seize control of their firms, often subverting Gorbachev's enterprise reforms in the process. Both of these tendencies further reduced the resources available to the central government, exacerbating the budget crisis and causing inflation to continue to spiral upward.

As the budget deficit eroded the government's ability to enforce its writ, tax revenues began to fall sharply. At the beginning of perestroika, the Soviet government had several main revenue streams. One was a turnover tax, which functioned roughly like a tax on consumption. The tax only applied to purchases made in the official economy, which proved problematic during the late 1980s as shortages multiplied and consumers turned toward black markets. Revenue was reduced as turnover tax collection declined. By the end of perestroika, turnover tax revenue as a share of GDP had fallen by 20 percent.[43]

An equally important cause of declining government revenue was changes in enterprise law. As more enterprises came under the control of their directors rather than the central ministries, Moscow found that the revenue it received from enterprises plummeted in 1988 and 1989. In part, this was due to a general slowdown in economic activity, as the Soviet Union's economic elite began expanding their control over property rather than using it productively. But industrial production actually rose slightly during 1987, and fell just 2 percent between 1988 and 1989.[44] That meant the Soviet Union had plenty of economic activity that could, in theory, be taxed—roughly the same amount of economic activity as previous years. The problem was getting funds from enterprises to the Kremlin. Here, the political conflict at the center devastated the central government's finances because it prevented the Kremlin from wielding its authority to collect taxes.

Gorbachev's enterprise restructuring included provisions to impose taxes on enterprises that became self-financing. This replaced the old system, whereby firms remitted profits to the state, with a new system that taxed profit. In theory, such a change could have been revenue neutral. As it happened, amid cutthroat political conflict, the legislation gave away far more than it brought in because Gorbachev's Kremlin was unable to prevent enterprise managers and local party leaders from ignoring tax bills. The Politburo could not demand payment because it was riven by disputes. Top leaders were wary of letting their political opponents gain control of new resources. Tax collection from enterprises slumped. In 1986, on the eve of Moscow's first serious enterprise reforms, the Kremlin received payments worth 16.2 percent of GDP from enterprises. In 1987, the first year of the new enterprise reforms, that figure fell to 15.4 percent of GDP. Each successive year was worse: revenues from enterprise profits dropped continuously until bottoming out at 11.7 percent of GDP in 1991, the year the Soviet Union collapsed.[45] In other words, one of the state's most important sources of revenue was bringing in a quarter less than before.

Even more disastrous than the fall in revenue from enterprises was the central government's loss of fiscal control over the fifteen republics that constituted the Soviet Union. It was the unified Communist Party structure, rather than the institutions of the Soviet state, that bound the republics together. The emergence of a persistent budget deficit in the late 1980s, however, provided a clear signal that the party was far from united.

Over the late 1980s, Communist Party discipline deteriorated, and the constituent republics of the USSR found that the center was increasingly less likely to punish them for misbehavior. Between 1989 and 1991, as it became clear that Moscow had less ability to enforce its writ, local and regional government leaders decided to keep more tax revenue for themselves.

In some sense, it is not surprising that the Soviet Union experienced such drastic decentralization during the 1980s and early 1990s, because decentralization was one of Gorbachev's main goals. Of course, Gorbachev did not want decentralization to end up the way it did—with the dissolution of the union. But he encouraged decentralization through 1990 because he saw it as a method of liberalization. On a variety of questions, Gorbachev used decentralization to shift debates away from the Politburo, which still included many traditionalist communists, toward lower levels, where he thought his allies were more likely to win. For example, on the crucial question of how to tax cooperatives, the basic institution of the new, semiprivate economy he was creating, Gorbachev insisted in 1989 that the tax law should be passed "under the authority of the republics, and later even local councils." He reasoned that it would help them take control of local budgets and fend off pressure from rapacious bureaucrats at the center.[46]

Yet decentralization was not only driven from the center. It was also adopted as a political strategy by leaders who were too weak to gain power at the Union level but who could dominate a small republic or local government. The Baltic republics, where the local populations held long-standing grievances against Moscow, first demonstrated how economic decentralization could be used as a political tool. At a contentious Politburo meeting in February 1989, the Baltic leaders insisted that turning over economic governance to republics was simply a technocratic measure that would improve performance. Indrek Toome, the chairman of Estonia's Council of Ministers, declared that his republic wanted to implement self-financing beginning in 1990. "This decision was approved by the Central Committee and Council of Ministers of Estonia," he argued. "Why do all republics have to move together? Different regions have different processes. Economic and social specifics, the readiness of cadres and workers, all this has to be taken into account. We need not fear lack of coordination. If several models work, we could be richer." Latvian and Lithuanian party leaders made similar arguments.[47]

Even more dangerous than the Baltics was the Soviet Union's largest constituent republic, Russia. In 1990, the Russian Republic began to take up some of the economic arguments made by the smaller republics. Anatoly Sobchak, a reformist member of the Congress of People's Deputies, argued to the Politburo that devolving economic powers to the republics would improve economic management. "It's impossible to solve economic problems without taking account of political realities," he argued. "We're headed for a complete breakdown." The solution was for the Kremlin to turn over power to the republics. "For example, the foreign currency fund," which was used to purchase food and consumer goods from abroad, should be divided between the republics. "We need to liquidate the Council of Ministers," which played a significant role in the system of central planning, Sobchak argued. Instead, the Union should have just one responsibility, "stabilization of the financial-credit system. Give all others to the republics."[48]

Everyone in the Politburo knew that this type of self-sufficiency was dangerous. Gosplan chairman Yuri Maslyukov reported that "the weight of the economy under the jurisdiction of the republics will increase from 5 percent to 30 percent and in some republics, to 70 percent. The entire agro-industrial complex and all consumer goods manufacturing will all be under their jurisdiction."[49] Even Gorbachev spoke out against "absolutely ridiculous" attempts to declare autarky in which, he said, the formation of tax policy looks like a street protest.[50] And he pointed out that some republics would inevitably depend on relations with others. Uzbekistan, for example, exported large amounts of cotton to the rest of the union in exchange for other goods. Gorbachev criticized "rakish minds" who want to use "the irrigated fertile land, which are currently fields of cotton, for growing food, vegetables and fruit. . . . There are specific realities in all republics." But the response Gorbachev received from the Uzbek delegate—"Our cotton gives 70 billion rubles to the country, but we only get 1 billion back from the center!"—was a telling sign that disunity was spreading.[51]

Nonetheless, the Soviet leadership was unable to prevent unsanctioned decentralization because the factions within the Communist Party would have had to compromise among themselves. That proved impossible. The Kremlin's reduced ability to control the economy was particularly visible in agriculture. Factory production often occurred in a single building, so output was relatively straightforward to monitor. But farmers had far less trouble concealing food, stealing from state and collective farms and selling it on the black market. The threat of brutal punishment had previously limited this type of theft, but during the late 1980s local officials tolerated theft as long as they got a cut and the Kremlin footed the bill. The amount of agricultural produce received by the central government plummeted during 1989, 1990, and 1991. Even though the 1990 harvest was good, the state was unable to buy all the grain it wanted from farms. One official explained to the Politburo that "oblasts, republics, and economic units are holding back grain."[52] Local leaders knew they would not face consequences. One official estimated that the Kremlin lost 100 billion rubles by 1991 because the Russian republic declined to hand over tax revenue.[53] That year the Kremlin received 40 percent less in transfers from the republics than it expected.[54] As the budget deficit increased, so too did the pressure to print money. Inflation and shortages continued to spiral out of control.

The Lessons of China's Budget Policy

As Soviet policymakers debated how to deal with their growing budget deficit, they again turned to China for lessons. Moscow's China-watchers had long believed that Beijing's fiscal policy was a crucial determinant of the country's success. In the late 1970s, as Deng Xiaoping launched his reforms, China struggled to control its budget deficit. Beijing posted a deficit of 13 billion yuan in 1980, in part, Soviet analysts noted, because of high defense spending.[55] Because China's government had limited ability to borrow, the government funded its deficit by printing money. Inflation, Soviet research noted, was the inevitable result.[56]

By the early 1980s, however, Chinese leaders beat back inflation by cutting investment spending, thereby reducing the budget deficit.[57] A Soviet report written in 1981 argued that the Chinese government was centralizing its fiscal system by increasing Beijing's power over spendthrift provinces. "To centralize power and accumulate budgetary funds," the article noted, Beijing seeks to "strengthen all the instruments of political and economic dictatorship."[58] China's leaders succeeded in avoiding a severe financial crisis in the early 1980s by ensuring that political leaders could discipline any institution—especially, in China's case, local governments—that spent too much or paid too little tax. In other words, the stability of China's fiscal and monetary policy, Soviet analysts believed, depended on the political strength of the central government.

Beijing earned Soviet respect by resolving its financial problems in the early 1980s, but by the end of the decade inflation reemerged in China. Soviet analysts again devoted significant attention toward analyzing China's attempt to reduce inflation. Now that the USSR was dealing with similar challenges, top Soviet policymakers took careful notice. In July 1989, for example, analyst I. B. Shevel prepared a report for Gosplan that examined China's struggle to control surging inflation.[59] Shevel explained that China's economic policy was defined by "the correlation between the centralization and decentralization of resources."[60] The reason, he argued, was that China's budget deficit caused inflation; its budget deficit was in turn the result of unresolved political struggles between different political groups. Under Mao, Shevel explained, the state failed to collect sufficient tax revenue, relying instead on the profits generated by state-owned firms to fund its budget. A crucial part of China's policy under Deng was to empower the central government to collect more direct taxes, strengthening its hand in fiscal disputes.[61]

But economic policymakers in Beijing had only tenuous control over credit creation in China's far-flung provinces, Soviet officials believed. Throughout the late 1980s, the provinces continued to create credit at a rapid rate. "An extremely serious factor that destabilized the financial-economic situation," Shevel explained, "was the development of inflationary processes. From 1979–1987, the emission of money grew more than five times (from 26.8 billion to 145.4 billion yuan). In 8 months of 1988, it grew by 40% compared with the same period in the previous year." A larger supply of money, Shevel explained, meant higher prices: "The growth of the monetary mass in circulation markedly outstripped the growth in the turnover of consumer goods," he wrote. This in turn led to a "reduction in the purchasing power of the yuan and the growth of consumer prices."

But the Chinese government had a solution, Shevel believed: austerity, via budget cuts and tougher loan conditions. "Measures are being undertaken to limit large scale capital construction. In 1989, that meant limiting the total value of capital investment by 20% with comparison to the level of 1988."[62] China was also reducing the supply of credit, Shevel argued. Interest rate hikes were an immediate necessity. Because interest rates on bank deposits were capped by the government at a level below inflation, price increases led to "a sharp reduction in the volume of deposits," Shevel noted. This threatened banks' solvency. Interest rate increases helped stem the outflow of deposits and also led to a significant "reduction in the volume of lending."[63] Beijing's "serious knowledge" about the use of "financial and credit mechanisms as a tool of regulating the market" were also relevant to the Soviet Union, Shevel believed.[64]

Both academic analysts and the Soviet press drew direct connections between the sharp price increases in China in 1990 and the fact that "the printing presses went to work making money."[65] Sergei Manezhev, who had written extensively on special economic zones, prepared a report on inflation in China for Leonid Abalkin and Stanislav Shatalin, two of Gorbachev's top economic advisers.[66] I. N. Naumov also drafted a briefing on Chinese inflation, which was sent to an array of top economists and economic policymakers.[67] Naumov explained that China's experience proved that "without development of market relations, production will stagnate, but without reliable administrative levers of regulating economic processes, the market can drag down the economy, render agriculture lifeless, further drag out capital construction," and generally hinder economic progress. Most important, Naumov emphasized, was to realize that China's success depended on a series of tough, even painful, reforms. "With regard to the experience of economic development in China," Naumov reiterated, "it is a great error to idealize it and even more so to mythologize it. Even in the period of the ascent of China's economy" the country faced enormous problems without simple solutions.[68] If the Soviet Union wanted to learn the lessons of China's growth and to defeat inflation, Naumov argued, tough decisions about who would bear the burden of budget cuts were inescapable.

It was not only the Soviet Union's China experts who sought to learn from Beijing's experience in dealing with inflation. Abel Aganbegyan, the economist and Gorbachev adviser, noted in 1989 that "to develop and understand fully how to operate anti-inflationary mechanisms in the socialist market will be quite a test" for the Soviet economy.[69] One way of gaining experience in fighting inflation, Aganbegyan argued, was to learn from other socialist countries. Yugoslavia, Hungary, and East Germany all struggled with inflation. But by the late 1980s, the best example was China. In that country, Aganbegyan noted, "the rate of inflation on consumer goods was 20 percent in 1988." The reason, Aganbegyan argued, was " 'overheating' in the economy caused by the sudden large expansion of major construction work and large-scale capital investment."[70]

Soviet scholars emphasized that the proximate cause of China's inflation was the same factor that led to higher black market prices in the USSR: an expansion of the money supply.[71] China realized that the only solution was lower investment spending. “The main driver” of China’s anti-inflation program, Aganbegyan wrote, was a “considerable reduction in the volume of capital investment and a lowering of expenditure.”[72] In other words, Aganbegyan suggested, China proved that the only solution to inflation was to reduce credit creation. This meant spending cuts. The Soviet Union, he believed, needed similar economic medicine.

Indeed, by 1990, as the Soviet Union’s financial crisis deepened, Soviet analysts delivered recommendations to top leadership outlining explicit lessons that the Kremlin could learn from China. Analysts G. Ganshin and I. Baliuk prepared a report titled “From China’s Experience in Overcoming Crisis Situations in the Economy,” which was sent to nearly every top economic policymaker in the Soviet Union: Gorbachev’s top economic aide Vadim Medvedev; economists Aganbegyan, Shatalin, and Petrakov; Politburo members Slyunkov, Ryzhkov, and Maslyukov; and others. What lessons, the analysts asked, could the USSR draw from China’s experience with financial crisis? Ganshin and Baliuk echoed other Soviet experts in noting that China had faced a series of inflation surges during the previous decades, during which “prices for consumer goods increased, inflation rose to dangerous levels, and speculation, bribery, and corruption became commonplace.”[73]

Each time inflation in China increased, Ganshin and Baliuk explained, the only solution was austerity measures that cut credit growth.[74] For industry, that meant “reducing the growth of capital construction” by letting markets set the cost of capital, imposing higher interest rates than those set by the state. Enterprises had to pay more tax as the government cracked down on evasion, part of the Chinese government’s broader effort to strengthen its fiscal position. Beijing modernized its accounting system, giving the central government more control over the country’s finances.[75] This was particularly important because local governments had often “exceeded planned values of investment in capital construction,” in part by using nonbudgetary slush funds.[76] At the same time, a renewed push to privatize urban real estate and shares in companies further bolstered central government revenue. Some price controls were reinstated, but Ganshin and Baliuk argued that Chinese leaders “clearly understand” that price controls only have positive effects when coupled with “structural policy changes.”[77] Price controls are ineffective, Ganshin and Baliuk argued, without “serious action to reduce capital construction.”[78] The Soviet Union, they believed, needed a similar mix of policies: cuts to capital spending, higher government revenues, and tighter monetary policy. Only austerity, Soviet officials concluded, had a realistic chance of reestablishing control over the money supply.

Tiananmen in Soviet Politics

The Chinese Communist Party's decision to crush protests on Tiananmen Square in 1989 did not, at first, make a strong mark in Soviet politics. To be sure, the killings were well noted. Famed dissident Andrei Sakharov tried to give a speech in parliament condemning the massacre, though his microphone was shut off to prevent him from damaging the USSR's relations with Beijing.[79] With the exception of Sakharov and his allies, there was only limited comment on the Tiananmen killings, in part because the Soviet press declined to report extensively on the protests or the crackdown.[80]

Yet as months passed after Tiananmen, and as it became clear not only that the Chinese Communist Party succeeded in retaining power but that it was managing to fix China's economy, Soviet interest in the meaning of Tiananmen increased. This was most visible in the debate over what economic policy lessons Moscow could draw. Though the Chinese protests on Tiananmen culminated as a debate about democratization and one-party rule in China, they emerged in part because of economic discontent. As in the Soviet Union in 1990 and 1991, China in 1988 and 1989 suffered from inflation. Higher prices, especially for food, shook people's confidence in China's economic leadership. After crushing the protests on Tiananmen, the Chinese leadership moved quickly to dampen inflation and restore balance to the country's finances, hoping that low inflation and rapid growth would deflate demands for democratization.

By 1991, as China's inflation rates fell and the economy returned to growth, Soviet debate over the meaning of the Tiananmen moment took place along two axes. The first was economic. One conclusion to draw from China's experience was that command methods could decrease inflation. Skeptics of market methods pounced, arguing that China proved that rapidly liberalizing prices does not work. Many in the Soviet Union concluded that political stabilization led to economic stabilization, and that decisive action was responsible for the Chinese Communists' success in achieving both.[81] If command methods worked in China, traditionalist Soviet communists argued, they could work at home, too.

Pro-market Soviet economists disputed this thesis. They argued that stable prices in a command economy were not necessarily a positive sign if price stability caused shortages or required subsidies. Indeed, one economist argued, “the forced stabilization of prices [in China] certainly requires greater government price subsidies, which grew from 31.7 billion yuan in 1988 to 40 billion yuan in 1989.” Shortages in China were common, too: in terms of capital goods, “the gap between demand and supply remains wide.” In the Chinese case—and, implicitly, in the Soviet case too—economic changes based on command methods “can hardly bring any substantial changes to the Chinese economy, because the measures proposed do not mean serious changes in China’s economic system and will not lead to the development of new relations.”[82]

But hard-liners in the Soviet Union continued to find much to admire in China’s example. Glasnost opened space for far-right nationalists as well as for liberals, and the newly free nationalist press strongly backed a greater role for the army in Soviet politics. Aleksandr Prokhanov, editor of the far-right newspaper *Den*, was a leading voice on the Soviet new right. “Today,” Prokhanov proclaimed, the army “should have a political will.” He rejected the idea of an apolitical military as naive. “The army is already represented in parliament,” he pointed out, “it has already come out on political display, it already is a political power. That isn’t my idea, it’s reality—the army is a factor in politics.” Prokhanov hoped military rule could replace what he saw as Gorbachev’s spineless leadership. “Our president is destroying his party and he doesn’t have any institutions for influencing the public. . . . If you are familiar with the theory of transition periods (and there is much experience of transition, both in Europe and in Asia), everywhere the army was a stabilizing force.”[83]

At the same time, liberals were calling for increasingly radical transformations of Soviet economy and society. Economic advisers to Gorbachev and Boris Yeltsin, president of the Russian Republic, devised a plan to transition to a full market economy in 500 days. The policies that reformists envisioned threatened powerful interest groups in Soviet society. The calls for foreign competition worried many industries, which would have struggled to compete with foreign firms on either quality or price. Recommendations for further 20–30 percent cuts to capital investment and the cancellation of all large-scale investment programs threatened heavy industries.[84] Even bolder was the call to slash the military’s economic role. The investment cuts alone would have hit the military-industrial complex hard. Yet the "500 days" plan called for immediately cutting the military budget by 10 percent and the KGB budget by 20 percent. Foreign aid, which funded the security forces' activities abroad, was to be slashed by 70–80 percent. The plan offered reformists hope of the first frontal attack on the security services and military-industrial complex since Gorbachev took power.[85]

After the 500 days plan was attacked by industrial lobbies and Stalinist politicians, Gorbachev backed down. He broke off the alliance with Yeltsin, fearing that he could not win a direct confrontation with the military and its allies. To fend off the threat of a renewal of the alliance between Gorbachev and Yeltsin, new-right forces sought to reinforce the coalition in Soviet politics that connected the army with interest groups such as heavy industry and agriculture. All of these factions opposed the reformists' proposals.

The intellectuals who advocated strengthening the army-industry coalition pointed to China after Tiananmen as an example of a direction that Soviet politics could take.[86] Sergei Kurginyan's influential pamphlet *Post-perestroika*, which was found on the desk of KGB chief Kryuchkov after the failed coup, praised China for withstanding pressures to democratize. It noted that while the authoritarian governments of Poland, Romania, and East Germany had fallen by 1991, China's remained.[87] China retained its one-party state and authoritarian structure while jettisoning Marxist-Leninist economics, Kurginyan noted, arguing that Soviet political leaders should emulate China. Kurginyan called for "authoritarian modernization" and "Chinese-style economic reform."[88] The new right seized on post-Tiananmen China as an example of why political power in the USSR should be recentralized. The United Council of Russia, a group of Russian-nationalist writers and intellectuals, criticized free trade zones and joint ventures with foreign firms, ideas that the liberals sought to import from pre-Tiananmen China.[89]

Top military officials concurred. Oleg Baklanov, first deputy chairman of the USSR Defense Council, disparaged market economics and argued that military rule would improve the economy. "Overall in the Armed Forces [and] in the defense industry, there is a great amount of organizational experience, which could be used in civilian society," he argued. "The defense industry has far better organizational experience than our new politicians, who are unable to even provide for trash collection on the streets of Moscow, feeding and clothing the population, or strategically planning city government."[90]

The security forces were beginning to stir. After novice West German pilot Matthias Rust landed his Cessna on Red Square in 1987, avoiding Soviet air defenses and embarrassing the Soviet military, the Red Army kept a low political profile. The military brass consented to Gorbachev's plan to withdraw troops from Eastern Europe both because Gorbachev's foreign policy was widely popular, and because Gorbachev promised that the German government would help fund the army's relocation expenses. Yet by 1990, as the economy deteriorated and as it became clear that German financing was not as extensive as had been hoped, the military began making more vocal demands on the government. Top brass called for higher military spending, both to pay for new weapons and to improve soldiers' quality of life. Tiananmen showed the military brass a new route toward political influence. When Defense Minister Dmitri Yazov met with Chinese leaders in May 1991, he promised the Soviet military would "defend the gains of socialism."[91]

At a speech to military leaders in November 1990, Gorbachev faced complaints from officers disenchanted with declining status and living standards. Gorbachev's "one-sided political pluralism" did not take account of the military's interests, they argued.[92] Gorbachev lavished praise on the army, calling it "a most important instrument of state." He admitted that officers' housing quality had declined, and promised that "social production in market conditions of members of the military and of officers is one of the most important questions, and we will solve it." He also noted the importance of converting defense factories to civilian production, and emphasized that the military had an interest in legislation on the subject. These were fine words, but the audience was unmoved. Gorbachev recognized the threat, criticizing talk of a "military revolution" and urging the army to work with his government.[93] He was well aware that Nikita Khrushchev, the last Soviet leader to be removed from office before death, had been toppled after cutting conventional military spending and alienating the military brass.

The threat of a coup was constantly on Gorbachev's mind during late 1990 and 1991, as he struggled to find a way to right the Soviet budget. Foreign Minister Shevardnadze openly warned of the risk of a coup, while Defense Minister Yazov was forced to actively deny that the military was plotting a takeover.[94] On July 17, 1991, just weeks before the military launched the coup against him, Gorbachev confided his fears to American president George H. W. Bush. After Gorbachev asked Bush for financial support, Bush responded that the USSR should cut defense spending to balance its budget. After all, Bush argued, “we’ve closed a lot of bases,” making the United States less threatening to the USSR. But Gorbachev explained that the debate over Soviet defense spending was less about external threats than domestic politics. “You, George, can easily imagine what our defense sector consists of: the best cadres, the best designers, the highest science and technology,” Gorbachev explained. “We need to reduce arms in a way that won’t make the army rise up.”[95]

Coup and Collapse

When the army did rise up in August 1991, imprisoning Gorbachev at his summer home in Crimea and attempting to establish power in Moscow, it did not act alone. The security services were well represented in the ranks of the coup-plotters, led by Defense Minister Yazov, KGB chief Kryuchkov, and Internal Affairs Minister Pugo. Yet it was not just a military coup: anti-Gorbachev economic lobbies also strongly backed the putsch. Oleg Baklanov, first deputy chairman of the Defense Council, which represented the military-industrial complex; Aleksandr Tizyakov, president of the Association of the USSR State Enterprises; and Vasily Starodubtsev, chairman of the USSR Union of Peasants, which represented the agro-industrial complex, were all prominent supporters of the coup.[96] The coup’s leaders and the organizations they represented opposed a market economy on ideological grounds. Kryuchkov, the KGB chief, declared the previous year that it would be a “ruinous mistake to throw the country into the arms of the elemental forces of the market.”[97]

Yet Kryuchkov and his allies from the farms and industries also had more prosaic concerns: they feared that the next round of economic pain would fall on them. Tizyakov, the coup leader who led the Association of State Enterprises, long opposed perestroika’s effects on the enterprises he represented and had a track record of backing authoritarian rule as an alternative to Gorbachev.[98] Along with Tizyakov, the chairman of the USSR Union of Peasants, Vasily Starodubtsev, participated in an array of anti-perestroika political activities, famously signing the reactionary manifesto “A Word to the People,” which was published in *Sovetskaia Rossiya* on June 23, 1991. The state enterprises and farms that Tizyakov and Starodubtsev represented were threatened by perestroika.

The coup’s leaders are often described as hard-liners, but they were not committed to a return to Brezhnev or Stalin-era economic management. Indeed, in the press conference that announced the seizure of power, they promised to support private entrepreneurship![99] Rather than Marxism-Leninism, what united the coup leaders was a desire to defend their turf and a willingness to use force to do so. Many of the coup leaders had longstanding ties to advocates of authoritarian politics. By mid-1991, as the economy weakened, they moved from advocacy to action. If they did not seize power, the coup leaders reckoned, they were about to get hit with a big bill. The groups they represented would be asked to bear the brunt of the economic adjustment that was needed if the budget deficit were to be reduced and inflation brought under control. In specific, the military and industrial bosses feared plans to bring the energy industry under the control of the Russian republic. They also opposed proposals to eliminate the Communist Party's special role in the military and security forces. Democratic control of the budgeting process, which leaders such as Yeltsin and Gorbachev were promising to deliver, would threaten their political stature and their ability to hold off budget cuts.[100]

The leaders of the GKChP, as the State Committee on the State of Emergency was known, knew that resolving the economic crisis was their most important task. The Committee's public statements on August 18, the day the coup was announced, focused on the economy. After noting the threat of "chaos and anarchy," the coup plotters committed themselves to a number of concrete economic goals: preserving the "unity of the USSR as an economic space," maintaining a "unified banking system," and "decisively carrying out the fight with the shadow economy."[101] They promised to struggle against "mismanagement."[102] Yet these claims sidestepped the main issue: just like before the coup, the Soviet government was running a huge budget deficit. To fill the gap, it was printing money, leading to painful shortages and inflation.

The coup leaders had no coherent plan to address this. On the one hand, they were committed to defending the economic position of the interest groups they represented—the security services, industries, and farms—all of which depended on state subsidies. "Do you know what held together the Soviet government?" asked Gennady Yanaev, one of the coup leaders, in his memoirs. The party, the army, and the law-enforcement system, he said.[103] The party was already dissolving, but imposing budget cuts on either the army or the security services was unthinkable. The close ties between the putschists and the military-industrial complex meant they could not support defense cuts, lest their supporters desert them. Similarly close links between heavy industries and the coup leaders—Arkady Volsky, head of the Union of Industrialists, was reported to be closely coordinating with putsch leaders—meant that the GKChP could not afford to cut industrial subsidies either.[104] Any step to reduce spending or subsidies would threaten an interest group on whose support the coalition depended.

If the coup leaders were committed to avoiding imposing budget cuts on their allies, there was a second path to resolving the financial crisis, which the putschists at first appeared interested in exploring. Rather than cutting subsidies to farms and industries, the budget could, in theory, be balanced by reducing the resources consumed by the population. This was the Tiananmen model. The Chinese cut credit growth, reducing consumption and investment. At first the coup leaders appeared to follow Beijing's lead in using the army to push through austerity.[105] The putschists embraced a Tiananmen-style message of temporary austerity as a down payment on future growth. "Decree no. 1" that the committee issued called for greater organization and discipline in "all spheres of the life of society," which highlighted the need for discipline and set the stage for military-enforced austerity.[106] Indeed, the Soviet military held meetings with the Chinese a week before the coup, in which, according to a Soviet report, Defense Minister Yazov and other military officials "talked about [their] strictly positive attitude towards the Chinese 'experience' of military suppression of the movement for democracy, and spoke about their own resolve to use military force to 'stop chaos in the country.' "[107]

But the coup leaders were divided. At the same time that they demanded military-led "discipline" and "organization," they insisted that the USSR needed higher living standards. Like Gorbachev, they too wanted the support of the population, especially in Moscow. Vice President Yanaev argued at a press conference that "the development of the country can't be built on falling living standards of the population."[108] At times, the committee simultaneously demanded austerity and promised higher living standards. In other words, the coup leaders wanted to follow the Chinese model of military-enforced austerity, but were unwilling to accept the social costs that such a strategy would have entailed. Given the calls for "labor discipline," the putschists were evidently comfortable in theory with China's tactic of using the army to drive down consumption levels. Right-wing intellectuals had been calling for such a solution for over a year.

But there was a crucial difference between the two countries. Chinese austerity in 1989 meant lower living standards, a result that was painful but not catastrophic. The Soviet situation was far more dangerous. Like all Soviet policymakers, the coup leaders knew that declining agricultural production and the collapse of supply networks meant that food supplies in cities were desperately low. Any attempt to push down consumption might cause widespread hunger in cities, even in Moscow. One official in Moscow's city government—which during the winter of 1990–91 was consumed by debates about how to feed the city's residents—said that the collapse of supply chains that previously brought food from countryside to the city had the effect of an "economic blockade."[109] By the following winter, the country had less than one month's grain reserve—and two-thirds of regions had no reserves at all. Many regions had to implement rationing.[110] If the coup had redirected resources away from consumption and toward plugging the budget, it might have reduced inflation. But there was little room to reduce living standards without risking hunger.

This was a danger the coup leaders were unwilling to accept. Stalin tolerated famine in the early 1930s while he was gathering capital for industrialization, but the leaders of the 1991 coup were not nearly so ruthless. They were willing to shed some blood, but not much. Without austerity that risked hunger, the coup leaders had only two options for dealing with their budget deficit: they could let inflation and economic chaos continue, or they could balance the budgets on the backs of the only remaining institutions in Soviet society that had resources to spare, the military and favored industries. But that meant cutting their own budgets, defeating the coup's goal of preserving their special status. The military and industrial bosses intended a Chinese-style coup. They failed to realize that, unlike in China, the Soviet army and its allies were not the solution to the country's economic problems, they were the cause. The military and its interest group allies were the main reason the USSR had an uncontrollable budget deficit. They were the institutions that benefited from the subsidies that were bankrupting the government. The only type of military coup that could have resolved the USSR's economic problems was a coup that turned on itself, slashing its own budget. That was not in the offing, and it meant that the coup leaders had no strategy to cut the budget deficit or halt the growth of the money supply. As it became clear that the generals lacked a plan to right the country's economy, their authority evaporated, the coup collapsed, and the Soviet Union hurtled toward disintegration.

Conclusion

Paths Not Taken?

The long collapse of the Soviet economy did not end with the dissolution of the USSR. Governments quickly changed, but the infrastructure of the Soviet economy did not. From the metalworks of Magnitogorsk to the nickel mines of frozen Norilsk, the economy bequeathed to modern Russia by Stalin, Khrushchev, and Brezhnev was only slowly changed. Not all of that inheritance, of course, was harmful. The USSR invested heavily in schooling, for example, leaving a population significantly more educated than might have been expected. Yet much of the Soviet legacy is far less positive. Few of the manufacturing industries so celebrated by the Soviets are profitable today, and almost none are at the forefront of modern technology. Russia today has over a hundred *monogorods*, cities in which many workers are employed by a single, often practically bankrupt firm left over from the period of shock industrialization in the 1930s and 1940s. Hundreds of thousands of Russians live in such cities, eking out a tough existence, dependent upon government handouts, and retaining little hope of a better future.

The legacy of Soviet agriculture was, if anything, even more depressing. After the Soviet Union dissolved, Russian president Boris Yeltsin pushed through the type of subsidy cuts of which Gorbachev could have only dreamed. The combination of privatization and lower subsidies forced Russian farms to become more efficient, and by the late 1990s, production levels began to rise as farms adopted advanced processes and embraced higher value crops. Post-Soviet farms required far less labor than their predecessors, so rural unemployment spiked during the 1990s. Rather than lending a helping hand to former farmworkers, however, the Russian government during the 1990s focused on slashing payments to rural areas, closing 40 percent of rural preschools, for example, and forcing local governments in poor agricultural regions to fund infrastructure investment on their own, without federal support.

Declining employment on farms is an inevitable process. Nearly every developed country has seen the share of the workforce in agriculture fall from half or more at the end of the nineteenth century to just several percentage points today. In capitalist countries, this process took place over decades and was accompanied by policies that smoothed the transition. Under Brezhnev, however, the process of making farms efficient ground to a halt, even as the sector's drain on the government budget steadily increased. Once Gorbachev and Yeltsin imposed market forces on the farm sector, decades of pent-up change occurred within several years. Farm workers struggled, and often failed, to keep up. And the Russian government during the 1990s was unable to help, teetering on the brink of bankruptcy because of the budget deficit the USSR left behind. Today, a quarter century after the USSR's collapse, Russian agriculture is finally showing signs of life. But for many farm workers, the struggle to remedy the abysmal performance of Soviet farms has brought nothing but pain.[1]

The military, too, suffered immensely during the 1990s. The August 1991 coup and the USSR's dissolution destroyed the military's legitimacy. Yeltsin used his first year as president of independent Russia to slash military procurement by 60 percent.[2] This, too, was a step Gorbachev could never have taken. Throughout the 1990s, the Russian military was starved of new technology and equipment even as it fought a brutal war against separatists in Chechnya. Most of the early 1990s were spent in debates with other countries—especially Ukraine—about how to divide the Red Army between the USSR's fifteen successor states. Only in the late 2000s, after years of tax reforms and high oil prices restored the Russian government budget, did the Kremlin begin to reinvest in the military. But Russia's army still lags far behind its main Western competitors in terms of technology, training, and readiness. Putin described the collapse of the Soviet Union as a geopolitical catastrophe, but for the country's military officers, the USSR's demise not only meant less prestige, but less funding.

The most painful legacy of the Soviet Union, however, was persistent inflation and a vast gap between the government's revenues and expenditures. Gorbachev's Kremlin ran a budget deficit estimated at one-third of GDP during 1991, its final year of existence. It proved easier for Boris Yeltsin's Russia to abolish the Soviet state than to eliminate the Soviet budget deficit. On January 2, 1992, Yeltsin freed almost all prices in Russia. In a flash, the lines and shortages that had defined shopping during perestroika were eliminated. As prices shot up, businesses and new entrepreneurs now found it profitable to sell goods. The abolition of price controls was unavoidable, Russia's leaders concluded. The country's food distribution system had all but frozen, and top officials feared large cities might go hungry. Rapid inflation made painfully clear what had previously been obscured: Russians were far poorer than they had realized.[3] Before 1992, money saved in bank accounts had the illusion of value, even if there were no goods for those rubles to purchase. After 1992, goods were available on store shelves, but rubles were worth far less. Many Russians found their savings all but wiped out by inflation. Yeltsin was widely blamed, even though the monetary overhang that destroyed the ruble was a legacy of perestroika-era politics rather than a creation of independent Russia.

Yeltsin tried to balance the budget, but like Gorbachev before him he struggled to raise enough revenue to meet the many demands for government funds. The dissolution of the Communist Party had decimated the influence of agricultural interests in Moscow, so Yeltsin succeeded in cutting farm subsidies. But industry was a different matter. Many industrial bosses accumulated power during the Soviet collapse, using political clout to buy privatized assets on the cheap or to steal them outright. When they demanded handouts from the government in the 1990s, Yeltsin was often unable to resist. Disputes about industrial subsidies were a main cause of the 1993 clash between Yeltsin and the Duma, which ended only after the president shelled the parliament. A key factor in restoring tentative stability in Russian politics during the mid-1990s was the appointment of Viktor Chernomyrdin, former head of the Russian gas industry, as Yeltsin's prime minister. It came as no surprise that Gazprom was treated well over the course of the 1990s, or that industrial subsidies kept flowing.

Understanding the August 1991 Coup

The struggle for power amid the collapse of the Soviet Union had serious economic consequences, as the collapse of the Soviet Communist Party shattered the influence of farm interests and the military. Yet the August 1991 coup, the last gasp of the old regime, was not only a struggle for resources and power. It was an experiment with a different model of reforming communism, one based not on liberal politics, but on a military junta. It was a test of the most prominent political theory to emerge at the Cold War's end, Francis Fukuyama's thesis that the triumph of market democracy and the demise of authoritarian socialism marked the end of ideological conflict. "The End of History," the article that Fukuyama published in the June 1989 edition of the *National Interest*, suggested that liberal democracy no longer faced competitors for legitimacy. History—that troubled period with epic clashes between communism and capitalism, fascism and democracy—was over. From this point forward, Fukuyama argued, the main task of politics would be to fine-tune a liberal democratic system that faced no serious ideological competitors.

Yet the very date that Fukuyama's article hit newsstands—June 1989—suggested that ideological conflict was not quite done. That same month Deng Xiaoping's troops marched onto Tiananmen Square, crushing the prodemocracy protests and showing that China would not follow Fukuyama's script. In the Soviet Union, many analysts of Chinese politics sided with Fukuyama, arguing that China's authoritarian turn was only viable in the short term. In the long run, Soviet analysts believed, China would follow the Soviet Union and democratize its politics. Soviet sinologists did not follow much of the international press in predicting that Tiananmen was only a minor detour in a political process that would soon culminate in liberalization and democracy. But neither did the USSR's China experts trust the durability of China's authoritarian turn. Scholars at the Soviet Far East Institute doubted that the social pressures unleashed by Chinese market reform could be satisfied in an undemocratic system. The Soviet intelligentsia did not embrace Fukuyama's triumphant rhetoric, but they agreed with his logic that the only long-term solution to China's social and political tensions was democracy.

The Far East Institute prepared for party leadership a series of classified memos in fall 1989 that explained why China had unexpectedly departed from the path of political liberalization. In September 1989, L. M. Gudoshnikov issued a report on "Reform of the Political System of the PRC," which traced the deep roots of democratization in China. Gudoshnikov noted that China's political reform began in 1978, just after Deng took power. Since that point, the changes had been substantial: the Chinese Communist Party declared its opposition to personality cults, ended life tenure in government positions, strengthened intraparty rules, and promised (falsely, as it turned out) to democratize the electoral system. Each of these constituted a significant change to China's political system. Nonetheless, Gudoshnikov argued, Chinese leaders knew these changes were not enough. Chinese society wanted more. "In the presence of the definite success of economic reforms, there was a clear lag in the transformation of the political and cultural life of the country, and also in social consciousness," Gudoshnikov noted.[4] Political and economic liberalization, he suggested, generally go together, and in China the growing divergence between a modernized economy and authoritarian politics would lead only to greater tension. "Democratic renewal of the political process in the PRC was determined by an objective demand . . . [for] an increase in the role of representative organs."[5]

The demands to end political "alienation" by introducing methods of democratic governance were "objective," Gudoshnikov argued—that is, naturally occurring. Repression dealt with the effects, not the cause. Indeed, a strategy of repression might not even succeed in limiting public demands for democratization, Gudoshnikov argued, because military rule was not itself stable. Some Beijing-based army units had refused to participate in the Tiananmen crackdown, for example.[6] It was far from clear that renewed autocracy could successfully govern Chinese society, given increasingly expansive demands for political rights.

Gudoshnikov's emphasis on the deep roots of the demands for democracy was echoed by other analysts at the Far East Institute. V. Ia. Sidikhmenov noted that protests tapped into a widespread belief that China needed less corruption and more freedom. "Could Li Peng become Premier if there were actually secret voting?" Sidikhmenov quoted Chinese students as asking, underscoring the government's lack of democratic legitimacy.[7] Sidikhmenov also noted the wide social base of the protests, which attracted support from the intelligentsia and from average Beijing residents—"all layers of society," as he explained.[8] This broad coalition suggested that Chinese society's demands for democratization could not be easily thwarted. Vladimir Lukin, another China expert, made a similar argument in a memo to the Foreign Ministry. Lukin pointed out that an "important peculiarity of the current situation in China is that the social base and level of political stability is by all evidence extremely low." Lukin reported that Chinese interlocutors complained about the influence of the elder generation in setting policy, suggesting that the younger generation would bring more liberal views to power.[9]

After Tiananmen, most Soviet experts doubted that China was forging a new model of political development. China's population would continue to demand political liberalization and representative government, Soviet experts believed, and the Chinese Communist Party would face serious difficulties if it continued to thwart democracy. Soviet China-watchers did not think Beijing was about to disprove Fukuyama's thesis that market democracy represented the only feasible form of government in the long run. Indeed, Fukuyama's "End of History" article was quickly translated into Russian and published in mid-1990, prompting a vigorous debate among Soviet intellectuals.[10]

Could the USSR Have Been Reformed?

Today Fukuyama's thesis is far less popular, for two main reasons: the Soviet Union and China. The two countries' divergence in the 1990s, many people believe, proved Fukuyama wrong. The authoritarian right—well represented in today's Russian and Chinese governments—argues that the 1990s disproved the notion that democracy and development work well together. China's economy grew tremendously in the 1990s and 2000s despite authoritarian rule, these critics point out, while the Soviet Union's economy collapsed at the same time that the country liberalized its politics and held free elections. Instead of democracy, the authoritarian right suggests, the Soviet Union should have kept tight political control and focused instead on economics. Soviet general secretary Yuri Andropov attempted to implement such a program of authoritarian modernization during the early 1980s, and current Russian president Vladimir Putin is said to believe that, had Andropov not died after just a year and a half in office, he would have revitalized the country's economy.[11]

The left, meanwhile, argues that market reforms caused the USSR's collapse and Russia's painful economic depression of the 1990s. The Soviet Union moved too rapidly toward market economics, some critics say, embracing policies of shock therapy that were intended to rapidly introduce capitalism. Such policies, the critics argue, were more shock than therapy; production slumped throughout the late 1980s and early 1990s, and many Russians saw their incomes fall sharply. The Soviet Union should have followed China's model of gradual liberalization, the left argues, reducing inefficiency where necessary, but avoiding the social dislocations created by mass privatization and rapid liberalization.[12]

Those analysts who, in 1989 and 1990, predicted the triumph of democracy in China and the Soviet Union were wrong. But have their critics understood things better? Both the left and right have much at stake in a particular interpretation of Soviet history and the USSR's divergence from China. The right emphasizes Gorbachev's political errors to underscore the importance of political stability even at the cost of authoritarian rule; the left focuses on Gorbachev's economic mistakes to highlight the risk that market reforms lead to social catastrophe.

The sources presented here, however, suggest that these critiques are mistaken. The notion that political and economic reforms were separate processes misunderstands Soviet politics. Politics and economics were interlinked. The most divisive political debates during the perestroika period were about the distribution of economic resources. Gorbachev came to embrace political reform in large part because the Communist Party structure proved so resistant to economic efficiency. Arguments that the USSR should have followed China's path misunderstand some of the most fundamental questions in Soviet history: What kind of reforms did Gorbachev seek to implement? Why did they fail? And what alternatives were realistically possible? The argument that the Soviet Union should have followed China's model misses a crucial point: the USSR—and Gorbachev in particular—tried to implement Chinese-style reforms. Gorbachev and his allies carefully studied China's policies in trade, industry, and agriculture. Where it was politically feasible, as with regard to joint-ventures with foreign firms, special economic zones, or legalized cooperatives, Gorbachev's policies were broadly similar to China's.

Where the Soviet Union diverged from China, it was because powerful interest groups obstructed Gorbachev's policies.[13] Legal changes were ignored in practice. The military and KGB staved off serious budget cuts until the final year of perestroika by threatening and eventually launching a coup to protect their privileged position. The farm lobby tenaciously opposed letting individual farmers lease land. Industries ensured that their subsidies were not cut. The energy industry was only partially cleaned up; the Soviet gas industry—today called Gazprom—survived perestroika basically unscathed, and even now faces only limited pressure to act efficiently. By some estimates, Gazprom today squanders billions of dollars each year in waste and corruption.[14] The gas industry was not spared from demands for increased efficiency out of ignorance or ideology; it was spared because it was too powerful to touch.[15]

The influence of interest groups was visible in the most significant divergence between the Soviet Union and China: fiscal and monetary policy. By the late 1980s, balancing the USSR's budget was impossible. Interest groups demanded fat subsidies, and Gorbachev struggled to resist. Soviet leaders knew that the blank-check credits given to farms and industries caused debilitating shortages and threatened skyrocketing inflation. By 1991, food supplies in urban areas, even in Moscow, were at a dangerously low level, as inflation wreaked havoc with supply chains and distribution networks. Key Politburo leaders—from liberals such as Gorbachev to Stalinists like Ligachev—understood that a rapid expansion of the money supply caused shortages in official stores and inflation on the black markets. They disagreed, however, about how to restrain growth in the money supply. Gorbachev wanted to slash spending on subsidies and the military, but he feared the political consequences—and interest groups successfully opposed many cuts.

Gorbachev tried to co-opt the interest groups, but most rightly sensed that a market economy held few benefits for them. Collectivization and decades of subsidies had left the Soviet agricultural system so far from efficient practices that even today, a quarter century after the reintroduction of capitalism, Russian farms are still struggling to adjust. Farm bureaucrats and agricultural workers were right in concluding that market reforms held few potential benefits for them. The military, too, saw no point in reform. They already had access to top technology, and their funding levels were sky high. Moreover, military leaders genuinely believed that the Soviet Union needed high spending to defend the country. Many industries, too, realized that their production processes lagged far behind Western countries, even as their labor costs were significantly higher than poor Asian producers. They rightly sensed that capitalism offered as much risk as reward. It is hardly surprising that these groups all sought to subvert Gorbachev's efforts at reform.

They often succeeded. It was no secret Gorbachev did not wield absolute power in the Soviet Union, or that interest groups were able to delay or derail reforms. "We are much more entrenched in conservatism than the Chinese," Fedor Burlatsky explained in 1987.[16] Compared to China, economic interest groups in the Soviet Union were more powerful and more opposed to change. In China there was no agricultural lobby that opposed decollectivization; instead, Chinese peasants actively fought for control over their farms.[17] Chinese industries, like those in any country, pushed for subsidies and government support, but manufacturing played a smaller role in China's economy and politics than in the Soviet Union, so industries were unable to undermine change.

Most important, Deng Xiaoping faced no threat from the security services. Indeed, one of Deng's first moves upon taking power in China was to slash military spending, proving that he controlled the military, and not the reverse. China's army received 10 percent of industrial investment in the late 1970s, but less than 6 percent by 1986.[18] The power of the Soviet military and KGB meant that such a move in the USSR was inconceivable. Gorbachev was unable to cut the military budget. In the years immediately before he became general secretary—when he was, as a Politburo member, among the top political leaders in the country—Gorbachev was not even allowed to *know* details about the defense budget because the figures were classified.[19] The pervasive power of the Soviet security services was not something Gorbachev could ever have changed quickly. The surprising thing is that he managed to change it at all.

The vast power of the Soviet Union's economic interest groups—clinging to their privileges, obstructing efficiency—was the key factor in the polarization of Soviet politics and the collapse of the country's economy. Because these interest groups dominated the Communist Party, Gorbachev never had the option of using the party as a tool of reform. The Communist Party and the patronage networks that dominated it were the very institutions that most needed to be cut down. The Soviet economy could escape stagnation only if the party's and the interest groups' privileges were slashed. Political liberalization, much derided by the authoritarian right, was Gorbachev's only hope of limiting these groups' clout. Democracy, Gorbachev told the Politburo, "guarantees our chosen path" by redistributing power away from the bureaucracy and entrenched interests, and toward representatives of the people.[20] It was a risky bet, but what other option did he have? Gorbachev's democratization efforts are often criticized for obstructing economic policymaking. The opposite is true: economic changes were only possible insofar as Gorbachev shook up Soviet politics. Glasnost facilitated widespread public criticism of cosseted elites, while political restructuring reduced the influence of the lobbies.[21] Without these changes, Gorbachev could not have run the risk of far-reaching economic reforms. He would have been toppled immediately if he had.

Did a different path exist, one that would have seen the Soviet Union reform its economy without either an inflationary spiral or a collapse of its tax system—and ultimately, the dissolution of the state? Clearly Gorbachev and his allies were wrong to bet so heavily on the anti-alcohol campaign in 1985.[22] Perhaps he could have tried harder to oppose or redirect some the capital spending associated with the acceleration program. Acceleration had no positive economic effects, and it caused the first, decisive uptick in the money supply. After this point the money supply galloped inexorably higher, due to political conflicts that were beyond Gorbachev's limited power to resolve. Lacking political capital, how could Gorbachev hope to control capital investment? His reforms suffered from a basic dilemma: the sectors that most needed to change were also the most able to obstruct reform. There was no way the Soviet Union's vast industrial wasteland could have been restructured in an organized, consensual manner.

The only force that proved strong enough to break the military-industry-agriculture coalition that dominated Soviet politics was the collapse of the Communist Party—which in turn caused the dissolution of the Soviet state. Until mid-1991, the three economic lobbies were bound together by interest, ideology, and inertia. Had Gorbachev been able to divide the coalition partners, playing one interest group against the others, he might have had more success in asserting control over the Communist Party and the Soviet state. But a strategy of divide and rule proved impossible. So long as they dominated the Communist Party, and so long as the party controlled the state, these groups' shared interests overwhelmed any tactical alliance Gorbachev could have conceivably offered. In the years after the collapse of 1991, with the military divided and discredited by the failed coup, and with industry and agriculture writhing under the pain of inflation and depression, Russian president Boris Yeltsin finally managed to split the groups, co-opting much industrial support while slashing farm subsidies and cutting military funding.[23] Even though the Soviet Union by then no longer existed, however, Yeltsin still faced several years of resistance in his attempt to break the lobbies' stranglehold on the federal budget and on the central bank. Only after Yeltsin shelled parliament in 1993, pushing the country to the brink of civil war, was the military-industry-agriculture coalition finally destroyed.

Was the Soviet Union simply unreformable? China's experience proved that there is nothing inherent in Marxism-Leninism, in autocratic political systems, or in centrally planned economies, that makes a transition to a market economy impossible.[24] In the USSR, to be sure, decades of wasteful investment left the country a burdensome economic inheritance. Yet the most damaging legacy of the command economy was not economic inefficiency, but political sclerosis. The Soviet system proved unreformable not because its economic problems were insurmountable, but because it entrusted vast political power to groups that had every reason to sabotage efforts to resolve the country's economic dilemmas. In part, this situation was the result of the USSR's relative wealth. When Deng took power in China, for example, the country's farmers were on the brink of starvation. No matter what Deng did, the state of China's countryside could hardly get worse, so China faced no built-in lobby that opposed change.

By contrast, the USSR was stuck in a politically induced middle-income trap: many Soviet citizens, especially among the elite, lived decent lives that were threatened by change. Whereas Chinese farmers embraced decollectivization, Soviet farmers—who had benefited from several decades' worth of farm subsidies—found that Gorbachev's agriculture policies offered risks as well as rewards. A similar mechanism obstructed change in Soviet manufacturing and service enterprises.

Economic efficiency was also restrained by the relative leniency of the Communist Party during the postwar period. Under Stalin, the party had few interest groups because the Soviet dictator enforced his writ through purges and mass killings. Enterprise managers dared not miss production targets, on pain of death. The rapid rotation of cadres, facilitated by Stalin's purges, reduced the influence of patronage networks. Brezhnev's policy of "stability of the cadres" ended the use of the firing squad to encourage effective management. That made the Soviet system more humane, but it degraded incentives to work efficiently.[25] Bureaucrats and managers now faced few reasons to act effectively: their firms could not go bankrupt, their salaries did not depend on performance, and they received promotions based on political connections. In China, the Cultural Revolution of the 1960s had shaken up the party and the bureaucracy, cutting back the strength of interest groups and paving the way for Deng Xiaoping's market reforms. In the Soviet Union, by contrast, the 1960s and 1970s saw patronage networks and interest groups solidify. Gorbachev inherited a system in which economic lobby groups played a larger role than ever before. Yet his powers as head of the Communist Party were weaker than any Soviet leader since the Bolsheviks took power in 1917.

It was not inevitable that combining central planning and single-party rule would create a system with such fundamental flaws. Different decisions in the decades before perestroika might have avoided such disastrous results. Stalin need not have collectivized agriculture. The Kremlin could have built factories near Moscow rather than spreading them across the frozen wastelands of Siberia. The Communist Party could have backed Kosygin's reforms during the mid-1960s to make enterprises more efficient. Brezhnev could have opted not to coddle Soviet farms with increasingly unaffordable subsidies. By the time Gorbachev came to power, these choices had been made. Given the political constraints, there was no way out. The Soviet system gave power to a new ruling class: generals, collective farm managers, and industrial bosses, all of whom benefitted from waste and inefficiency. They dominated the Communist Party and hijacked its policymaking process, so that by the 1980s, there was no longer a boundary between industrial lobbies and the Communist Party itself.

The political clout of these interest groups proved far more significant than anyone expected. Gorbachev's legacy—and the entirety of Soviet history during the perestroika period—cannot be understood without a clear view of the vicious infighting that determined which policies were implemented and which were discarded. The Soviet archives show that every perestroika-era policy was the result of conflict and compromise, a negotiation process in which Gorbachev often held the weaker hand. As Gorbachev reminded George H. W. Bush in 1991, "We need to reduce arms in a way that won't make the army rise up."[26] That was the dilemma, in a nutshell: to reform the economy without angering the energy industries, or the farm bosses, or—most dangerous of all—the security services. The threat of a coup, potentially violent, backed by regressive economic interests, was always lurking in the background. That was a threat Deng Xiaoping never faced.

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Notes

Abbreviations Used in Notes

AGF	Archive of the Gorbachev Foundation, Moscow
ARAN	Archive of the Russian Academy of Sciences, Moscow
AVPRF	Archive of the Foreign Policy of the Russian Federation, Moscow
GARF	State Archive of the Russian Federation, Moscow
GOA	Yegor Gaidar Online Archive
RGAE	Russian State Archive of the Economy, Moscow
RGANI	Russian State Archive of Contemporary History
d.	dela
f.	fond
l.	list
o.	opis
Politbiuro	A. S. Chernyaev, A. B. Veber, and Vadim Medvedev, eds., *V Politbiuro TsK KPSS* (Moskva: Alpina Biznes Buks, 2006)
MEMO	*Mirovaia Ekonomika i Mezhdunarodnie Otnoshenie* (scholarly journal, Moscow)
SShA	*SShA: ekonomika, politka, ideologiia* (scholarly journal, Moscow)

Introduction

1. Vogel, *Deng Xiaoping*, 612.

2. Nathan and Link, *Tiananmen Papers*, 144.

3. Andrew Higgins and Rupert Cornwell, "Students Spoil Gorbachev's Party," *The Independent*, May 16, 1989, 16.

4. "No Red Carpet, Schedule Disrupted," *BBC Summary of World Broadcasts*, May 17, 1989.

5. Gorbachev, *Memoirs*, 490–92; "Further Television Report on Talks between Zhao and Gorbachev," *BBC Summary of World Broadcasts*, May 18, 1989.

6. Nathan and Link, *Tiananmen Papers*, 143, 172; Gorbachev, *Zhizn i Reformy*, 448; Higgins and Cornwell, "Students Spoil Gorbachev's Party," 16.

7. "Other Reports on Early Part of Visit: Reactions from People in Peking," *BBC Summary of World Broadcasts*, May 17, 1989.

8. Ibid.

9. Michael Dobbs, "Gorbachev, in China, Calls for Democracy," *Washington Post*, May 17, 1989, A1.

10. Bernstein and Li, *China Learns*; Shambaugh, *Chinese Communist Party*.

11. Zweynert, "Economic Ideas," 169–92; Hanson, *Rise and Fall of the Soviet Economy*, 168; Levin, *The Gorbachev Phenomenon*.

12. Hough, *Democracy and Revolution*.

13. Nathan and Link, *Tiananmen Papers*, 428.

14. Ibid., 430.

15. Domestic debt markets seized up over the course of 1991 after the market was flooded. See Solovov to Silaev, November 22, 1991, GARF f. 5446, o. 163, d. 13, l. 46.

16. "They Must Not Get Away with It," *The Guardian*, June 5, 1989, 18.

17. "Why China's Old Men Tremble," *Chicago Tribune*, June 4, 1989, E2.

18. "Butchers of Beijing," *Times of India*, June 5, 1989, 10.

19. Shambaugh, *Chinese Communist Party*, 65.

20. Ibid., 76, 79. The International Department of the Chinese Communist Party drew a similar conclusion.

21. Baum, *Burying Mao*, 304.

22. Ibid., 48.

23. Chris Buckley, "Vows of Change in China Belie Private Warning," *New York Times*, February 14, 2013; Yang Zheyu, "The Real Lesson to Be Taken from Those Unlucky Russians," *Caixin Online*, August 14, 2013.

24. Vogel, *Deng Xiaoping*, 423.

25. "Otnoshenie Rossian k Glavam Rossiiskogo Gosudarstva Raznogo Vremeni," Levada Center Poll, May 5, 2013, http://www.levada.ru/22-05-2013/otnoshenie-rossiyan-k-glavam-rossiiskogo-gosudarstva-raznogo-vremeni.

26. Mankoff, *Russian Foreign Policy*, 192.

27. Suny, *The Soviet Experiment*, 457; see also Cohen, *Soviet Fates and Lost Alternatives*, esp. 131–32.

28. Trenin, *Post-Imperium*, 9–18; Aslund, *How Russia Became a Market Economy*, 13–16; Sachs and Woo, "Structural Factors in the Economic," 105–45.

29. Several exceptions include Marsh, *Unparalleled Reforms*; Nolan, *China's Rise, Russia's Fall*; and Peter Rutland's brilliant essay, "Post-Socialist States and the Evolution of a New Development Model."

30. Stalin, letter to the editor of the journal *Proletarskaia Revoliutsiia*, October 28, 1931, quoted in Saunders, "The Political Ideas of Russian Historians," 768.

31. Many records of Politburo meetings are open to researchers at the Gorbachev Foundation Archive. Some of these have been published as Chernyaev, Veber, and Medvedev, *V Politbiuro TsK KPSS*, cited henceforth as *Politbiuro*. I cite the published version where possible.

32. This is the line taken by Russia's Communist Party today. Some Western scholars levy similar criticisms. See Hough, *Democracy and Revolution*; Suny, *The Soviet Experiment*, chs. 20–21.

33. Aslund, *Gorbachev's Struggle*.

Chapter One

1. Shakhnazarov, *Tsena Svobody*, quoted in English, *Russia and the Idea of the West*, 193.

2. Fritsch-Bournazel, *Europe and German Unification*, 33.

3. For an extremely perceptive discussion of Westernization in Soviet domestic politics, see English, *Russia and the Idea of the West*. See also Brown, "Did Mikhail Gorbachev Become a Social Democrat?" 198–220.

4. Arbatov, *The System*; Palazhenko, *My Years with Gorbachev and Shevardnadze*.

5. Ligachev, *Inside Gorbachev's Kremlin*, xiv–xv.

6. Ibid., 273.

7. Applebaum, *Iron Curtain*.

8. Ouimet, *Brezhnev Doctrine*.

9. See English, *Russia and the Idea of the West*, for a brilliant analysis of Soviet intellectuals and the Prague Spring.

10. Berend, *The Hungarian Economic Reforms*, ch. 13.

11. Ibid., 168–70.

12. Dittmer, *Sino-Soviet Normalization*, 294. Czechoslovakia and East Germany focused on perfecting planning mechanisms.

13. Simons, *Eastern Europe in the Postwar World*; Lampe, *Yugoslavia as History*; Bockman, *Markets in the Name of Socialism*.

14. English, *Russia and the Idea of the West*, 142.

15. See Maier, *Dissolution*, ch. 2, for the East German context.

16. Ibid., 63.

17. For example, N. S. Osipov, "O Valiutnom Polozhenii VNR," IEMSS f. 1933s, d. 17s–633, cited in Ouimet, *Brezhnev Doctrine*, 295.

18. "Kreditnaia Politika SShA v Otnoshenii Sotsialisticheskikh Stran," March 20, 1987, ARAN f. 2021, o. 2, d. 37, l. 68. Some documents in ARAN have more than one set of *list* numbers, so where possible I cite both the *list* number and the document's page number.

19. Maier, *Dissolution*, 63. This includes only debt to the capitalist world. Data is from 1985.

20. Ouimet, *Brezhnev Doctrine*, 274. Data is from 1979.

21. Maier, *Dissolution*, 63.

22. Dittmer, *Sino-Soviet Normalization*, 300.

23. United States Congress, Joint Economic Committee, *East European Economies*, 160, 163.

24. Ibid., 147.

25. "O Poezdke Delegatsii Akademii Nauk SSSR v Soedinennie Shtaty Ameriki v Period c 10 po 26 Ianvaria 1982 g," June 9, 1982, ARAN f. 1978, o. 1, d. 619, l. 2–20.

26. "O Valiutno-finansom Polozhenii Sotsialisticheskikh Stran," February 24, 1988, RGAE f. 2324, o. 33, d. 696, l. 7, GOA.

27. Quoted in Ouimet, *Brezhnev Doctrine*, 251–52.

28. Ibid., 252.

29. Diary of Anatoly Chernyaev, trans. and ed. Anna Melyakova and Svetlana Savranskaya, May 9, 1972, http://www2.gwu.edu/~nsarchiv/NSAEBB/NSAEBB379.

30. Ouimet, *Brezhnev Doctrine*, 132.

31. Ibid.

32. Ibid., 134.

33. Ibid., 214.

34. Valdez, *Internationalism and Ideology*, 95.

35. Ploss, *Moscow and the Polish Crisis*, 38.

36. Gaidar, *Days of Defeat and Victory*, 27–28.

37. Dittmer, *Sino-Soviet Normalization*, 294.

38. Ibid.

39. English, *Russia and the Idea of the West*, 120.

40. Quoted in ibid., 122.

41. Ibid., 72–76.

42. Arbatov quoted in ibid., 26.

43. Chernyaev quoted in ibid., 72.

44. Gaidar argues that even though he regularly sent memos to Gorbachev during 1989 and 1990, his influence was limited because Gorbachev believed he was too radical. See Gaidar, *Days of Victory and Defeat*, 45–46; Freeland, *Sale of the Century*, ch. 2, esp. p. 29.

45. Freeland, *Sale of the Century*, ch. 2; Hoffman, *The Oligarchs*, 90–91.

46. Soros, *The Bubble of American Supremacy*, 166.

47. Valentin Zagladin, "Spravka o Besede s V. Klaasom i R. Iurbenom (Belgia, zam. Premier-ministr i ministr vneshnei torgovli)," February 7, 1989, AGF f. 3, k. 7190, p. 2.

48. A. Kokoshin to A. S. Chernyaev, "Prilozheniia—Materialy 'O Situatsii na Mirovom Finansovom Rinke i Vozmozhnostakh CCCR po Privlecheniiu Finansiovikh Resursov' i 'Plan Marshalla,' " June 3, 1991, AGF f. 2, k. 19438.

49. For example, Gaddis, *The Cold War*, 229–33.

50. G. B. Kochetkov, "O Perspektivakh Proizvodstva i Ispolzovanii Superkompyuterov," 1985, ARAN f. 2021, o. 2, d. 6, l. 23–33.

51. A. I. Bykova, "SShA i ikh Konkurenty na Mirovikh Rynkakh Naukoemokoi Produktsii," 1985, ARAN f. 2021, o. 2, d. 16, l. 44–59, data annex.

52. Ibid., pp. 4–6; M. Baskakova, "Osobennosti Nauchno-tekhnicheskoi Politiki Iaponii," *MEMO* 2 (1980): 73.

53. S. A. Diikov, "SSha—Iaponia—Avtomobilnaia Voina," *SShA* 148 (1982): 40–51.

54. "SShA i ikh Konkurenty na Pirovkh Rynkakh Naukoemokoi Produktsii," 1985, ARAN f. 2021, o. 2, d. 16, l. 44–59, data annex.

55. A. S. Belorusov, "Standstill in American Steel Industry," *SShA* 143 (November 1981): 91–102.

56. "Otsenochnaia Stoimost Otdelnikh Proizvodstv v Mashinostroenii SShA i Iaponii," December 13 1985, ARAN f. 2021, o. 2, d. 16, l. 14–24, p. 1.

57. "Amerikansko-iaponskoe Ekonomicheskoe Protivorechie," 1986, ARAN f. 2021, o. 2, d. 19, l. 2–17, p. 1.

58. "Faktory i Rezultaty Otnositelnogo Snizheniia Konkurentosposobnosti Obrabatyevaiushchei Promyshlennosti SShA v 80-e gody," September 27, 1985, ARAN f. 2021, o. 2, d. 12, l. 157–72, p. 1.

59. Ibid., p. 8.

60. Ibid., pp. 1, 3.

61. A. N. Kuritsyn, "Yaponskii 'Kruzhki Kachestva' v SShaA," *SShA* 159 (1983): 93–103.

62. "Nekotorie Voprosy Gibkoi Avtomatizatsii Upravleniia Proizvodstvom," January 1986, ARAN f. 2021, o. 2, d. 19, l. 66–84, p. 7.

63. "Politika Pravitelstva po Voprosu Strukturnoi Perestroiki Promyshlennosti SShaA," December 23, 1985, ARAN f. 2021, o. 2, d. 16, l. 94–113, esp. p. 12.

64. "Perspektivy Mirovoi Ekonomiki i Neobkhodimost Rashireniia Dialoga SSSR i SShA po Voprosam Mezhdunarodnoi Ekonomicheskoi Vzaimozavisimosti," July 15, 1987, ARAN f. 2021, o. 2, d. 43, l. 206, p. 4.

65. M. A. Portnoi, "Protsentnie Stavki—Orudie Ekonomicheskoi Politiki SShaA," *SShA* 156 (1982): 34–46; "Priroda i Usloviia Razvitiia Sovremennoi Infliatsii v SShA," *SShA* 158 (1983): 110–20; S. A. Yershov, "Labor and Administration: Increasing Tensions," *SShA* 161 (May 1983): 16–26; "Sostoianie Ekonomiki Kapitalisticheskikh Stran i Polozhenie na Rynkakh Nefti, Gaza, i Zolota," March 7, 1984, GARF f. 5446, o. 144, d. 1255, esp. l. 132–33, GOA.

66. I. Nerushenko, "Keinsianskaia Teoriia Infliatsii," *MEMO* 1 (1980): 100–111; V. Usoskin, "V Poiskakh Novoi Ekonomicheskoi Strategii," *MEMO* 1 (1980): 31; V. Volobuev, "Krizis Biudzhetnogo Regulirovaniia Ekonomiki SShA," *MEMO* 8 (1981): 72–83.

67. V. A. Martynov, "Otchet," ARAN f. 1978, o. 1, d. 598, l. 40 (regarding a delegation's participation in a conference in Prague, May 11–15, 1981); Yu. I. Yudanov, "Otchet ob Rezultatakh Nauchnoi Komandirovke," November 27, 1981, ARAN f. 1978, o. 1, d. 598, l. 103; V. A. Martynov to P. C. Oraevskii, June 22, 1982, ARAN f. 1978, o. 1, d. 618, l. 40.

68. For pessimistic projections, see R. M. Entov, "Osobennosti Tsiklicheskogo Razvitiia Ekonomiki SShA v 70-i—Nachale 80-x godov," *SShA* 169 (1984): 10–22; Yu. A. Chizhov "Proizvoditelnost Truda v SShA: Prichiny Zamedleniia Rosta v 70-e—Nachale 80-x godov," *SShA* 177 (1984): 62–74.

69. H. Gauzner, "Sovremennii Kapitalizm i Massovaia Bezrabotitsa," *MEMO* 2 (1981): 60–75; H. Gauzner, "Krizis v Sfere Zaniatosti: Osobennosti, Prichini i Posledstviia," *MEMO* 10 (1983): 63–78.

70. “Prichiny i Posledstviia Paniki na Fondovikh Rynkakh,” November 13, 1987, ARAN f. 2021, o. 2, d. 48, l. 47–52.

71. A. F. Myrtsymov, “Konkurentsiia i Modernizatsiia Chernoi Metallurgii,” *SShA* 196 (1986): 89–100.

72. Kennedy, *The Rise and Fall*.

73. Parkanskii, *Amerikano-iaponskie Protivorechiia v 80-e gody*.

74. Vogel, *Japan as Number One*; Johnson, *MITI and the Japanese Miracle*; Vogel, *The Four Little Dragons*.

75. G. B. Kochetekov, “U.S.-Japan Competition in New Computers Race,” *SShA* 168 (December 1983): 97–104.

76. V. B. Spandarian, “Priamie Investitsii Iaponii v SShaA,” *SShA* 8, no. 224 (August 1988): 61–68.

77. Parkanskii, *Amerikano-iaponskie Protivorechiia v 80-e gody*; V. Khlynov, “Obostrenie Iaponsko-amerikanskikh Protivorechii,” *MEMO* 1 (1981): 98–104.

78. On the clash of capitalisms thesis in America, see LaFeber, *The Clash*. See also the mention of Kazushi Ohkawa and Henry Rosovsky, *Japanese Economic Growth* (Stanford: Stanford University Press, 1973), in Yu. Storlarov and S. Ulianichev, “Nauchno-tekhnicheskaia Strategiia Iaponii,” *MEMO* 6 (1983): 49.

79. “Amerikansko-iaponskoe Ekonomicheskoe Protivorechie,” 1986, ARAN f. 2021, o. 2, d. 19, l. 2–17, p. 1.

80. Ibid., p. 2.

81. S. I. Verbitskii, “Evoliutsiia Vzgliadov na Iaponiu v Periode Perestroiki,” in Ramzes, *Znakomtes Iaponiia*, 38.

82. Rozman, “Moscow’s Japan-Watchers,” 261, 269.

83. V. Zaitsev, “Strukturnie Disproportsii Iaponskoi Ekonomiki i Gosudarstvennoe Regulirovanie,” *MEMO* 11 (1981): 60–71.

84. M. Baskakova, “Osobennosti Nauchno-tekhnicheskoi Politiki Iaponii,” *MEMO* 2 (1980): 76. See also Storlarov and Ulianichev, “Nauchno-tekhnicheskaia Strategiia Iaponii,” 48–59.

85. N. Maslov, “Napravleniia i Problem Avtomatizatsii v Iaponii,” *MEMO* 8 (1983): 112–20.

86. Baskakova “Osobennosti Nauchno-tekhnicheskoi Politiki Iaponii,” 73.

87. Ibid., 75. Iu. P. Voronov interviewed by O. S. Vikhanskii, “Net Natsii, bolee Otkrytoi . . .” *Ekonomika i Organizatsiia promyshlennogo proizvodstva* 4 (1989): 171–87.

88. V. Khlynov, “Iaponskie Plany i Prognozy Razvitiia na 80-e gody,” *MEMO* 4 (1981): 128.

89. A. Kollntai, “Ekonomicheskaia Ekspansiia Iaponii v Zapadnoi Evrope,” *MEMO* 11 (1983): 73.

90. Verbitskii, “Evoliutsiia Vzgliadov,” in Ramzes, *Znakomtes Iaponiia*, 38–39.

91. The term "Asian Tigers" was used in the late 1980s, as was "Newly Industrializing Countries." See "O Nekotorikh Problemakh i Vosmozhnikh Napravleniiakh Rasshireniia Ekonomicheskogo Sotrudnichestva SSSR v Asiatsko-tikhookeanskom Regione," June 6, 1988, GARF f. 10026, o. 4, d. 2867, l. 2.

92. V. Sokolinskii, "Proizvodstvennii Kapital FRG v Iugo-vostochnoi Azii," *MEMO* 3 (1980): 108–14, esp. 109; V. Karpunin, "International Financial Centers in Southeast Asia," *Far Eastern Affairs* 1 (1984): 132–38; Brutents, *Nesbyvsheesya*, ch. 7.

93. Sokolinskii, "Proizvodstvennii Kapital FRG v Iugo-vostochnoi Azii," 110.

94. Ibid., 109. Andrianov, "The Newly Industrialized Countries of Asia in the World Capitalist Economy," *Far Eastern Affairs* 3 (1988): 75–84; V. Karpunin, "Expansion of International Financial Capital in Southeast Asia," *Far Eastern Affairs* 3 (1988): 111–20; Nikolai Paklin, "Singapore: The Components of the Economic Miracle," *Za Rubezhom*, April 12, 1990, trans. JPRS-UIA-90-101, June 20, 1990.

95. Atkinson, "The USSR and the Pacific Century," 636.

96. "O Perspketivakh Ekonomicheskogo Razvitiia Stran ATR," December 1988, GARF f. 10026, o. 4, d. 2867, l. 96–110.

97. I. Tselishchev, "High Technologies and the Economics of the Asian-Pacific Region," *MEMO* (April 1989): 91, quoted in Atkinson, "The USSR and the Pacific Century," 636.

98. Vladimir Klyuchnikov, "How Do We Answer the Call? The Soviet Far East on the World Map," *Sotsialisticheskaia Industriia*, September 11, 1988, 1, quoted in Atkinson, "The USSR and the Pacific Century," 629.

99. "O Perspketivakh Ekonomicheskogo Razvitiia Stran ATR," December 1988, GARF f. 10026, o. 4, d. 2867, l. 84–95.

100. K. Ogava, "Tikhookeanskaia Vzaimozavisimost i Sovetsko-iaponskoe Torgovo-ekonomicheskoe Sotrudnichestvo," *MEMO* 7 (1989): 91; L. Chizhov, "O Sozdanii Nauchno-konsultantivnogo Soveta pri Upravlenii," February 8, 1988, GARF f. 10029, o. 4, d. 2864, l. 1–9.

101. "Iz Zaiavleniia Generalnogo Sekretaria TsK KPSS," January 15, 1986, and "Iz Politicheskogo Doklada TsK KPSS XXVII Sezdu KPSS," February 25, 1986, published in Chernyaev and Verber, *Otvechaia na Vyzov Vremeni,* 795–96; Troianovskii, *Cherez Gody*, 344.

102. Thanks to Dong Yan for pointing this out.

103. "Na politbiuro," April 3, 1986, and "O Mezhdunarodnoi Situatsii," published in Chernyaev and Verber, *Otvechaia na Vyzov Vremeni*, 796–97.

104. "Na Soveshchanii u Gorbacheva v Svyazi s Poezdkoi na Dalnii Vostok," July 16, 1986, published in Chernyaev and Verber, *Otvechaia na Vyzov Vremeni*, 799.

105. Gorbachev, *Speech by Mikhail Gorbachev in Vladivostok*, July 28, 1986 (Moscow: Novosti, 1988), 15, 23.

106. Ibid., 23–24, 26.

107. Ibid., 29–30.

108. *Literaturnaia Gazeta*, November 10, 1989, quoted in Verbitskii, "Evoliutsiia Vzgliadov," in Ramzes, *Znakomtes Iaponiia*, 41.

Chapter Two

1. Fedor Burlatsky, "Mezhdutsarstvie ili Khronika Vremen Den Siaopina," *Novyi Mir* 4 (1982): 206. I disagree with Archie Brown that this article was simply an "Aesopian fable" about Soviet politics; it was the beginning of Burlatsky's serious engagement with Chinese reforms. See Archie Brown, "Fedor Burlatsky Obituary," *The Guardian*, March 30, 2014.

2. Bernstein and Li, *China Learns from the Soviet Union.*

3. Luthi, *Sino-Soviet Split*; Radchenko, *Two Suns in the Heavens.*

4. Lukin, *The Bear*, 125.

5. Ibid., 126.

6. Burlatsky, *Khrushchev*, 6, 8; Brown, "Fedor Burlatsky Obituary."

7. Burlatsky, *Khrushchev*, 1.

8. Cohen and Vanden Heuvel, *Voices of Glasnost*, 176.

9. Burlatsky, *Khrushchev*, 240, 254.

10. Quoted in Lukin, *The Bear*, 126.

11. Burlatsky quoted in Cohen and Vanden Heuvel, *Voices of Glasnost*, 179.

12. Quoted in Lukin, *The Bear*, 127.

13. Ibid., 128.

14. Ibid.

15. Institut Dalnogo Vostoka. Rozman, "Moscow's China-Watchers," 223; Lukin, *The Bear*, 125.

16. Lukin, *The Bear*, 144; Kapitsa, *Na Raznykh Paralleliakh*; Anatoly Chernyaev's diary, May 29, 1982, http://www2.gwu.edu/~nsarchiv/rus/text_files/Chernyaev/1982.pdf.

17. See Yevgenii Bazhanov quoted in Lukin, *The Bear*, 145.

18. Rozman, "Moscow's China-Watchers," 236.

19. R. Neronov and G. Stepanova, "CPC: Certain Tendencies of Development," *Far Eastern Affairs* 2 (1982): 44.

20. Ibid.

21. M. A. Ilin cited in Lukin, "Kitaievedenie i Politika," 218.

22. "Directive to Soviet Ambassadors and Representatives," October 2, 1980, RGANI f. 89, per. 34, dok. 10, trans. in Wishnik, "Sino-Soviet Tensions, 1980," 202.

23. Tucker, "China as a Factor," 507; see also Lukin, "Kitaevedenie," 219–22.

24. Tucker, "China as a Factor," 507.

25. Fedor Burlatsky, "Nasledniki Mao," *Novyi Mir* 9 (1978): 217.

26. Ibid., 217.
27. Ibid., 218
28. Ibid., 217.
29. Ibid., 218, 222.
30. Ibid., 221–22.
31. Ibid., 218.
32. Ibid., 222.
33. Ibid., 224.
34. Ibid., 229.
35. Ibid., 235–36.
36. Thanks to participants in the LSE Cold War History Seminar for underscoring this point.
37. R. Max and W. Schoebe, "Flouting the Interests of the Chinese Working Class," *Far Eastern Affairs* 2 (1975): 16–27; Gabor Hidasi, "The Anti-Marxist Essence of Maoism," *Far Eastern Affairs* 3 (1975): 81–91.
38. L. Gudoshnikov, "Arbitrary Rule and Violence as the Basis of Maoist Policy," *Far Eastern Affairs* 1 (1975): 81–90.
39. Y. Konovalov and S. Manezhev, "Social and Economic Contradictions in China," *Far Eastern Affairs* 2 (1981): 26.
40. Valdez, *Internationalism and the Ideology*, 180, footnote 6. Party leaders received such reports for free.
41. V. P. Lomykin and I. N. Korkunov, "Otsenka Khoziastvennoi 'Reformy' i Sotsialno-ekonomicheskikh Izmenienii v KNP," July 10, 1981, ARAN f. 1970, o. 2, d. 36, l. 18.
42. Ibid.
43. P. B. Kapralovy, "Sotsialno-ekonomicheskie Problemy Selskokhoziastvennikh Raionov Kitaia," April 4, 1981, ARAN f. 1970, o. 2, d. 33, l. 15.
44. Ibid.
45. Ibid.
46. Ibid.
47. *Hongqi* cited in P. B. Kapralovy, "Sotsialno-ekonomicheskie Problemy Selskokhoziastvennikh Raionov Kitaia," April 7, 1981, ARAN f. 1970, o. 2, d. 33, l. 14.
48. V. P. Lomykin and I. N. Korkunov, "Otsenka Khoziastvennoi 'Reformy' i Sotsialno-ekonomicheskokh Izmenienii v KNP," July 10, 1981, ARAN f. 1970, o. 2, d. 36, l. 15.
49. Ibid.
50. Ibid.
51. Ibid., l. 12.
52. V. Akimov and V. Potapov, "Problems of Regulating the Chinese Economy," *Far Eastern Affairs* 3 (1981): 57.
53. Ibid.

54. Quoted in Radchenko, *Unwanted Visionaries,* 14.

55. Ibid., 15.

56. V. P. Lomykin and I. N. Korkunov, "Otsenka Khoziastvennoi 'Reformy' i Sotsialno-ekonomicheskikh Izmenienii v KNP," July 10, 1981, ARAN f. 1970, o. 2, d. 36, l. 11.

57. Fewsmith, *Elite Politics in Contemporary China,* 39.

58. Ibid., 206.

59. Ibid., 212–14, 227.

60. Lucien Pye, *Dynamics of Chinese Politics,* was translated in 1984 and widely read. V. N. Nikiforov and E. V. Iakimova, January 4, 1984, ARAN f. 1970, o. 2, d. 55, l. 65–71; A. A. Basurkov, "Chinese and Foreign Press on Economic Reform in the PRC," November 22, 1983, ARAN f. 1970, o. 2, d. 58, l. 113.

61. Burlatsky, "Mezhdutsarstvie," 213–14.

62. Ibid., 222.

63. V. N. Remyga and I. N. Korkunov, "O Sravnenii Khoziastvennikh Reform v KNR c NEPom v Sovetskoi Rossii v 20-e gody," July 6, 1982, ARAN f. 1970, o. 2, d. 38, l. 99–104. Remyga and Korkunov noted the similarities between the two programs, but argued that Soviet Russia's decision to implement the New Economic Policy was justified given the threat of imperialism. Since China has the option of socialist cooperation, however, they suggested it should take a more orthodox path. See ibid. l. 104, p. 5.

64. V. Matiaev, "China: Some Aspects of Domestic Development," *Far Eastern Affairs* 3 (1982): 39.

65. Ibid., 40.

66. Untitled memo to V. A. Medvedev, October 30, 1986, ARAN f. 1970, o. 2, d. 87, l. 205.

67. Quoted in Rozman, "Moscow's China-Watchers," 215. I follow Rozman's argument throughout this and the following paragraph.

68. Ibid., 217.

69. Brezhnev, "Sino-Soviet Relations," 186; Rozman, "Moscow's China-Watchers," 216.

70. Quoted in Radchenko, *Unwanted Visionaries,* 17.

71. Brezhnev, "Sino-Soviet Relations," 186.

72. I. Naumov, "The Discussion on the Forms of Property in China," *Far Eastern Affairs* 1 (1984): 48–53.

73. Ibid., 53.

74. Ibid.

75. Ibid., 51.

76. Ibid.

77. Ibid., 48.

78. Mark D'Anastasio, "Soviets Now Hail China as a Source of Ideas for Reviving Socialism," *Wall Street Journal,* September 18, 1987; Cohen and Vanden Heuvel, *Voices of Glasnost*, 174.

79. Fedor Burlatsky, "Conversations about Economic Reforms in China," *Literaturnaia Gazeta*, June 11, 1986, 14. I quote from the translation in FBIS Daily Report, FBIS-SOV-86-117, June 18, 1986.

80. Ibid.

81. Ibid.

82. Ibid.

83. Ibid.

84. Ibid.

85. Ibid.

86. Ibid.

87. Ibid.

88. D. M. Pospelov, "O Razvitii Kitaisko-vengerskikh Otnoshenii na Sovremennom Etape," [December 8?], 1983, ARAN f. 1970, o. 2. d. 54, l. 3, p. 2.

89. Tucker, "China as a Factor," 508.

90. Lukin, *The Bear*, 147.

91. *Politbiuro*, 208.

92. Aganbegyan, *Inside Perestroika*, 51–52.

93. Ibid.

94. D'Anastasio, "Soviets Now Hail China."

95. Quoted in Lukin, *The Bear*, 148.

96. Anastasio, "Soviets Now Hail China." I have adjusted the translation of Abalkin's quotation, changing "family-responsibility system" to "household responsibility system" to reflect the most common translation from the Chinese.

97. Tucker, "China as a Factor," 508.

98. D'Anastasio, "Soviets Now Hail China."

99. Tucker, "China as a Factor," 508.

100. Troianovskii, *Cherez Gody*, 366.

101. "Gorbachev Speech to Workers," FBIS Daily Report, trans. FBIS-SOV-88-181, September 16, 1988, 57.

102. I. Nekrasov, "Open Windows—The Future of Soviet-Chinese Relations," *Sovetskaia Rossiya*, July 9, 1988, trans. JPRS-UIA-88-015, September 15, 1988, 74.

103. Hough, *Democracy and Revolution*, 119; Anatoly Chernyaev's diary, June 9, 1985; David Priestland, "Neoliberalism, Consumerism, and the End of the Cold War," in Kalinovsky, *The Routledge Handbook of the Cold War*, 411; Desai, *Conversations on Russia*, 191.

104. A sizeable fraction of the reports contained in the Academy of Sciences archive in Moscow include cover letters addressed to the policymakers who were the intended recipients.

105. "Programma Fundamentalnikh Issledovanii na 1988–2000 gg, Kitai i Sotsializm: Istoriia, Sovremmenost, Perspektivy," September 31, 1988, ARAN f. 1970, o. 2, d. 102, l. 112.

106. Hewett, *Reforming the Soviet Economy*, 260.

107. Sinologist Andrei Ostrovskii had visited Hungary and Yugoslavia. Author interview with Ostrovskii, Moscow, November 26, 2014; D. M. Pospelov, "O Razvitii Kitaisko-vengerskikh Otnoshenii na Sovremennom Etape," [December 8?], 1983, ARAN f. 1970, o. 2. d. 54, l. 2–9.

Chapter Three

1. Maier, *Dissolution*, 79.

2. Hough, *Democracy and Revolution*; Goldman, *Gorbachev's Challenge*; Goldman, *What Went Wrong with Perestroika*; Aslund, *Gorbachev's Struggle*. On the alliance between KGB and Politburo Stalinists, see Hazan, *Gorbachev and His Enemies*, ch. 6.

3. For a brilliant account, see Whitefield, *Industrial Power and the Soviet State*.

4. Tatiana Zaslavskaya, "O Strategii Sotsialnogo Upravleniia Perestroikoi," in Afanasiev, *Inogo ne Dano*, 9–50.

5. Whitefield, *Industrial Power and the Soviet State*, 109.

6. Ibid., 102.

7. Ibid., 118; Nikolai Shmelev, "Novye Trevogi," *Novyi Mir* 64 (1988): 171.

8. Ellman and Kontorovich, *The Destruction of the Soviet Economic System*, 157.

9. Gustafson, *Crisis amid Plenty*.

10. Douglas Martin, "Nikolai K. Baibakov, a Top Soviet Economic Official, Dies at 97," *New York Times*, April 2, 2008; David Hearst, "Nikolai Baibakov," *The Guardian*, April 17, 2008; Mansur Mirovalev, "Nikolai Baibakov, 97, Stalin's Oil Commissar," *Washington Post*, April 3, 2008; Stephen Miller, "Nikolai Baibakov, 98, Stalin's Last Commissar," *New York Sun*, April 2, 2008.

11. Baibakov, *The Cause of My Life*.

12. Martin, "Nikolai K. Baibakov."

13. Ibid; Gustafson, *Crisis amid Plenty*, 294. The energy complex remained resistant to restructuring even after Baibakov left power. See "Ob Itogakh Raboty Predpriatii Kompleksa v 1988 godu i Merakh po Povysheniiu Urovnia ikh Khozrashchetnoi Deiatelnosti," January 13, 1989, GARF f. 5446, o. 150, d. 1444, l. 212–23, GOA. On lobbying for higher capital investment in energy, see L. Ya. Filimonov, "O Proekte Gosudarstvennogo Plana Ekonomicheskogo i Sotsialnogo Razvitiia Neftnoi i Gazovoi Promyshlennosti," December 8, 1989, GARF f. 5446, o. 150, d. 1446, l. 43–45, GOA.

14. Mitrokhin, "The CPSU Central Committee Apparatus," 316.

15. Hewett, *Reforming the Soviet Economy*, 311.

16. *Izvestiya*, June 12, 1989, 2–3, cited in Whitefield, *Industrial Power and the Soviet State*, 219.

17. For challenges with agricultural reform, see "Zapiska o Sovershenstvovanie Ekonomicheskikh Vzaimootnoshenii v APK," n.d., AGF f. 1, k. 14920, p. 1. In the catalog the document title is incorrectly labeled "Zapiska o Sovershenstvovanie Ekonomicheskikh Otnoshenii v APK."

18. Estimates vary widely depending on the assumptions made. For an overview, see James Noren, "The Controversy over Western Measures," 238–76.

19. Albats, *The State within a State*, 188, cites 14.4 million people in December 1991.

20. *Politbiuro*, 414.

21. Albats, 189.

22. Gorbachev, *Memoirs*, 121.

23. Ibid., 215.

24. Ellman and Kontorovich, *The Destruction of the Soviet Economic System*, 96.

25. Ibid.

26. Statistics are sketchy. I follow White, *Russia Goes Dry*, 33.

27. Gaidar, *Collapse of an Empire*, 78.

28. Aslund, *Gorbachev's Struggle*, 78.

29. Ibid., 78–79.

30. Ibid., 79.

31. Yakovlev, "Alcohol Consumption and Mortality."

32. Shmelev, "Novye Trevogi," 160–75.

33. Gaidar, *Collapse of an Empire*, 39.

34. In nominal terms. Data from ibid., 52–53.

35. Mau and Starodubrovskaya, *The Challenge of Revolution*, 247.

36. *Politbiuro*, 66.

37. Ibid., 102–3.

38. Ibid., 103.

39. International Monetary Fund, *A Study of the Soviet Economy*, vol. 1, 22; Schrad, *Vodka Politics*, ch. 18.

40. Gaidar, *Collapse of an Empire*, 135.

41. *Politbiuro*, 169; Ryzhkov, *Perestroika*, 243.

42. *Politbiuro*, 169. This proved an accurate guess. In 1989, consumer subsidies were 97.6 billion rubles. See Petr Aven, "Economic Policy and the Reforms of Mikhail Gorbachev: A Short History," in Peck and Richardson, *What Is to Be Done?*, 190–91; Kim, "Causes of Repressed Inflation," esp. 106.

43. Boldin, *Ten Years That Shook the World*, 38; Ruslan Khasbulatov quoted in Aslund, *How Capitalism Was Built*, 57.

44. For example, "Analiz Infliatsionnikh Protsessov v SSSR," November 24, 1989, Goskomstat SSSR, http://gaidar-arc.ru/databasedocuments/years/details/4147.

45. Ellman, "Money in the 1980s: From Disequilibrium to Collapse," in *The Destruction of the Soviet Economic System*; Birman, *Secret Incomes of the Soviet State Budget*; Kornai, *Economics of Shortage*; Gregory Grossman, "Inflationary, Political and Social Implications of the Current Economic Slowdown," in Hoehmann, Nove, and Voegl, *Economics and Politics in the USSR*, 172–97.

46. "Gorbachev's Speech in Krasnoyarsk," FBIS Daily Report, trans. FBIS-SOV-88-191, September 19, 1988. Translation modified for clarity. See also "O

sostoianie Denezhnego Obrashchenie," n.d., RGAE f. 2324, o. 33, d. 741, l. 27–53, GOA.

47. *Politbiuro*, 169.

48. Ibid., 103.

49. International Monetary Fund, *A Study of the Soviet Economy*, vol. 1, 289.

50. *A Study of the Soviet Economy*, vol. 2, 14.

51. *A Study of the Soviet Economy*, vol. 3, 176.

52. Ibid.

53. Yegor Gaidar, "V Nachale Novoi Fazy," *Kommunist* 2 (1991): 14–15; Aven, "Economic Policy," in Peck and Richardson, *What Is to Be Done?*, 198.

54. *Politbiuro*, 387.

55. Maxim Boycko, "Price Decontrol," 38.

56. *Politbiuro*, 185.

57. "O Dinamike Rozichnikh Tsen na Prodovol'stvennie i ne Prodovol'stvennie Tovary," October 4, 1988, RGAE 7733, o. 65, d. 4415, l. 195–96, GOA.

58. Medvedev, *V Komande Gorbacheva*, 37.

59. *Politbiuro*, 184.

60. Ibid., 185.

61. Chernyaev, *My Six Years with Gorbachev*, 92.

62. *Politbiuro*, 186–87.

63. Ibid., 331.

64. Ibid., 332.

65. Ibid.

66. Ibid., 446.

67. Ibid., 170.

68. Colton, *Commissars, Commanders, and Civilian Authority*, ch. 10.

69. Taubman, *Khrushchev*, 378–81.

70. Cohen and Vanden Heuvel, *Voices of Glasnost*, 134; V. Gavrilov, "Nas Pugaiut Prizrakom Voennogo Perevorota," *Kommunist Vooruzhennikh Sil* 28 (September 1990): esp. 22; S. Shakhrai, "Est Opasnosti Perevorota," *Komsomolskaia Pravda*, March 27, 1991, 2.

71. Gorbachev quoted in Hahn, *Russia's Revolution from Above*, 318.

Chapter Four

1. *Politbiuro*, 134. From January 22, 1987, "Obchshenarodnaia sobstvennost" is translated as "public property."

2. Gromyko, *Memoirs*.

3. Hill and Gaddy, *The Siberian Curse*, 70.

4. Ibid., 93.

5. Sutela, *Economic Thought*, 70–72.

6. Gorbachev, *Memoirs*, 83.

7. Sutela, *Economic Thought*, 70–72.

8. Matthews, *Privilege in the Soviet Union*, ch. 2.

9. Radchenko, *Unwanted Visionaries*, 318.

10. Douglas Martin, "Nikolai K. Baibakov, a Top Soviet Economic Official, Dies at 97," *New York Times*, April 2, 2008.

11. Kornai, *Economics of Shortage*; Kornai, *The Socialist System*.

12. Chernikov, *Tempy i Proportsii Ekonomicheskogo Rosta*.

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137. Ibid., 456.

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19. See Vitaly Doguzhiev's comments in *Politbiuro*, 656.

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42. Solnik, "The Breakdown of Hierarchies," 209–38.

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Conclusion

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17. Zhou, *China's Long March to Freedom*, ch. 1.

18. Naughton, *Growing Out of the Plan*, 88.

19. Gorbachev, *Memoirs*, 147.

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22. Gorbachev now admits this. See Gorbachev, *Memoirs*, 218.

23. Gaddy, *Price of the Past*.

24. As Stephen Cohen has brilliantly shown in Cohen, *Soviet Fates and Lost Alternatives*.

25. Thanks to Tim Snyder for underscoring this point.

26. *Politbiuro*, 695. Joseph Torigian's forthcoming research illustrates why China was different.

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