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**TITLE: Impoverishment and Protest in the  
Perestroika Years**

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**THE NATIONAL COUNCIL  
FOR SOVIET AND EAST EUROPEAN  
RESEARCH**

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**PROJECT INFORMATION:**

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**COUNCIL CONTRACT NUMBER:** 806-36  
**DATE:** September 18, 1992

**NCSEER NOTE**

*This report is a condensation of a book with the same title, presently in preparation by the author, to be published by M.E. Sharpe, forthcoming about May, 1993.*

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*\* The work leading to this report was supported by contract funds provided by the National Council for Soviet and East European Research. The analysis and interpretations contained in the report are those of the author.*

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## Abstract

It is a fundamental argument of this book that whatever perestroika was meant to be, it turned out to be an unmitigated disaster. Rather than saving the economy, the economy disintegrated steadily after the middle of 1988 and completely fell apart by the end of 1991. The promises that material life would be better under perestroika were taken seriously by the population, but perestroika not only did not improve economic conditions, it came to be viewed by the population as the chief contributor to its wretched existence. Its failure to make life better was, if not the root cause of the collapse of the Soviet Union, was without question one of the chief sources of the demise of Gorbachev and the nation.

Material life before perestroika was not good, but it was sufficiently stable and predictable that the population was willing to tolerate its deficiencies. But perestroika accelerated the course to the abyss. And without any other consolations, e.g. a truly democratic society, the impoverishment of economic life became unacceptable. In that sense, the attempted coup of August 1991 did not end the Gorbachev era; it verified that Gorbachev and his perestroika were already obsolete.

The casualties of this failed effort were the people of the Soviet Union and it is the people of the Soviet Union who stand at the center of this book. The book is about how perestroika affected the day to day material conditions of ordinary Soviet citizens. It is divided into three major parts. The first part deals with the Soviet citizenry as consumers and how the mounting and persistent shortages of everyday goods created disillusionment and anger. The second part deals with the population as producers and how perestroika and Gorbachev's policies led to the emergence of unemployment as a new form of terror in the lives of the Soviet people, notwithstanding the system's short-term ability to forestall

joblessness. The third and final part of the book describes how strikes came to represent the primary weapon of protest of the population against the failed policies of perestroika.

As we embark on an investigation of the reasons why the Soviet population became so disillusioned and angry, we must first get a sense of the larger picture of what happened in the Soviet economy from 1985, when Gorbachev took office, to the moment of the attempted coup in August 1991. The deeply troubled economy that Gorbachev inherited was obviously not of his own making. Economic growth rates had been falling for a long time, factor productivity was extremely low, goods were in short supply, and there was a widening gap between the Soviet Union and its traditional adversaries--the United States, Western Europe, and Japan.

The story of the Gorbachev era, from 1985-1991, was one of economic destabilization and crisis. There is simply no other way to describe the state of the Soviet economy at the end of the country's brief flirtation with perestroika. For all the sacrifice and hardship that was experienced during these years, there was nothing to show for it: not the building of a new nation, not a victory over a treacherous enemy, and certainly not the establishment of a new economic system. In a material sense, the people had virtually nothing to show for all their suffering.

### The Gorbachev Program

For all the problems the Soviet economy had, and for all of Gorbachev's awareness that fundamental change was necessary, in fact, when he left office, there were no radical changes in the economic organization of the Soviet Union. What was left behind were several proposals to introduce change, some more radical than others, but none with a broad-

based mandate.

In a real sense, Gorbachev's initial efforts to deal with the economy reflected no strategy at all. His actions, if anything, reflected his roots. This meant that in dealing with the economy, the party's role should be enhanced, the undisciplined behavior of workers should be corrected, and ineptitude should be eliminated. In other words, Gorbachev wanted to wager on the so-called "human factors."

In view of the problems that emerged with special force towards the end of 1988, Gorbachev proposed several schemes to increase the output of consumer goods, lower the budget deficit, and defer any reforms which might impose an undue burden on the population. But matters only worsened in 1989. Economic growth fell to only 1.5 percent and for the population, there were severe shortages, the first of three consecutive years when such deficits were at crisis levels. The budget deficit and inflationary pressures escalated. The economic disintegration which ensued occurred because central planning broke down and was not replaced by any other way of organizing the economy. The total collapse of the economy came in 1991.

When all was said and done, there were many words spoken on behalf of the market, but little accomplished. There were three reasons for the failure to make serious headway towards a radical restructuring of Soviet economic institutions. The first reason was that Gorbachev vacillated so much. The leadership he had shown in international affairs was never in evidence at home, as he tried to balance delicately the competing demands being made for the shrinking resources in the economy. Nor was Gorbachev ever fully comfortable with the institutions that constituted a market economy. For example, as late as

November 1990 he stated his firm opposition to the buying and selling of land. Secondly, popular support for a market economy was weak and ambivalent. Nor was there a consistency or a resolute commitment of the population to the market economy. What the population wanted was an outpouring of goods with low and stable prices. If that was what constituted a market economy then they were for it. Understandably, the people wanted the transition to be painless. In the best of all worlds, there would be no unemployment while their inefficient enterprises cleaned house to become more cost conscious and no rising prices while markets adjusted. Many people were naive about a market economy, but others understood that unemployment and (more) inflation were likely byproducts of the shift.

The third part of the answer is that Gorbachev and his supporters faced some formidable, well-established foes at every mention of reform. The first group of opponents to a market economic was the economic bureaucracy. The second group who opposed reform was the working class. They stood to gain a great deal if Gorbachev could deliver on his promises of more goods in the long run when the economy became more efficient. But workers lived in the short run and for them the market meant that their jobs were no longer secure. A third group that opposed economic reform was the Soviet version of the so-called military-industrial complex. Cuts in the military budget, and the idea that the military's privileged budgetary status was reduced was a hard pill to swallow. The notion that resources would be redirected to build a new technological base in the civilian sector made the military-industrial complex an opponent of reform. The conservative opposition showed its true colors on August 19, 1991 when key government, party, military, and KGB leaders led an unsuccessful attempt to overthrow Gorbachev and after three days gave up.

This book is one explanation of what happened from 1985 to 1991. It is the story of how the material conditions of life under perestroika deteriorated for the Soviet population to the point where people lost all faith in the possibility of perestroika resurrecting their lives. The final years under Gorbachev constituted a great crisis in the lives of working people. Rising unemployment, rampant inflation, severe difficulties in finding food, the absence of many basic consumer goods, were only some of the more important causes for the anger that surfaced with great force. For the working men and women of the Soviet Union, there was not a trace of justice left.



## The Shortage Economy - Summary

This chapter focusses on the severe shortages that developed for food and consumer goods from 1985 through 1991. Perestroika exacerbated the shortages that already existed and in many important areas, such as food, did so beyond limits that the population found tolerable. There were three responses to the growing shortages under perestroika: a burgeoning second economy; private hoarding, the response of a panicked population that developed in unsystematic and unpredictable ways to real and imagined shortages; and public hoarding, a response by city, regional, and republic governments designed to protect the local population from the unwanted incursions of "outsiders" who took goods out of their city or region or republic.

At the heart of all the food problems was the failure of producers to deliver according to stipulated targets, beginning in 1988 and then becoming the dominant factor in the food shortages of 1990 and 1991. Local authorities reneged on their contractual obligations for three reasons. First, they wanted to keep more food for their own populations. Second, producers of agricultural products felt that they could sell their output privately at higher prices than they could get by selling to the state. Third, local authorities quickly recognized that they could use food to barter for goods they could not get through state channels.

When the system of central planning broke down for food deliveries, those cities which were dependent on other cities for their food (the major cities) were the worst off and those cities which were surplus producers (provincial cities and rural towns) were in the driver's seat.

Breaching contracts became a regular practice throughout the country in 1990. Only 73 percent of the 1990 plan for interrepublic deliveries of grain, flour, and cereals was fulfilled by the RSFSR, for the Ukraine this figure was 74 percent, and Kazakhstan, 57 percent.

There were other problems that caused food shortages, many of which occurred specifically under perestroika. For many years one of the critical inputs in the harvesting of field crops were urban workers who were bussed to collective and state farms to pick crops or to work at vegetable distribution centers. Industrial enterprises were required to release a certain number of their workers for several weeks to allow them to take part in these activities. The system was uniformly resented by both workers and enterprise directors. When the command system began to fall away, industrial enterprises and other organizations rebelled and refused to send their workers to the fields.

The decline in the number of agricultural workers created by the urban boycott led to an emergency from the state's perspective. There was a multi-pronged attack made on the problem. One aspect of the strategy was to intimidate workers as happened with threats of the loss of their jobs if they did not help with the harvest and a second tactic was to enlist the services of the military.

Other problems included disruption in the fuel supply, a shortage of spare parts, and a serious morale problem in the countryside because of the shortage of cigarettes.

These problems were magnified by the disruptions in the storage, transportation, and distribution of food. In 1990, the amount of substandard and rotten food as a proportion of all the food delivered to state retail stores was 11 percent of potatoes, 20 percent of

cabbages, 14 percent of onions, and 30-40 percent of tomatoes. This did not include the crops that rotted in the fields or barns or at points along the way before it is delivered. Perhaps as much as 30-40 percent of Soviet food never made it to the homes of the citizenry.

As food supplies diminished, prices rose everywhere. Predictably, they were highest in the areas with the most substantial deficits, namely the largest cities, particularly Moscow and Leningrad. A poll of 3,000 people taken in August 1991 found that one-fourth of the population spent almost all their income on food, and another 35 percent spent more than half their income this way.<sup>22</sup>

The hoarding of food began as early as 1987 when, according to one estimate, 25 percent of the population was stockpiling goods. In 1991 the population was buying 50 percent more meat than they actually needed, and twice the amount of tea and canned food normally purchased.

The tense nationality politics of the perestroika era also led to hoarding. Republics were fearful that their maverick politics would be punished by the central government who would make sure that the flow of food would slow down. By the time the Gorbachev era came to end, most people were hoarding goods. A survey of just over 3,000 people found that 57 percent were stockpiling goods.

Public hoarding was called rationing, and nominally that is what it was. Scarce goods, food and non-food alike, were allocated among the citizenry in republic after republic, and city after city. But it was not done in the interests of equitably sharing the shrinking pie. It was done to protect the local population and to provide the local rationing authority with control over certain goods with which they could barter to get goods they did

not have. In contrast to past rationing policies, such as those in effect during World War II, when the clearest intent was to formulate a nationwide program that would yield a national sense of equity, there was never any sense of national unity behind local rationing policies.

Moscow, Ukraine, and Leningrad each developed a variant of rationing that was actually a form of self-protection against outsiders. The parochialism of local interests caused a great deal of conflict between cities, between cities and republics, and between republics and the central government. Like the classic case of nations retaliating in response to the erection of tariff and quotas in international trade, the Soviet Union became like many nations inflicting reprisals against one another.

The second component of the shortage economy involved the lack of consumer goods. The main reason for the shortages was that the increase in incomes far outstripped the increase in consumer goods and therefore excess demand was a constant problem during the Gorbachev years. In 1987, the gap between the supply of goods and the money incomes in the hands of the population was 9.5 billion rubles and rose to an estimated annualized level of 42.8 billion rubles in 1990.

As in the food economy, there was also hoarding of consumer goods. In addition to the private hoarding of citizens and the public hoarding by republics and cities, there was also hoarding by the central government. The fortress mentality was reinforced by a national policy to restrict the export of consumer goods. The central government first imposed a ban on the export of some consumer goods, clothing and foods on February 1, 1989 to run through the end of 1990.

Private hoarding of consumer goods emerged partly as a response to real shortages,

partly as a groundless fear that particular goods might be in short supply, and partly because official rationing of certain goods acted as a trigger to accumulate as much as possible of the rationed products. While 25 percent of families made purchases in 1987 which they described as "hoarding," 66 percent did so in 1988 and 90 percent did in 1989.

One of the of the main factors affecting the output of consumer goods was the unwillingness of many suppliers to meet plan assignments. At the beginning of 1990, the RSFSR's light industry and textile enterprises were only guaranteed 65 percent of the cotton fiber they needed, 86 percent of the raw silk, 86 percent of the dyestuffs, and 75 percent of the plasticized rubber for shoe soles. Much the same was true for other republics. The basis for the delivery problem was similar to the shortfall in food deliveries, namely that the various republics were now protecting themselves.

The inability to buy inputs was not just a consequence of domestic problems. There was also a decline in consumer goods when Soviet factories dependent on foreign inputs were unable to purchase these inputs because of a shortage of hard currency. There was no shortage of blame in the country. It became fashionable to go after the economic and party bureaucracy to find the reasons for deficiencies. For the general population, there were other scapegoats at hand. Foreign workers were seen as victimizers of Russians because they were buying up scarce consumer goods.

The inability of the domestic economy to produce an adequate amount of consumer goods forced the leadership to turn to international markets to close the gap between domestic supply and demand and mollify the increasingly frustrated population. In April 1989 the Ministry of Trade disclosed that it planned to increase imports of consumer goods

from the original level of 32 billion rubles to 37 billion rubles. But there were severe constraints because of the shortage of hard currency which hit with great force in 1989.

The frustration of the population at times could not be contained within peaceful bounds. There were instances of violence recorded in Vologda, Irkutsk, the Tula oblast, Chita, and Novosibirsk.

### The Second Economy

The size and scope of the second economy mushroomed as goods disappeared from normal channels. The Soviet economist Koriagina said that at the beginning of the 1960s, the shadow economy was five billion rubles a year, but that at the end of the 1980s, it was equal to 90 billion rubles. Two separate estimates suggested that between 20 and 30 million Soviet citizens were involved in illegal economic activities on the production side. A large percentage of the population used the black market to meet their needs. A 1990 survey showed that 30 percent of the population already shopped in black markets, and that nearly 44 percent planned to use black markets.

There are a number of studies of black market prices that provide a useful insight into the degree of shortage that existed under perestroika. A detailed study of December 1990 black market for the entire nation showed that for a wide variety of food and other consumer goods black market prices were roughly 3.3 times state prices. These high prices angered the public who saw the increased prominence of the second economy as the ultimate symbol of the ineptitude of the regime.

### Fighting the Second Economy

The Gorbachev regime was caught in a vise of growing shortages on the hand, and rising prices in the second economy on the other hand. Since it really did not have a program for increasing the supply of food and other consumer goods, it went after the second economy. It was a quixotic effort, doomed from the start. The policies did little to affect the real condition of people's lives and occasionally deeply offended the sensibilities of the population, most notably in the case of the 1991 ruble confiscation.

A first step was the creation in 1989 of a new department in the Soviet Interior Ministry (MVD). It was established because of the belief that the Soviet mafia was broadening the scope of its operations in the economy. The strongest assault on the second economy began in early December 1990 when the Soviet parliament granted Gorbachev emergency powers to deal with the problems in the trade network. It was found that half of the 160,000 trading enterprises in 1990 had committed crimes.

In January 1991, Gorbachev issued a decree effectively confiscating 50 and 100 ruble notes of the population as an effort to damage the second economy where it would hurt the most. The total amount confiscated was reported to be 41.2 billion rubles or about 85 percent of the old 50 and 100 ruble notes. This left some 7 billion rubles which had been effectively confiscated, a sum that members of the second economy would presumably never be able to use. Given the size of the second economy, it is doubtful that the confiscation really did much harm to its primary intended victims.

The ruble confiscation action was followed by a January 26 decree which gave the police and the KGB the right to enter the premises of any economic organization (public or

private), and search their place of business, with or without the owner's presence or permission. Moreover, every organization was required to hand over any records that the authorities requested and to provide written explanations of activities if they were demanded.

Food and consumer goods shortages fostered the growth of the second economy and popular disillusionment and anger. It also led to a policy backlash to deal with these problems which, however, never dealt directly with the underlying structural problems of the economy.



## Prices and Income - Summary

### Inflation

After many years during which nominal prices had been held constant by administrative fiat, a combination of pricing policy changes, very bad monetary policy, and structural changes in the goods markets led to considerably higher rates of open inflation. The corrosive nature of inflation demonstrably lowered almost everyone's standard of living, and engendered anger toward the government in general and toward Gorbachev and entrepreneurs in particular. The rate of inflation accelerated during the Gorbachev years. After totalling only 5.7 percent for the years 1981-1985, inflation rose rapidly to double digits in 1989 and then to triple digits by the end of 1991.

Much of the inflation was due to misguided economic policy. A great deal of the inflationary pressure was caused by increases in wages which far outstripped productivity, especially beginning in 1988. In 1990, for example, the increase in money income was 17.7 percent than the change in labor productivity. This was supported by increases in the money supply by the central bank.

There were additional policies that fueled mounting inflation. The Law on the State Enterprise, which went into effect on January 1, 1988, gave managers considerably more freedom to decide prices of the goods they produced and occasionally raised prices by amounts that were considered excessive because there were only insignificant changes and they also produced a more expensive product mix.

The strict anti-alcohol policy of June 1985 also led to inflation. While alcohol production fell during the period 1985-1987 by an amount roughly equal to one-fourth of the

food sales, there was no compensatory production of other goods to absorb the spending that formerly went to alcohol. When the Soviets began to experience a shortfall in export earnings, they responded by decreasing their imports of consumer goods to the extent of roughly 5 percent of sales of these items in 1985. Another reason for the rise in prices was the greater role that free enterprise played. In an economy with massive shortages, entrepreneurs in the new cooperatives were able to charge market prices that were considerably higher than state prices.

Soviet citizens were only willing to endure higher prices if it meant more goods and an improved assortment. But in fact there was no faith placed in the idea that rising food prices would lead to an elimination of the food shortage, nor was there trust in the promise that rising prices would be mitigated by compensation measures. Hostility to price increases contributed to the government's decision in 1989 to postpone for at least two years the idea of increasing food prices, although reformers understood that revising prices was an absolute prerequisite for creating an efficient economic system.

The government faced a serious quandary which it never resolved during the era of perestroika. The dilemma was whether to adopt economically sensible policies that would allow prices to be freely determined and thereby lead to more efficient outcomes, or to make the political decision to keep prices as low as possible and thereby keep the population from railing against the brutality of high prices.

The most important single national price reform initiative during the Gorbachev era took place on April 2, 1991. The reform was far from the complete liberalization of prices that the most radical economic reformers had prescribed; price determination still involved

state intervention. The rise in prices was also coordinated with the introduction of compensation measures such as wage increases, pensions, and other social expenditures. The reform established a three-tier system: state fixed prices, so-called regulated prices, and free prices which applied to about 30 percent of all goods. All the basic foods were covered by fixed state prices. The goal of moving from price controls to free prices was to be accomplished by diminishing the importance of subsidies. Overall, the prices of consumer goods rose 175 percent and food prices increased by 240 percent.

Reactions to the price reform were predictably hostile. The day after the price increases went into effect, there were a number of brief strikes in factories around the country with workers demanding higher wages. In some places, public animosity was so strong that the authorities rescinded the price increases. As a major part of this effort the compensation issue loomed large for both the government and the population. About a week before the price reform went into effect, Gorbachev issued a decree which provided a one-time only increase of 40 percent in bank deposits held as of March 1 to compensate the public for the real loss in value of their saving that would automatically follow from the price reform. Increased wages and social assistance was offered to offset the impact of the price increases. However, the centerpiece of the compensation package was the rise in state wages and salaries by 60 rubles a month. The compensation program was expensive to the state with an estimated total cost would be about 240 billion rubles. For ordinary people the price increases were brutalizing. Some three weeks after the reform, the promised compensation had not yet been provided, with pensioners and families with several children the worst off.

One of the justifications for the price increases was that it was supposed to give

producers an incentive to increase their output. However, there were no additional goods on the shelves after six weeks and the result was popular cynicism.

The price reform could not overcome the other shortfalls in the economy, at least in the short run. The fact that there was no economic mechanism to replace central planning, that paranoia and petty jealousies reigned in inter-republic relations, and that there were resource shortages were all too overwhelming to enable price reform to right a tilted ship all by itself. But in the mind of the population the price reform was just further evidence of the fundamental ineptitude and cruelty of government policy.

### Poverty

If anything was true about changes in the standard of living of the population during this period, it is that many more people became poor. In 1988, the level of subsistence was officially said to be 78 rubles a month, which meant that 41 million people, or 14.5 percent of the population, were living below the poverty line. In mid-October, Izvestiia published an article arguing that the more accurate poverty line was 100 rubles, a figure which they estimated would encompass 70.9 million people. Indeed, at the end of 1990, the official poverty line was raised to 93.3 rubles a month, and then again in 1991, in response to the continued escalation of prices, it was raised to 180-200 rubles. Using the International Labour Organization's rule of thumb that poverty is equivalent to two-thirds the average wage, in late 1990, this would have been 165 rubles, placing about 56 percent of the country in poverty.

There were several groups most vulnerable to poverty. Large families were quite vulnerable; 75 percent of such families lived at the poverty level. These families tended to

be concentrated in Central Asia, Kazakhstan, and Azerbaijan. While there were family allowances provided by the state, they were very inadequate to compensate for the increased cost of living.

A second group hit by poverty was women. In 1989, when the average monthly wage was 240 rubles, 11.5 percent of the state labor force earned 100 rubles a month or less, a level at or near the poverty level. Of this group, 75 percent were women. At the other end of the income scale, of those who earned 300 rubles or more, only 22 percent were women. A third group mired in poverty were the aged of the Soviet Union. In 1989, when the rule of thumb of thumb was that pensions should constitute 60-70 percent of the average wage, this would have meant a pension of 140-165 rubles a month, considerably higher than the less than 100 rubles a month that two-thirds of the pensioners received. Indeed, if 75 rubles a month was the poverty line, then 60 percent of Soviet old age pensioners, or 35 million people were living in poverty. What did people themselves think about their material situation? By the end of the Gorbachev era, an August poll conducted by the National Public Opinion Center asked just over 3,000 citizens what they thought might lead to a fall in their standard of living. Twenty-three percent feared a cut in salaries, 16 percent thought their income might fall after retirement, and 26 percent worried about the loss of a job and thereby a decline in the family's standard of living.

The high price of food forced Soviet families to spend a substantial percentage of their income on day to day sustenance. At a time when the official poverty line was 75 rubles, more than half of family income went to buy food. The Director of the Center for Price and Market Research Policy said that as of June 1991, people in Moscow with average

incomes were spending as much as 70 percent of their income on food, and the poor were spending perhaps 85 percent of their income in order to eat.

### The Social Safety Net

As the standard of living fell and as the likelihood of a market economy increased, the Soviet citizenry became increasingly unnerved by the prospect of living in poverty. But no one knew with certainty, either in the halls of government or on the street, what it was that should be done to ensure that citizens were protected from the anticipated ravages of inflation, unemployment, and the market economy. The socialist agenda had created many entitlement programs and the popular belief was that these social welfare measures should exist forever. Thus, public officials were faced with a predicament. Should they choose to respond to most of the demands for social protection, and thereby do the politically safe thing, they risked escalating the already mounting rate of inflation as wage increases and budgetary expenditures produced the predictably vicious wage-price spiral. On the other hand, if they ignored the pleas of the population, they would not only be ignoring the genuine suffering of their citizens, they risked raising their ire and perhaps open rebellion.

The pressures mounted on both the central government and republican governments, especially to protect the population through indexation of incomes. While several republics had already passed indexation measures, it was not until June 1991, the USSR Supreme Soviet passed legislation to index incomes. The law provided for the central budget to index pensions, stipends, certain other transfer payments, and the salaries of state organizations not required to make a profit. The potential cost was staggering, an estimated 3.55 billion rubles for every one percentage point increase in the index of retail prices.

Indexation has never been an intelligent economic policy. Rather, it has always been political policy, in part a well-intentioned off-shoot of sympathy for a beleaguered population, in part used to keep an angry population at bay. Whatever the motives, indexation by its very nature has led to persistent inflation and to increased expectations of continual protection. All of this was especially dangerous for the Soviet economy so desperately in need of a sound stabilization policy.

In addition to public protection, in a remarkable turnabout, private charity was openly acknowledged and accepted. For the first time in its history, even soup kitchens began to appear in the country. Private charity was, however, relatively small.

To add to the woes of the citizenry, a 5 percent sales tax was imposed on the entire Soviet population as of January 1, 1991. It was fiercely despised and opposition to the tax came almost immediately, with a particularly strong distaste expressed for the tax on food. After several weeks, both the central government and the republics began to yield to the demands of the population for relief. The issue was resolved when Gorbachev and the leaders of nine the republics agreed in May to eliminate the 5 percent sales tax on virtually all basic foods and services.

Inflation eroded the real income of the population and, as the standard of living fell, the number becoming victims of poverty increased. The social safety net that was erected was not sufficient to cushion the fall.

## Unemployment - Summary

In the perestroika years unemployment emerged as a new issue, although trying to secure dependable estimates of the number of unemployed in the country was futile. In fact, through 1988, 1989 and into 1990, as unemployment increased, no official measure on the number of unemployed was available and it hampered the country's ability to define the extent of the problem, its sources, and how much and what kind of assistance needed to be provided for those without jobs. It was not until the fall of 1990 that the State Committee for Statistics (Goskomstat) reported an official unemployment figure of two million.

Under perestroika we can discern two new phenomena related to unemployment. The first was the emergence of structural unemployment; that is, the growth of unemployment with the simultaneous presence of an allegedly large number of job vacancies. This was the first sizeable amount of involuntary unemployment since central planning was introduced. But a second type of unemployment also emerged in the Soviet Union, what I will call involuntary frictional unemployment. It resulted from the breakdown in central planning and the frequent interruptions in the flow of capital inputs into production that followed.

There were a variety of causes of structural unemployment. One was the impact of self-financing of Soviet enterprises. The Law on the Enterprise went into effect on January 1, 1988 and it required Soviet enterprises to find their sources of investment funds from their profits. The new law had an impact on employment in unprofitable enterprises. From 1987-1989, 1.6 million people lost their jobs because of the closing of failing enterprises.

A second source of structural unemployment was the conversion of defense-related production facilities to the production of civilian goods in 1989. By mid-1991, about half of



the output from the enterprises in the military-industrial sector was civilian goods. About 300,000 workers lost their jobs in defense plants in 1990, only 76 percent of whom found jobs in civilian production. Russia was disproportionately affected by the conversion process because 82 percent of the former Soviet military-industrial complex is located there.

The very vocal and articulate environmental movement that emerged under the protection of glasnost also had an impact on unemployment. By the spring of 1991, four years of activity had resulted in the stoppage of construction and design work of sixty nuclear power plants with a capacity about 100 million kilowatts. About 26,000 "major" construction projects, representing 500 billion rubles in spending, were also closed down during the Gorbachev era, with a resulting loss of a sizeable but unknown number of construction jobs.

A second major cause of unemployment was fostered by the breakdown in the discipline of central planning at the end of the 1980s. The resulting shortfalls in supplies led to unemployment in a number of areas of the economy, including both light industry and heavy industry.

There were several groups either hit by unemployment or were targeted to lose their jobs. Early expectations were that about one-third of the fourteen million members of the economic bureaucracy would lose their jobs. However, at least in the early stages of the shakeout process, the evidence was that those in the bureaucracy seemed to emerge relatively unscathed after the initial loss of a job.

Certain groups were more at risk than others of becoming casualties of unemployment. One of the groups to be hard hit was women. Moscow unemployment

figures showed that of the first 60,000 who registered as unemployed, in the first six months after the unemployment offices opened, 70 percent of them were women. Data from the first two months showed that women were disproportionately the targets of job loss whether they were blue-collar or white-collar workers.

Second, young people constituted a disproportionate share of the unemployed in the country. The employment situation of young people changed because, first, the higher education system was taking a smaller percentage of secondary school graduates, and second, the demand for secondary school graduates in the labor market was declining.

Central Asia suffered from great impoverishment and higher levels of unemployment than the rest of the country. The causes of unemployment are not difficult to identify. In Uzbekistan, unemployment was high because of its narrow economic base and ecological disasters. The unemployment situation in Tadzhikistan resulted from a mismatch between the skills demanded and the capacities of the labor force. On the other hand, there have been job shortages for the educated so that the economy has not been able to absorb the graduates of higher education institutions, technical schools, or even secondary schools. The effect of the dire situation in the republic was to create a class of severely underemployed people, mostly quite young. The consequences have been socially calamitous--the one common characteristic of those involved in vandalism and rioting in the republic was that they were unemployed. The threat to civil order that resulted from high unemployment in Tadzhikistan was also present in Kirgizia, where the main participants in spontaneous demonstrations held in early 1990 were young and unemployed.

There is a special variant of the unemployment problem that was caused by the inter-

ethnic tensions in a number of republics, especially in Central Asia and the Baltics. In the main, the targets of the indigenous group's anger were ethnic Russians, who left these areas in large numbers because of the discomfort and occasional danger they felt living in a hostile environment, often becoming refugees in their own country.

At least two republics put up barriers to entry of anyone, including refugees. Fearful of refugees coming into their republics, both Estonia and Moldavia erected immigration quotas. The rise in crime was another social problem associated with unemployment. This is true of Turkmenia and Leningrad, where in 1989, one-fourth of all crimes in the city were committed by unemployed youths who were also the ones committing the most serious crimes.

#### Unemployment Legislation

There were two important pieces of legislation on the unemployment question during the Gorbachev era. The first came in January 1988 when unemployment was first emerging as an issue. It was a timid effort and made no serious inroads in confronting the unemployment issue. The second was signed into law three years later in January 1991, when there were many more unemployed and a recognition that the problem was growing.

The January 1991 legislation was a more serious document that took great pains to define the problem and to establish a framework for ameliorating unemployment. There were two key changes in the rights of citizens to work. The first was to be found in Article 5 which spelled out the State Guarantees of the Right to Work. In the new order the state guaranteed a free education and retraining, freedom to choose one's job, free assistance in finding a job, protection against job discrimination, and the promise of a job for at least

three years to specialists graduating from state schools. But no longer was there a guarantee of a job. The second crucial change was that work was now a voluntary act. No longer could able-bodied people who did not work automatically be categorized as "parasites" or "vagrants."

For the first time in sixty years, unemployment benefits became part of the government's responsibility. The basic terms were that if people lost their job they were entitled to receive their average wages for a period of three months, provided that they registered with the employment service within ten days after they are laid off.

Funding for the new unemployment benefits was a problem at both the central and republican levels. There was a six-month delay in beginning the payment of unemployment benefits because there was insufficient money. The funding problem was aggravated because of the differential capacity of republics to pay unemployment benefits. The combination of funding retraining, disbursing unemployment benefits, and operating a job placement system to implement the 1991 legislation, was recognized as being costly. An early estimate of the costs in Russia alone was 12-13 billion rubles.

The new involuntary unemployment created a new role for the state as well, in particular for job placement and the retraining of the structurally unemployed. The new legislation on unemployment in January 1991 expected employment services to play a major part in the new conditions. In 1991, an estimated 12.7 million people were expected to find jobs on their own, but almost 10 million were expected to be helped by the unemployment service after retraining.

The state's job placement services had applications in 1990 from 4,143,364 citizens

looking for jobs. But the evidence was that the existing job placement system was inadequate for the purpose of handling the new unemployment.

Some cities developed their own job placement centers, with varying degrees of success. There was also a black market unemployment office that operated in Tashkent. A specialized job placement system for young people, the Labor Exchange Youth Employment Society, was established in 1990 with headquarters in Moscow. The Moscow Labor Exchange, bearing the same name as the old exchange that existed until the end of 1930, was reborn in October 1990. Quite early in 1991, all over Moscow, the exchange was holding job fairs all over the city to help people find jobs. Okun's Law, Job Rights, and Hidden Unemployment

It is arguable that given the collapse of the Soviet economy in 1991, unemployment should have been much higher than it actually was at the end of the year. Let us apply Okun's Law to the Soviet economy. Arthur Okun demonstrated with U.S. data that there is a quantitative relationship between the deviation of actual from potential gross national product (GNP) and changes in the unemployment rate. When that relationship is applied to the Soviet economy, according to Okun's law, Soviet unemployment should have risen by roughly 13.8 million in 1991, a far cry from the official figure of two million.

How can we account for the fact that through the end of 1991 the Soviet system was so impervious to unemployment? The overwhelming reason unemployment was so low can be found in the jobs rights argument that David Granick proposed, namely that employees in Soviet state enterprises have a right to keep their jobs. There is a good deal of anecdotal evidence that in spite of the well-known inefficiencies and unprofitability of Soviet

enterprises, workers who were fired from one position managed to find other jobs within their enterprise with relative ease. There has been a long tradition in the Soviet period of hidden unemployment. Estimates of superfluous employment were staggering, ranging from 8-16 million.

Soviet citizens fear the employment implications of a move to a market economy. In the summer of 1991, a national poll of 5,000 people asked the question: "Do you believe that you may lose your job in the transition to the market." Forty-six percent said "yes" while 40 percent said "no."

The danger of unemployment led a large number of people to consider emigration. In a 1991 poll, 24 percent said they were prepared to leave the country because of their fears of even more disintegration of the Soviet economy. Short-term emigration, that is, going abroad temporarily to work, also presented itself as an alternative for solving the country's growing unemployment problems. There was a great demand for Soviet construction workers, for example, on Poland's black market. But there was great concern in the west that economic refugees would flood the developed European countries. Sweden, Norway, and Finland decided not to allow Soviet citizens to work in their countries, and Germany set a quota of 15,000 people who could work there in 1991.

Permanent emigration is a possible way to reduce domestic unemployment. But the Soviet Union has not gained anything before by having large numbers of its citizens leave the country because they have lost a disproportionate number of professionals and other white-collar workers as a result.

As unemployment began to grow in the last two years under Gorbachev, it became

increasingly important to find solutions to control the problem. Because structural unemployment accounted for the bulk of the country's unemployment through the Gorbachev era, their unemployed status implies the need for retraining.

Another way to deal with unemployment is to prime the pump in hard times and in July 1991, the USSR Cabinet of Ministers adopted a resolution to that end.

There were two forms of employment that became significant alternatives to work in the state sector during the period of perestroika: working in the new legal private sector, including the new cooperatives and other small enterprises, and working in the illegal second economy. There were plenty of people who wanted to work in the private sector. In a mid-1991 poll in the RSFSR, one-fifth of the 6,000 people who were surveyed said that they would like to become an owner or co-owner of an enterprise.

Unemployment was clearly the newest phenomenon in the Soviet psyche. The unemployment that existed and the prospect of joblessness created considerable apprehension about the future. It is against this background of fear and anger that worker militancy that surfaced in the Gorbachev era.

### **The New Labor Militancy: Strikes - Summary**

Without precedent, the strike became an important weapon for Soviet workers as a means of expressing their discontent with politicians and with their economic situation. The strike became the primary means of expressing anger with the deteriorating economic conditions of daily life. What distinguished the strikes of the Gorbachev era from anything that previously occurred was that strikes were much more frequent and were no longer isolated and contained events because workers came to collaborate with each other.

In certain cases, the economic and political goals of workers became hard to separate. This was particularly true as workers became frustrated with the regime because it could not solve its economic demands and economic concerns then became fused with a political agenda.

The new principle of openness created by Gorbachev, coupled with the smoldering anger and frustration of the workers was just the right formula for producing strikes. There were very few strikes during the first half of 1989 in spite of the economic problems, perhaps because there was still no right to strike and because no one had conclusive proof that strikes would not be met with a harsh response, and perhaps because many workers still wanted to believe that perestroika would succeed. But it was in July 1989 when the coal miners went on strike and about 500,000 of them stopped working all over the country that the strike became a preeminent weapon of economic protest. Thereafter, strikes became commonplace. In 1989, the economy as a whole lost 2.5 million workdays due to economic strikes only.

On October 9, 1989, the USSR Supreme Soviet passed legislation redefining the



relationship between workers and their employers that was unprecedented in Soviet history. It was the state's effort to contain a phenomenon that now eluded its control. The goal seemed to be to ensure that wildcat strikes which might escalate into very damaging operations could not take place. The legislation laid out a multi-step process that workers had to go through before they could actually strike. Even so, the right to strike was not unconditional. Restrictions were imposed on who could strike and when a strike could take place.

Strikes became even more important in 1990 and their economic impact was apparent early in the year. While in 1989, the number of work days lost due to both work stoppages and ethnic conflicts was 7.3 million days, in January and February 1990 alone, there 9.1 million days lost. The work time lost caused a one percent decline in Soviet GNP for this two month period in comparison with the same period in 1989. On average, there were 65,000-75,000 workers on strike every day during the first half of 1990. Ryzhkov said that by the end of August direct and indirect losses amounted to three billion rubles.

At first, the strikes were strictly grounded in economic issues. But when the economic demands of workers were either not fully met or their standard of living deteriorated more rapidly than the government's limited effort to assist them, they developed a political agenda. Second, the government was extremely reluctant to enforce the laws against spontaneous strikes. The threat of a strike in a crucial, but collapsing industry put the state in a bind. On the one hand, to meet the workers wage demands, which it ultimately did, meant that more inflationary pressure would be added to the economy. On the other hand, if it did not meet the workers' demand, there was a good possibility that this branch of

the economy, which was already not producing enough to put in the stores, would be in even worse shape and the general population would have even more reason to be disgruntled with the leadership. There was a new balance of relationships within the country as the political system loosened and the economic situation eroded. On the one hand, workers saw themselves as victims of the collapsing economy, but they also recognized that they now held power over the authorities who were responsible for pulling the economy away from the brink. The authorities had become vulnerable and needed the workers if they and the economy were to survive.

In 1991 the strike became an even more favored weapon for workers in their effort to overcome the corrosive effects that the 1990 inflation and good shortages had on their standard of living. There were two polls early in the year of more than 2,000 people in thirty-three cities and seventeen rural raions in eleven republics. In January, 50 percent said they would support a ban while only 36 percent said they would be against such a ban. Three months later, with the economic situation having degenerated even more, only 38 percent said they would support a ban on strikes, while 38 percent were against a ban. In Ukraine, the results of a poll taken in early in 1991 showed that more than two-thirds of the adult population would take part in a strike if the standard of living plunged significantly.

The favorable view of strikes correlated with the rapid decline in the economy and the simultaneous loss of faith in the government to halt the slide. The pattern was that when prices rose sharply and steadily, workers demanded higher wages to compensate them for the deterioration in their real income. The government at first resisted, but in most cases conceded to worker demands in order to ensure that critical sectors of the economy would

not be crippled and come to a standstill. The political leadership was in an untenable situation. They also felt an obligation to honor principles of social justice and were under great pressure not to allow people to have their monthly incomes disappear in order to buy a piece of meat in a collective.

The strike as a weapon was adopted by the new independent trade unions which emerged in the Gorbachev era. Thus, in early January 1991, the Federation of Independent Russian Trade Unions (FNPR) said that it would call for a general strike in the republic if the Russian parliament did not adopt laws guaranteeing workers protection against the consequences of the transition to the market, including legislation on income indexing and employment.

As the number of strikes increased, the associated economic costs rose. From January through March 1991, strikes led to production shortfalls of 218,422,000 rubles and 1,169,000 man days were lost in March alone. The government's patience with the strikes wore thin rapidly. In May, the Soviet parliament amended the 1989 law and imposed harsh penalties on those either organizing or participating in wildcat strikes. But there was no real teeth in the law; the momentum which had built up and the confidence which workers gained from their successful confrontations with the government was far stronger than the law. The Oil and Gas Workers of Tyumen

There were two important groups whose strikes had a decided effect on both economic performance of the nation, the fate of Gorbachev, and set the tone for labor militancy. These were the coal miners and the oil and gas workers.

The discontent of the Tyumen workers had deep roots. In September 1985,

Gorbachev conceded that living conditions were undesirable and that productivity in the industry was partially dependent on meeting such needs because unhappy workers were not going to be highly productive. The rhetoric was not matched by performance. A year after their first threat to strike in April 1990 over issues of the declining standard of living and working conditions, they were again threatening a strike, this time, because of the failure of other parts of the country to meet their food delivery obligations to Tyumen.

### The 1991 Belorussian Strikes

In April 1991, the normally quiet and deeply loyal republic of Belorussia was the scene of mass protests by workers following the nationwide rise in consumer goods prices which took effect on April 2. In this case, what began as a protest against the economic implications of the price increases, quickly turned into a call for radical political changes. The incidents in Belorussia are important because it seemed so unlikely that such massive action would occur there. That it did only served to dramatize how universal was the dissatisfaction with government policies to solve the economic crisis.

On April 3 the workers at the Kozlov electrical engineering works in Minsk went on strike and it quickly spread to other enterprises in the city. By the next day there were 10,000 people filling the central square in Minsk demanding abolition of the five percent sales tax and a doubling or tripling of wages. In addition, they called for the resignation of all the country's top leaders in the central and republic government. The very same day discussions began with the trade unions on how to ease the impact of the price reform. The most notable demand was that wages be raised so that they were commensurate with the price increases.

An agreement between the government and the republican trade union council provided for step by step increases in wages in industry. The total cost of the package of concessions to the workers' demands was estimated to add at least another 3.5 billion rubles to the budget deficit. The trade unions were only partly appeased and it did not take long for them to expand their demands. The republic's trade unions said that the unions and the government should continue to discuss the issue of raising wages, that the economic independence of enterprises should be expanded, and that privatization should be accelerated.

What were the lessons of the Belorussian strikes? First, the government seriously underestimated the anger of the workers. While the price increases acted like a match that set off a raging fire, the fact is that rage had been building for a long time. Second, workers felt betrayed. Only two weeks prior to the April 2 price increases, 83 percent of them voted with Gorbachev on the referendum to maintain the union. They had put their faith in the central government which had violated their trust.

### Conclusion

Soviet workers had enough of shortages, inflation, the threat of unemployment, and a sense that they had no control over their lives. Deprivations were no longer vitiated by full employment, stable prices, a loaf of bread and a bottle of vodka. And so they struck.

## **The Coal Miner Strikes - Summary**

If there was any set of events that signalled the beginning of the end of the Gorbachev regime and perestroika, it was the coal miner strikes that began in July 1989 in the Kuzbass, Donbass, and Vorkuta. The coal miner strikes, which affected nearly all of the nation's 2.5 million miners, were important because they revealed the deepest frustrations with the economic failures of perestroika.

### The Strikes of 1989

Miners in the Kuzbass went on strike on July 10 because of the shortage of goods, the ambiguous state of production conditions, and the inadequate quantity and low quality of food in the miners' cafeteria. While it is tempting to talk about a particular region as having a uniform set of demands, in fact, the situation was quite different. It was complicated by agendas that differed between towns or even between mines within the same city.

Negotiations with the government ended in an agreement in the Kuzbass on July 21, which in all its points was supposed to apply to the entire industry. The major points were: (1) the coal mines and pits were to be given complete economic independence, a process that was to be completed by January 1, 1990; (2) enterprises were given the right as of August 1, 1989 to sell above plan output at free market prices within the Soviet Union and abroad; (3) the USSR State Committee on Prices and the USSR Coal Ministry were to raise coal prices to levels that would better reflect costs of production; (4) coal industry enterprises were given the right as of August 1, 1989 independently to establish output norms and evaluation standards; (5) those working the evening and night shifts would get an additional 20 and 40 percent premium, respectively, on top of their regular hourly wage; (6) it was agreed that

coal miners would have Sundays as the regular day off; (7) miners were to be paid for the time spent travelling from the shaft to the work place and back at their regular hourly wage rate; (8) it was recommended that enterprises make a one-time payment to the families of deceased miners. The agreement was formally adopted in August as resolution 608.

When everyone went back to work at the end of the month, it was clear that the country was now a changed place. The coal miners had not only articulated a radical economic agenda, they had also stirred a boiling political pot. The strikes were significant in other ways. The country had suffered a severe economic blow as a result of the strike. One million working days were lost and total losses were more than 200 million rubles. And nothing was really solved.

Even as a number of the conditions of the August resolution were being fulfilled, the dissatisfaction of the miners remained undiminished and the government was faced with a rebirth of the crisis. Sporadic strikes persisted throughout the remainder of 1989 as the government and the miners sparred with each other over the issue of what the government had and had not accomplished. And all the time the economic conditions in the country kept deteriorating as coal production slowed.

### The Miners in 1990

After the great push that the miners made in 1989, both extracting a great deal from the government, at least on paper, and demonstrating their capacity to organize effectively, 1990 proved to be a year of transition. In part, this was because the miners were watching and waiting to see what the government was going to do. The miners' attitudes hardened during the year and as they did, the strikes and the rhetoric, which in 1989 were economic

and social in their demands, became unabashedly political. The failure of the government to solve the economic demands of the working class, politicized the coal miners. If there was any shred of hope or trust left in 1989, it was absolutely dead by the end of 1990.

There was a shift in the way the miners stated their agenda. In 1989, they had focussed narrowly on their own economic and social program. In 1990, the problem was specified first as concern over the viability of perestroika and then more stridently as a need to rid the country of its political leadership.

While the government maintained it was fulfilling resolution 608, in fact a number of the promises had not been honored. In particular, the material-technical supply situation had little improved and miners continued to work in an environment that was often economically unstable and sometimes physically dangerous. Almost universally, it was agreed that food and medical supplies were extremely inadequate. The miners also regarded the economic independence they had achieved as a fiction.

It was in this context of cynicism that the miners held their first congress in June with an agenda which included the social situation of the miners, an assessment of the fulfillment of resolution 608, and consideration of how the coal industry might be affected by a shift to the market economy. One of the actions of the congress was the decision to form a new independent trade union of miners.

As conditions continued to deteriorate in the fall, the miners resorted more and more to barter, trapped as they were between the state which required them to deliver 90 percent of their output to fulfill state orders and a state supply system which could not deliver the inputs they needed. When the miners held their Second All-Union Congress, Gorbachev



admitted that the government had not done all it should have and asked for a patience that was no longer there.

The government recognized that miners' fears and anger, expressed only in part by the creation of a new union, could translate into even more danger to the economy if another protracted strike took place. Thus, coal minister Shchadov tried to provide some reassurance about the future, promising that even in the face of mounting financial losses in the mines, there would be no layoffs, provided that subsidies, already doubled in 1990 from eight billion rubles to sixteen billion rubles a year, could be increased to twenty-three billion rubles.

Thus, 1990 ended with little actually accomplished. The miners did not have real economic independence, their material situation, as regarded real income, food, housing, consumer goods, and medical care was either no better and in most circumstances worse, the supplies of raw materials continued to be maddeningly uncertain, and economic linkages had collapsed.

### The Miners in 1991

Tensions in the coal mining regions increased during the winter. Everywhere the miners were asking for large pay increases because their real income had dropped dramatically. In particular, their ability to buy food was especially difficult.

While the pay issue was the main concern of the miners during this period, there were other problems that influenced their actions, such as the 5 percent sales tax and in the Donbass miners desired an increase in the number of underground jobs that would qualify for a more generous pension upon retirement. Miners also continued to demand that the

promises made in the summer of 1989 be fulfilled.

One of the things that distinguished the strikes of 1991 from 1989 and 1990 was the degree to which the miners received visible support from others all over the country. There were two kinds of backing that they received. The first was the contribution of various goods, particularly food, a generous offering considering the nationwide food shortage. The second was the spread of strikes to other parts of the economy in explicit sympathy with the miners' strikes.

After negotiations with Moscow, a compromise agreement was arrived at in April. As regards the primary demand on pay increases, the government granted a total 100 percent wage increase on April 3 to be paid in stages, partially tied to the level of production of the miners. The agreement also allowed for cost of living increases based on the type of work done by the miner. There were other concessions regarding vacations; retirement; more funds to build housing and recreational facilities; an allocation of fifteen million rubles to go for pay increases and to offset taxes; and allowing miners to sell 5-7 percent of their production depending on the kind of coal.

As might have been expected, the response to the agreement was mixed and, in many places, the miners were dissatisfied with the agreement and refused to go back to work. There were several reasons why many miners were unhappy with the economic package. First, it was recognized by some that, given the large budgetary deficit, and the inflation that already had the country in its grips, there was the potential for a hyperinflation that might eradicate the entire wage increase. Second, the decision to allow the miners to sell coal either at home or abroad at free market prices was greatly diminished by the terms under

which foreign currency could be controlled. One estimate was that the miners could sell as much as forty million tons of coal for about \$2 billion. But, the miners would only be allowed to keep a small portion of the hard currency.

The loss of faith in the central government's willingness and ability to satisfy their economic demands, much less the often strident political demands, seemed complete. Like an object caught in a whirlpool, the miners and the government went around endlessly, particularly in Russia.

The central government could not get the miners back to work, even though it had made major economic concessions. Ukraine had solved its own problems with the miners, the more militant miners of Vorkuta and the Kuzbass held out and coal production stood at a standstill in many mines in the Russian coal regions. The impasse in Russia continued until Yeltsin stepped in more forcefully. On May 1 he signed an agreement effecting the transfer of the Kuznetsk mines. A day later, the central government announced it would ratify the agreement and the following day, it agreed to transfer the Vorkuta mines to the RSFSR as well. The final agreement put all the Russian mines under political control.

The strikes were over. It had cost the country dearly, financially and spiritually. It was perhaps the darkest hour of the Gorbachev era; only the humiliation he suffered during the aborted coup of August could match it in emotion and magnitude. The issues did not disappear, of course, nor did the implications of the crippling strike. By the end of July, in the Kuzbass alone, output was down 15.5 million tons for the year, compared with the first seven months of 1990 and 1.5 million man days had been lost through strikes.

How can one summarize what happened during the two years from mid-1989-mid-

1991 in the coal industry? Did the strikes mirror what was happening elsewhere or, in the Marxian lexicon, were they the real vanguard of the proletariat? Did the strikes reflect the death of perestroika and Gorbachev's fall from power or did they initiate the process that would lead to the end of an era? The questions both suggest the answers and the dangers in trying to find easy answers. In fact, in the complicated world of change that marked the Gorbachev years, the coal miner strikes were all of these things.

## Conclusion

We began this book with the statement that the Gorbachev years were remarkable. The story we have just told of how perestroika cataclysmically affected the Soviet population confirms the extraordinary character of this period. The one indisputable fact is that the economy effectively collapsed, not in spite of Gorbachev and perestroika, but because of it. The disintegration of the economy and the ultimately the death of the nation were so complete that one can only be led to the following conclusions.

First, central planning effected a kind of "potemkinization" of the Soviet economy, a patina of discipline and order, which once removed, revealed the fatal flaws of the system, perhaps one might even say, its internal contradictions. Thus, one of the most powerful reasons for the downfall of the economy was the demise of the old system of rigid central planning without anything new to replace it. Central planning diminished ambiguity; it defined boundaries that were sufficiently honored to allow the economy to struggle through year after year. Perestroika, on the other hand, bred ambiguity. The uncertainty that was produced was absolutely incompatible with existing structures, institutional arrangements, habits of mind, and accepted values. Thus, confusion reigned in the economy.

When combined with the explosive force of nationalism, the administrative disarray created tensions that doomed the possibility of economic success. The conflagrations between the center and the republics and between republics and some of their cities led to self-destructive divisions. Indeed, at some point during 1990 it is arguable that there no longer was a Soviet economy. Central planning, as inefficient as it was, had bound fifteen republics together in a grudging, but nevertheless plausible national economic system.

Perestroika unintentionally contributed to the dissolution of this fundamental relationship and with it the pretense of coherence and cohesion in the economy.

Second, perestroika suffered because it was a revolution from above. It did not spring spontaneously from a wellspring of grievances felt by the general population as a program to right the economy. Rather, it was an invention of Gorbachev and other intellectuals and reformers who supported his general vision. As with all its predecessors, it was a program without a popular mandate or a consensus. Consequently, perestroika was not only a problematic in and of itself, it also had to conquer the resistance of the status quo. But paradoxically, at least in some of its dimensions, perestroika suggested action from below, as in the instances of the enterprise autonomy promised in 1988, the new freedom of individual entrepreneurs, and the leaseholding that was encouraged in agriculture. And certainly individual autonomy was fostered by the political reforms which allowed free elections. In promoting the democratic spirit and a climate of initiative, Gorbachev was also sowing the seeds of his own destruction. The workers who struck across the country after mid-1989 demonstrated that when their economic situation worsened, they had the will and the capacity to protest publicly and in some instances, to bring the system to its knees. Their angry reaction showed that a diminished standard of living was no longer acceptable.

Third, what Gorbachev did not recognize was that while he was using his political skills to maneuver constantly to the center, trying to please the most radical reformers on his left and the threatened old guard on his right, the consequences of the tentative measures he enacted were destroying the standard of living of the population. And while Gorbachev hesitated every step of the way and tried to plant himself firmly in the middle, the population

was becoming increasingly radicalized and hence was moving away from him and perestroika to the left. Even though Gorbachev had the enormous power of the presidency behind him, he failed to use it in ways that inspired confidence. And in alienating the population, he lost both credibility and authority. His indecisiveness may even have led many to see him as vulnerable and weak. Hence the boldness of the workers in striking with such audacity.

Fourth, in some limited sense, perestroika was doomed from the beginning.

Gorbachev was meddling with the traditional system of rewards in the society and therefore his only legitimate hope for success was that there would be far more beneficiaries of his policies than there were losers--and that those who would become winners would do so quickly. But whatever Gorbachev did required modifications within the system and that meant that he would have to protect those who were hurt by the changes and carry out major reforms simultaneously. These were not easily compatible choices. Gorbachev wanted economic reform, but he needed the loyalty of workers, factory managers and members of the defense establishment. And so he became the ultimate compromiser. By electing to always seek the middle ground, Gorbachev chose the most dangerous position. He was flanked on both sides by two constituencies who despised either what he did or the consequences of what he did. The fact is that he never pleased any of these groups.

It would be unfair to leave any assessment of perestroika on this sour note. Because perestroika failed so miserably on so many bread and butter issues, Gorbachev's accomplishments in the economic arena receded into the background. They should not be overlooked, however. First of all, Gorbachev made it respectable for economists within the Soviet Union to speak the language of market economics and to espouse radical change.

Anything even approaching such thoughts earlier had to be cloaked in aesopian language, often with a large dose of ritualistic obeisance to the works of Marx and Lenin. Secondly, Gorbachev began to tear down the economic bureaucracy which had been the heart and soul of central planning. While it by no means disappeared, it was in partial retreat by the end of the perestroika era. As a corollary, there was a shift, albeit incomplete, of decision-making power away from the bureaucracy and toward enterprise directors. The movement toward decentralized decision-making was reinforced by the promotion of legal private enterprise and with it the idea of private property, the absolute essence of a capitalist economy. Gorbachev also removed most of the barriers between the Soviet Union and the rest of the world, inviting foreigners to invest in the Soviet Union in joint ventures, for example.

Gorbachev must be accounted a modernizer, because he understood that his country's prospects in the world were exceedingly limited if it continued to travel the same path it had been on since 1928. But Gorbachev had a foot planted in central planning and he never fully renounced his long held beliefs. Gorbachev's failing was that perestroika was too firmly glued to the past.