

DOES LAW MATTER IN THE SOVIET ECONOMIC REFORM PROCESS? A CASE STUDY OF THE LAW GOVERNING INTERNAL TRANSFERS

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1. Introduction

The essence of the economic reforms currently underway in the Soviet Union is an attempt to make the economy run more efficiently. One of the most critical proving grounds for these reforms is the workplace. More specifically, the productivity of labor must be enhanced in order for the Soviet Union to stand any chance of competing in the world economy. Prior efforts to stimulate productivity, whether through tightening labor discipline or enhancing material incentives, have proven to be largely unsuccessful in the long run.

There are a number of reasons why the Soviet economy has been plagued by low levels of productivity. The aging nature of the capital stock mandates a high level of manual labor¹ and the retooling of factories has traditionally been a low priority for planners.² Perhaps more important has been the practice of allocating the available work force. Traditionally, Soviet managers have met demands from above for in-

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1. See Silvana Malle, *Employment Planning in the Soviet Union: Continuity and Change*, London 1990, 183-188; David Lane, *Soviet Labour and the Ethic of Communism: Full Employment and the Labour Process in the USSR*, Boulder 1987, 137-138.

2. See Anders Aslund, *Gorbachev's Struggle for Economic Reform*, Ithaca 1989, 71; Ed A. Hewett, *Reforming the Soviet Economy: Equality Versus Efficiency*, Washington, D.C. 1988, 215.

creased output by hiring more workers. All too often these additional workers stood idle most of the time and were sprung into action only when the enterprise began "storming" to meet the plan targets.³

Although such practices appear irrational when viewed through Western eyes, they represent a completely rational response to the incentive system under which Soviet managers operated. This basic features of this system are well-known. They included having success judged in terms of gross output rather than net profits; having the wage fund of the enterprise tied to the aggregate number of workers; and having legal norms that favored workers' rights to retain the same job rather than management's right to allocate workers in the most rational manner.

As part of the economic reforms currently underway in the Soviet Union, these constraints have gradually fallen away to be replaced by those arguably more conducive to the introduction of a market. Perhaps the most of important of these is that increases in the wage fund are now permitted only when there has been an increase in output.⁴ Thus, the wage fund is no longer automatically bumped up when more workers are hired. Rather, the wages for these additional workers have to come out of the existing wage fund. This, combined with the demographic data indicating that the work-age population is actually shrinking in major urban centers,⁵ provides a powerful incentive for Soviet managers to use the workers they have more efficiently.

Management was also legally constrained in its ability to reallocate its work force.⁶ As a general matter, the law permitted changes in the

3. While Western economists who study the Soviet Union have long argued that the practice of labor hoarding is common among Soviet enterprises, see Joseph S. Berliner, *The Innovation Decision in Soviet Industry*, Cambridge 1976, 165-169; and Philip Hanson, "The Serendipitous Soviet Achievement of Full Employment: Labour Shortage and Labour Hoarding in the Soviet Economy", in *Labour and Employment in the USSR*, (David Lane, ed.), Brighton 1986, 85-86; in recent years their Soviet counterparts have likewise acknowledged the widespread nature of this practice, see I.I. Gladkii, "Intensivnoi ekonomike - effektivnuiu zaniatnost'", *Sotsialisticheskii trud* [hereinafter referred to as *Sots. trud*] 1988 No.5, 3; A. Kotliar, "Nuzhno li nam polnaia zaniatost'", *Pravda* 21 November 1989, 2.
4. See the Basic Provisions on the Composition of Wages To Be Included in the Cost Price of Production (Work and Services) at Enterprises of the USSR, Decree passed by the USSR Council of Ministers on 5 November 1990, *Ekonomika i zhizn'* January 1991 No. 2, 14-15.
5. For a discussion of these troubling demographic trends, see V.G. Kostakov, "Zaniatost': defitsit ili izbytok?", *Kommunist* 1987 No.2, 78-79; Iu. Iakovets, "Trudovoi potentsial obshchestva: tendentsii i perspektivy", *Sots. trud* 1988 No.8, 43-44.
6. Western commentators do not agree on whether the law is a meaningful constraint