

USSR

Moscow Battles Resistance to Expanded Private Economy

Reforms enacted early last year to permit formation of new private businesses to provide consumer goods and services appear to be encountering substantial opposition, particularly from local officials. The failure of these measures, which may be General Secretary Gorbachev's best chance to improve consumer welfare without a major reallocation of resources, could deliver a serious blow to his effort to show that reform will bring concrete benefits to the average Soviet consumer and ultimately could weaken the entire reform drive.

The Gorbachev regime has published a series of decisions in recent months aimed at speeding up the implementation of last year's reforms. Those reforms permit the formation of profit-sharing cooperative partnerships run by small groups of individuals and affirm the legality of part-time self-employment (individual labor activity in Soviet parlance). Taken out of apparent dissatisfaction with progress to date, these decisions seem to indicate the top leadership's determination to expand private business despite objections from local authorities.¹ While earlier pronouncements, which put heavy emphasis on regulation, seemed to reflect disagreement over how far to go to encourage private business, the recent decisions are less ambiguous, strongly attacking unjustified restrictions and delays imposed by local authorities and ordering them to meet their responsibilities to facilitate private businesses.

The New Push Gorbachev focused attention on the lack of progress in encouraging private business when he addressed the Central Committee plenum in June. He noted that although everything necessary had been done at the top and many citizens were eager to form cooperatives and engage in self-employment, matters are proceeding "with very great difficulty and very slowly." Gorbachev put the blame squarely on "the lack of initiative of local organs, their inattention to and

¹ Cooperatives, according to the 22 December *Pravda*, account for less than one-twentieth of one percent of the goods and services sold to the population.

occasional reluctance to deal with the matter, and all kinds of bureaucratic obstacles." He told local authorities that facilitation of private business was their "direct duty" for which they should be "fully answerable" (*Pravda*, 26 June 1987). Top party and government bodies soon began to respond to Gorbachev's words:

- On 24 September the Politburo approved measures to relieve a major impediment to the operation of private businesses by opening new channels for cooperatives and the self-employed to market their products (*Pravda*, 25 September 1987). A USSR Council of Ministers resolution dated the same day provided details of the decision. Noting that republic and local agencies had failed to promote the sale of goods produced by private businesses and that the existing sales arrangements were "hampering the initiative" of cooperatives and the self-employed, the resolution authorized the creation of new systems for the sale of those products. It called for creation of "trade cooperatives" specializing in the sale of goods produced by cooperatives and self-employed individuals, allowed cooperatives producing consumer goods to open their own "small stores, booths, and kiosks," and instructed existing retail trade organizations to open a network of stores specializing in the sale of goods produced by private businesses (*Sobraniye Postanovleniy Pravitelstva SSSR*, No. 45, 1987).

- The party Central Committee in November adopted a resolution that rebuked local authorities and economic agencies for being "prejudiced against the very idea of setting up cooperatives." The resolution ordered union republic, regional, and local party, soviet, and governmental organs "to adopt decisive measures ensuring the further development of cooperative forms of activity" in every region of the country. The resolution stressed the importance of developing cooperatives—calling it a "state task"—and warned that local government and economic authorities "must be held more responsible" for this task (*Pravda*, 25 November 1987).

- In December the Supreme Soviet Presidium issued a decree criticizing the implementation of reforms in a Ukrainian oblast. That decree also condemned local authorities throughout the country for "major shortcomings" in developing private business, "impermissible red tape" in registration and licensing, and failure to provide production and marketing assistance to private businesses. Because of these shortcomings, the decree pointed out, many newly established cooperatives "essentially fail to function." It

instructed local authorities to adopt measures to "ensure unconditional compliance" with the new measures, "rigorously upholding" the rights of self-employed citizens and cooperatives (*Pravda*, 22 December 1987).

The Early Steps These recent moves are designed to promote the implementation of measures that had been approved in 1986 and 1987. New legislation on self-employment, which took effect on 1 May 1987, affirmed the legality of part-time self-employment in a specific list of activities, including some that were previously prohibited, and gave local authorities the power to add to or delete from the list. The new law lowered previous tax rates on income derived from self-employment and gave the self-employed the option of purchasing licenses in lieu of paying tax. Decrees published in February 1987 allow groups of three or more persons to form food and consumer goods and services cooperatives. Although subject to regulation by local government, the cooperatives were to have the right independently to determine their production plan, prices, and the wages paid to their members. The measures gave local government the responsibility to help cooperatives and the self-employed find premises, equipment, sources of supply, and marketing channels.

Signs of Resistance The leadership's efforts to encourage private and cooperative economic activity have encountered and continue to encounter widespread resistance, particularly at the local level:

- Seeing an opportunity in a city of 60,000 with only one movie theater, local entrepreneurs tried to set up a cooperative to show films on videotape. Their initiative, however, brought them little but trouble. Red tape delayed their opening for three months and then, after only a week in operation, they ran afoul of the authorities when an anonymous letter accused them of showing pornographic films and propagating "bourgeois ideology." The following month, the cooperative was inspected nine times by local authorities seeking to find a violation that would justify closure. Finally, according to the cooperative's chairman, the chief of the city party organization personally "took up the matter of liquidating our cooperative." Soon afterward, the city government issued an order prohibiting the cooperative from showing videotapes, effectively putting it out of business (*Literaturnaya Gazeta*, No. 1, 1 January).
- The chairman of Leningrad's first cooperative restaurant complained of difficulties in procuring necessary food items. The cooperative is forbidden to buy in the state stores, where prices are subsidized, but items such as coffee,

caviar, and mayonnaise are not available in the open markets. City officials visited the cooperative and promised to help with the supply problem but nothing happened. The chairman lamented that "where cooperatives are concerned, only the prohibitions actively apply" (*Izvestiya*, 22 November 1987).

- The Kabluchok cooperative in Novolakskiy found a gold mine in unsatisfied demand for women's beach shoes, which it began to manufacture from factory scrap. In one and a half month's operation the cooperative earned enough to pay 80,000 rubles in wages to its approximately 15 members, an extraordinarily large sum in a country where the average monthly wage is about 200 rubles. Although the local prosecutor found no illegalities, the local government promptly closed Kabluchok. The district mayor told reporters "I simply took fright when I learned how much the cooperative members were being paid" (*Izvestiya*, 23 November 1987).

Sources of Resistance

Local officials are reluctant to support the regime's campaign to expand private business because of the threat it poses to their ability to control the economies of their regions. In an environment of perpetual scarcity that characterizes the Soviet economy, officials understandably give priority in allocating premises, supplies, and other resources to state enterprises for whose success they are more directly responsible and whose operations they have considerable ability to influence. Moreover, if relatively independent private businesses succeed on a large scale, it would undermine the rationale for maintaining the role officials have traditionally played as allocators, controllers, and facilitators.

Many local officials, moreover, seem to regard private entrepreneurship with genuine ideological revulsion, an attitude they appear to share with a significant portion of the public:

- A poll taken in Moscow revealed that 17 percent of the respondents had a negative view of cooperatives and a similar number were undecided (TASS, 18 January).
- Three men from Krasnoyarsk district in Siberia set up a cooperative to produce pork, ham, sausage, and lard—items in short supply locally. They purchased piglets from a state farm and proved very effective in fattening the animals. The only problem was a moral one, according to the cooperative's chairman: "Everyone in the district capital knows everyone else, and they look on us cooperative members like petty thieves, like something semilegal, underground" (*Literaturnaya Gazeta*, No. 2, 13 January).

• Yuriy Luzhkov, chairman of Moscow city's commission on cooperatives and self-employment, has protested that lack of competition enables Moscow's cooperative restaurants to rake in profits without worrying much about the quality of the food they serve. Suggesting that it is intolerable for cooperatives to garner high profits not by improving labor productivity or by providing excellent service but "from high prices and low taxes," Luzhkov called for granting local governments additional powers to set variable tax rates to absorb excess profitability (*Moskovskiy Novosti*, No. 47, 22 November 1987).

The central ministries also apparently fear the consequences of an expanded role for the cooperatives. The November Central Committee resolution on cooperatives complained that "many industrial ministries" were being unhelpful in promoting the creation of cooperatives.

Implications Continued resistance to the cooperative movement could imperil a mechanism Gorbachev needs to win popular support for his economic program, most of whose benefits are projected to emerge only in the fairly distant future. While other elements of Gorbachev's reform program will in the short term be more likely to hurt consumers and wage earners, the Kremlin clearly hopes that the expansion of private business will generate quick and substantial improvements in the supply of consumer goods and services and thereby help sustain public enthusiasm for *perestroyka*.

Persistent and successful footdragging by local leaders on this issue could also feed the growing perception that the bureaucracy can thwart central policies. Forcing local authorities to bow to the will of the center may be an issue on which a leadership divided on other issues can agree. "Second Secretary" Ligachev, who seemed unenthusiastic about an expansion of private business when it was first proposed, has joined Gorbachev in criticizing local authorities who resist the development of cooperatives (*Pravda*, 28 October 1987).

Tougher measures will likely be needed to effectively overcome resistance. Experience to date with the expansion of private businesses seems to drive home the point that exhortations and threats have little effect in making bureaucrats—whether in the local government and party bureaucracies or in the ministries in Moscow—support reforms that run contrary to their interests. If the resistance continues, Gorbachev will either have to find effective incentives to bring these officials aboard on reform or take drastic steps to reduce their control over the economic activities he is trying to reform. (U/FOUO)