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Present at the confusion

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Abstract

By the fall of 1990 the economic position of the USSR had deteriorated to the point where the Gorbachev government sought the advice and assistance of the major Western international financial institutions: the International Monetary Fund, the Organisation for Economic Cooperation and Development, the European Bank for Reconstruction and Development, and the World Bank. These IFIs were asked to diagnose the situation and recommend measures to assist in the transition from plan to market. The reform of industrial and manufacturing enterprises was a key issue among the many analyzed. This article's author, from the World Bank, worked on the enterprise reform team. Drawing on extensive notes from 1990 and 1991 interviews with Soviet and Russian officials, reformers and enterprise managers, this article portrays in detail the extent of the economic—and political—dislocation of the Soviet Union in 1990, the acutely uncertain policy and legal environments in which enterprise managers and government overseers tried to function, and the various and sometimes desperate means by which those in the enterprise sector struggled to position themselves for survival in the newly emerging economy. A major theme is the widespread but ultimately fruitless effort on the part of the Soviet and then Russian reformers to find a gradualist, minimally painful way to carry out the transition of enterprises to market operations. One result of that failure was the much-criticized Russian privatization program. The conclusion is that for political as much as economic reasons, the pace of enterprise reform adopted was unavoidable. © 2016 Non-profit partnership “Voprosy Ekonomiki”. Hosting by Elsevier B.V. All rights reserved.

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1. Introduction

Following a meeting between Soviet and Western leaders in Houston, Texas, in July of 1990, the International Bank for Reconstruction and Development (the World

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Bank), the International Monetary Fund, the Organisation for Economic Cooperation and Development, and the then fledgling European Bank for Reconstruction and Development were jointly invited by the government of the USSR “to undertake a detailed study of the Soviet economy, make recommendations for its reform, and establish the criteria under which Western economic assistance could effectively support such reforms” (IMF et al., 1990, p. 1).

I was a member of the ensuing first mission of the World Bank to the then Soviet Union, in September/October, 1990. My remit was enterprise reform and the prospects of privatization. Our team visited the USSR (“All-Union”) Ministry of Justice and the State Planning Committee (*Gosplan*). We then met with officials in several All-Union industrial ministries (“branch ministries”): the Ministry of Light Industry, the Ministry of Electronics Industry, the Ministry of Metallurgy, and the Ministry of Machine Tool and Tool Industry.

We next conducted visits and detailed interviews in eight industrial enterprises in Moscow, Leningrad (as it was still then named), and Zelenograd.¹ We also held a round table discussion with managers from six other firms who were attending a course at the Leningrad Management Institute, met with the Economic Reform Committee of the Leningrad City Council, representatives of an equivalent body in the Moscow City Council, two Vice Presidents and a Board Member of the “Butek Peoples’ Concern” (an association promoting quasi-private production units in Moscow), staff of the Leningrad Management Institute, the Chairman and Financial Director of the Leningrad Lease Holders Association, Professor of Law V. Musin, who was working on the definition of property rights, the head of the Union of Cooperatives, Academician Vladimir Tikhonov, the head of the Tallinn (Estonia) School of Management, the Chairman of the Board of the Energomash Bank, the President of the Light Industry Commercial Bank, and a number of other persons interested in or working on liberalization.

I realized that this was a unique event and I took detailed notes on every discussion with every official met. Back in Washington I wrote a background paper on what I had found, stating what I thought could and should be done to improve Soviet enterprise performance. Parts of this paper were incorporated into the overall report (IMF et al., 1990). The whole of the background paper was published as a World Bank Discussion Paper (Nellis, 1991a).

In March of 2016, I rediscovered the extensive notes summarizing all the conversations held and adding details and reflections on the many visits, meetings and interviews conducted during the three and a half weeks spent in the Soviet Union. In re-reading these notes I was struck by the differences between what we outsiders thought we were seeing, and what we thought would most likely arise from what was then happening, and what was actually taking place and what eventually did occur. This is hardly surprising; “prediction is difficult, especially when dealing with the future.”

But what also comes out of the notes is how most of us on the team were poorly informed as to how the real sector functioned in the late Soviet period of

¹ These were: the *Krasny Proletari* (“Red Worker”) Machine Tool enterprise, the Three Mountains Textile Manufacturing Combine, the ZIL Industrial Amalgamation (truck making), a new Machine Tool “Service and Production Association,” the V. Sverdlov Machine Tool factory, the Reductor Gear enterprise, Textile Plant No. 42, and the Main Computer enterprise in Zelenograd.

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