

## WHY PERESTROIKA FAILED

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## INTRODUCTION

Ideas, unless outward circumstances conspire with them, have in general no very rapid or immediate efficacy in human affairs; and the most favourable outward circumstances may pass by, or remain inoperative, for want of ideas suitable to the conjuncture. But when the right circumstances and the right ideas meet, the effect is seldom slow in manifesting itself.

John Stuart Mill<sup>1</sup>

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The most dramatic event in political economy to happen since the Great Depression of the 1930s was the collapse of the Soviet system and its satellites in the late 1980s. The Soviet admissions of the failure of their economic system to provide a decent standard of living to its people, let alone keep pace with the technological advances of the West, caught most Western Sovietologists by surprise. Watching the developments (zigs and zags) of *perestroika* and *glasnost* became a full-time occupation for many economists.

The events in the Soviet Union since 1985 have been nothing short of spellbinding. Academics, pundits and the man on the street have been transfixed by the 'Gorbachev phenomenon.' The turning point of the Soviet reform effort, however, came in 1989. One former satellite after another during that fateful year withdrew from the Soviet empire with Gorbachev's blessing. Poland, Czechoslovakia and East Germany dramatically went their own way. The Berlin Wall fell, both figuratively and literally. The Brezhnev doctrine was repudiated by Gorbachev.

On the economic front, the pace of the Gorbachev reforms seemed to quicken (at least in rhetoric) as 1990 approached. No longer did the

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reform rhetoric limit itself to tactics for improved efficiency of economic administration. Now fundamental systemic issues were debated. Private property, free market pricing, currency convertibility, etc., were legitimate topics of discussion among the Soviet Union's leading economists. These economic discussions culminated in the debate in the late summer and early fall of 1990 over the Shatalin 500-Day Plan.<sup>2</sup> The plan was at one and the same time a draft of a constitution for a new confederation of free sovereign republics, an outline for a market-based economic system for the new confederation and a plan of transition from the old union to the new confederation.<sup>3</sup>

But as is usually the case in political discussions, rhetoric diverged significantly from reality. Gorbachev quickly abandoned the Shatalin Plan and its political and economic program. A compromise Presidential Plan emerged in October 1990, which while maintaining some of the rhetoric of the Shatalin Plan, eliminated all of the details.<sup>4</sup> Both the political and economic reforms in the Soviet Union possessed troublesome paradoxes that simply exacerbated the crisis situation. In the lead up to the failed August 1991 coup, the situation in the Baltic states highlighted the political troubles with the Soviet reforms just as the long lines and empty shelves highlighted the economic woes that continued to plague the Soviet people. Perestroika as an economic reform program failed to bring lasting and systematic change to the moribund Soviet economy.

This book represents a critical assessment of the reform effort (1985-91). The common theme that runs throughout the book is that only on the basis of a sound understanding of the operation of market and political processes can one begin to analyze the Soviet-type system, and the efforts to reform it, with any degree of accuracy. From this theoretical basis, best developed by scholars working within the Austrian (market processes) and Public Choice (political processes) schools of economic analysis, the various proposals and paradoxes of the Soviet effort are examined.

Perestroika failed in large part because it was not tried. Gorbachev between 1985 and 1991 announced at least ten radical plans for economic restructuring, *not a single one was ever implemented*. But even if perestroika - as represented in the major proposals and decrees - had been implemented it would not have produced the *structural* changes necessary to revive the Soviet economy.

Though the events examined are limited in large part to the reform history from 1985 to 1991 - a working knowledge of which would be

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necessary to examine any direction the former Soviet Union may take in the foreseeable future - emphasis will be on the theoretical problems that economic reform confronts in general. Knowledge of the reasons why perestroika failed may provide us with important general lessons for how to proceed in charting a new course in the former Soviet republics and East and Central Europe.

### OVERVIEW OF THE BASIC PROPOSITIONS

There are two general questions which the various chapters in this book attempt to answer. First, if socialism as an economic system was so inefficient, how could it have lasted for seventy-four years? Second, if market reforms are so desirable, why have all the transforming economies experienced an acute economic decline during the reform period? Both of these questions will be answered through a series of propositions which taken as a whole provide the critical answers. Each of the chapters will try to address a specific proposition and tease out its implications.

#### Proposition 1: Soviet economic strength was an illusion

It has become commonplace among neo-conservative commentators in the West, and even some Soviet intellectuals, to argue that the breakdown of the Soviet empire in the late 1980s was due to Ronald Reagan's military build-up in the early part of that decade.<sup>5</sup> By raising the stakes in the international military game, Reagan put the final strain on the Soviet system. However accurate this perspective is concerning the weight of the military burden on the Soviet economy, it does not address the systemic issues and problems surrounding the Soviet economy. The real question that must be raised is whether the Soviet system could have continued even if no military pressure was exerted by the West.

The neo-conservative perspective on the Soviet problem is untenable because it underestimates the extent to which military power is derived from a prosperous economic base and it overestimates Soviet economic strength. Questioning the neo-conservative hypothesis, however, should not be construed as support for the alternative suggestion that Mikhail Gorbachev was responsible for the break-up.<sup>6</sup> Gorbachev did not become General Secretary to reign over the demise of the Soviet empire. Any view that draws our attention away from

the *structural problems* the Soviet system faced throughout its history will fail to grasp the meaning of the Soviet experience with socialism.

Even if the US and the West had reduced the military stakes in the 1980s, the Soviet economy was doomed to fail. The Soviet system was structurally weak since its founding and collapse was inevitable. The economic fact that, as Aleksandr Zaychenko stated, 'Russians today [in 1989] eat worse than did Russians in 1913 under the Czars' had little to do with the military strains of the Cold War and everything to do with the structural problems of socialist economic institutions.<sup>7</sup>

The illusion of Soviet economic growth and progress was due to the failings of aggregate economics, in general, and an odd combination of ideas and interests in academic discussions which did not allow dissenting voices to be heard, in particular. In fact, the whole peculiar art of Soviet economic management amounted to the production, and distribution of this illusion.

To illustrate the conflict between Western perceptions of socialist industrial achievement and the realities of the formerly socialist economies, one need only consider the fact that prior to German unification, East Germany was considered the flagship of the socialist industrialized world. Now it is evident to all that the East German economy was a shambles – incapable of producing anything close to world standards for an industrialized nation.<sup>8</sup> We now know just how inefficient these economies actually were.

It is not at all an exaggeration to say that in economic terms the socialist economies of Europe were Third World economies.<sup>9</sup> As George Orwell pointed out in *Animal Farm*, to the outside world the farm may have appeared as if it was productive and prosperous after the revolution, but inside the farm the animals worked harder and ate less than they ever did before.<sup>10</sup>

**Proposition 2: Socialism as originally conceived was (is) an economic impossibility**

Soviet-style socialism did not fail because of half-hearted attempts or because of backward political and economic conditions, rather socialism as originally conceived of by Marx, Engels, Lenin and Trotsky was simply a utopian dream incapable of realization in any world populated by human beings. This does not mean that an attempt to realize utopia cannot take place, just that utopia can never be achieved.

In assessing utopias, it is important to clarify two issues. First, the

internal coherence of the idea must be examined. Second, the vulnerability of the idea to opportunistic behavior and external invasion must be considered.

If a utopia is internally consistent, then it is said to be theoretically possible. However, if it is internally inconsistent, then it represents a theoretical impossibility. If a utopia is theoretically possible, but vulnerable to opportunistic invasion, then it may simply be impracticable. A utopian system which is both internally consistent and not vulnerable to opportunism, may actually cease to be a utopia, and, instead, offer a vision of a workable alternative social arrangement than that currently present in the world.

Socialism was an example of a theoretically impossible utopian dream. Given socialism's own goals of increased productivity and the moral improvement of mankind (and man's emancipation from the oppressive bonds of man and nature), the institutional demands of its project were inconsistent with the attainment of those goals. The unintended consequence of the attempt to implement this utopian dream in the real world was the Soviet reality of political oppression and economic deprivation.

**Proposition 3: Mature Soviet-style socialism, since it could not have conformed to the textbook model of socialism, is best understood as a rent-seeking society with the main goal of yielding perquisites to those in positions of power**

Throughout its history the defining characteristic of the mature model of Soviet-style socialism was political and economic monopoly. The vast system of interlocked monopolies, and the *nomenklatura* system, worked to provide perquisites to those in positions of power and controlled access to these positions. The Soviet system created a loyal caste of bureaucrats who benefited directly from maintaining the system. The existence of contrived scarcity rents available to managers and store clerks goes a long way to explaining the persistence of shortages, and the rationale behind many common Soviet practices, such as *blat*.<sup>11</sup>

The narrow interests of the bureaucrats also explains why they did not pay attention to public interest goals such as economic policies which would increase consumer well-being. The main objective of bureaucratic action was not to increase economic productivity *per se*, but rather to increase the rents and perquisites available. Bureaucratic competition substituted for economic competition, and resources were

allocated according to political rationales rather than economic ones with the corresponding waste that would be expected. But waste was not penalized in the Soviet system of bureaucratic management. As long as output targets were met, and everyone in the process received the perquisites due to them, then the Soviet manager was judged a success. Certainly such considerations as consumer demand were not to enter the state enterprise manager's calculations.

Economic reform demanded a change in this way of doing things, but change was sure to be resisted. The bureaucratic caste could not be expected to give up voluntarily its privileged position in society.

Proposition 4: The basic organizational logic of politics conflicts with the logic of economic reform

Perhaps one of the oldest debates in the history of political economy is over whether ideas or interests govern policy change. Karl Marx, for example, argued that the economic base determined the superstructure. In other words, ideas flow from economic interests. John Maynard Keynes, on the other hand, argued that the impact of interests was largely overestimated, rather it was ideas that govern the world. Ironically, they both may be right.

The complex interaction of ideas and interests produces an intellectual climate within which the polity exists. Ideas, for example, which demand more government involvement, also create an interest group which will benefit from the intervention. Thus, ideas and interests work together to eliminate the constraints to government involvement in the economy that may exist. The logic behind this is rather straightforward.

It must be recognized that government, whatever form it takes, is an institution that can be, and will be, used by some to exploit others unless effectively constrained. Under democracy, politicians (by definition) seek election or re-election, and in order to accomplish that goal they require votes and campaign contributions. On the other hand, most voters confront a situation where the incentive to gather political information is absent. The expected value of any one vote is usually much less than the cost associated with even the simple act of voting let alone casting an informed vote. The expected value of political information on any candidate or issue is far less than the cost associated with seeking that information unless the voter has a *selective incentive* to acquire particular information. *Rational abstention* from voting and *rational ignorance* among voters is a natural

outcome of the logic of individual choice within the democratic political process. Well-informed and well-organized political groups are so because the members have a selective incentive to be informed and organized, i.e., they have a *special interest* in the issue under discussion. These special interest groups will supply both the votes and campaign contributions that politicians need to be successful in their bid for office. The main objective of political action, therefore, is to concentrate benefits on the well-informed and well-organized interests which represent a politician's constituents and disperse costs among the unorganized and ill-informed mass of citizens. The bias in government policy-making is, therefore, one that yields short-term and easily identifiable benefits at the expense of the long-term and largely hidden costs. Despite the soundness of an economic policy, unless it can pass that bias test it is most likely destined for the political scrap heap.

> Political programs for reducing government involvement in the economy for any particular action, for example, entail great costs and offer very little relative benefit in return. A reduction in government involvement in the economy results in short-term and easily identifiable costs to the existing bureaucracy with the promise of long-term and largely hidden benefits to consumers. Stated bluntly, if the logic of politics is to concentrate benefits and disperse costs, then the logic of political and economic liberalization is to concentrate costs on the existing interests who benefit from current government action and disperse benefits in terms of enhanced consumer welfare, and as such, the two logics conflict with one another.

< Perhaps a simple example from a democratic regime may illustrate the point. Say a proposition is put forth that teachers will perform better if they receive a \$1,000 increase in pay. The cost of the government's education program, however, will be dispersed among tax payers of the state as an increase in their state income tax of \$1. In order to be well-informed on the issue and work to defeat the passage of the government's proposed program it would cost the individual opponent of the bill in excess of \$100 in terms of time and expense. Such an activity is not economical for most individuals and, therefore, they will remain rationally ignorant of the issue. On the other hand, teachers who expect to receive \$1,000 will take the time and additional expense to make sure that the program passes. The interaction of politics under democracy pits vote-seeking politicians and special interest voters on one side against rationally ignorant voters on the other. This interaction produces certain biases in the

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system which tend to support the ever increasing expansion of government involvement in the economy.

If we reverse the situation so that teachers face a possible cut of \$1,000 in their pay and tax payers pay \$1 less in state income taxes, then the logic of politics produces strong resistance to reform. The teacher again who expects to lose \$1,000 in pay will work very hard to resist the passage of a program that calls for such austerity. On the other hand, tax payers could only expect to receive \$1 and as such will again remain rationally ignorant.

To return to the theme of ideas and interests, it does seem that ideas matter in the direction of greater government involvement because they may erode the constraints that existed concerning government action. In other words, ideas can be enlisted in the service of well-informed and well-organized interests when those ideas suggest more government intervention. However, ideas and action in the direction of less government involvement in the economy cannot enlist the service of powerful interests – in fact, the opposite is true since reduction in the size of government requires the defeat of interests.

The basic logic of politics derived from the analysis of democracies is intensified under non democratic regimes such as the Communist regime of the former Soviet Union.<sup>14</sup> Here, even the façade of public interest quickly disappears. *The sole point of the system was to concentrate benefits on those in power and disperse the costs on the citizens.* The beneficiaries of such a structure were simply not going to give up their privileged positions easily – it would be irrational for them to do so. In fact, endogenous reform would violate the maxims of rational choice because it would require that members of the dominant interest group move in a Pareto inferior manner.

Only an *exogenous* shock, such as war, natural disaster, economic depression or an ideological revolution, could displace the intransigent interest group.<sup>15</sup> At such moments, ideas can play a dominant role by restructuring the basic relationship between the citizen and state. But, without such moments the logic of politics will defeat efforts in economic liberalization.

**Proposition 5: Without a credible commitment to economic liberalization, reform efforts are doomed to fail**

Even if an *exogenous* shock displaces the dominant interest group and the opportunity for real economic liberalization presents itself,

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reforms will stall unless the new regime can establish a binding and credible commitment to reform. Only if the reforming regime can convince the populace that it will honor its promise to respect their rights and create a stable environment for economic activity, will the reforms ever get off the ground. Conveying such a commitment, however, is the major problem in establishing a workable constitution of economic policy.

One of the major difficulties facing the reforming regime is somehow signalling to its citizens that it will honor its promise of reform, and not renege. There are two problems confronting the reforming regime. First, a *strategic incentive* game is generated by reform proposals. A policy or promise announced at one time may bring forth a response that in the next time period provides one player with a greater opportunity for personal gain by renegeing rather than honoring the promise. When I am having trouble falling asleep, for example, I may attempt to solicit my wife to rub my back with the promise 'I'll rub your back, if you rub mine.' However, if her soothing back rub produces the intended result, then I will be much better off by renegeing than honoring my promise – since I will now be asleep. My wife, of course, knows that I will renege on the promise, and therefore, except for the kindness of her heart, will refuse to believe the promise and not rub my back.

A similar situation faces the government and its citizens when formulating public policy. Without a binding commitment to honor its promise, citizens will realize that the government may gain in future periods by renegeing on the policy, and thus, will not trust the policy announcements of the government unless the government can establish a binding and credible commitment to the policy.

This problem is compounded when we realize that the situation is not limited to the strategic incentives, but also includes an *informational* problem that may be even more difficult to overcome. Faced with a reforming government, the citizen does not really *know* who they are playing with. The citizen's only prior knowledge of the regime was the 'old way' of doing things. Reform signals a break from the past, but why should the citizens believe the regime? Without citizen participation, though, the reforms will stall. The most effective way out of this impasse and to signal commitment by the regime to liberalization is to reject all notions of gradualism and embrace a radical liberalization program that is implemented overnight.

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Proposition 6: Only a radical reform that changes the basic relationship between the citizen and the state can get a moribund economy back on track to progress and development

The steps necessary to rejuvenate the Soviet economy are rather straightforward and radical. The government cannot simply copy the Western welfare states because they do not have the economic base which is necessary to establish such a system. The mal-investment that resulted from years of state economic management must be corrected. Unfortunately, most individuals in these economies wake up every day and go to work at the wrong job, in a factory that is in the wrong place, to produce the wrong goods. Many of the firms actually contribute 'negative value added', that is, the value of the inputs in the production process is greater than the market value of the output that is produced. This is the legacy of decades of attempted central administration of the economy.

There is no medicine for this except a strong dose of market discipline. But strong markets will only emerge if a rule of law establishes private property and freedom of entry. All other ideal policies follow from these two principles. The private property order, unlike the communist property order, offers an internally consistent vision of a workable economy.

## CONCLUSION

Each of these propositions will be dealt with at much greater length in the chapters that follow. I can, however, offer a brief answer to the original questions posed that derives from weaving these propositions together.

Real existing socialism did not represent Marxian socialism because Marxian socialism was (is) an internally inconsistent utopia. Rather, mature Soviet-style socialism was the unintended by-product of attempting to implement the Marxian dream and the institutional legacy of that attempt. Soviet-style socialism was able to muddle through slowly eroding the accumulated surplus fund it inherited from natural resources, internal imperialism (e.g., collectivization in the 1930s), and external colonialization (Eastern Europe after the Second World War), in large part because of the illicit markets that existed throughout the system and through the use of world prices in allocating scarce natural resources. Thus, Soviet-style socialism was able to last over sixty years because it took that long to exhaust

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the accumulated surpluses and reach a point of acute economic crisis (I am dating the secular stagnation to the 1970s)

In terms of why market reforms have actually recorded a worse crisis than we had previously believed possible, a few issues need to be addressed. First, because of the previous overestimation of economic capability the costs of the transition are often overstated. In an excess demand economy, like the former Soviet bloc countries, allowing prices to adjust to market clearing levels may appear, according to wage deflated by price index measurements, to decrease the standard of living. In actuality, however, what has happened is the elimination of the queue. Similarly, if previous production measurements concentrated on output targets independent of consumer demand, then the introduction of markets would suggest a reduction in production, when the production of unwanted and poor quality products had simply ceased. The introduction of market forces, when compared to the bogus measurements of the previous socialist regime, would bring with them the appearance of severe reductions in standards of living as a consequence of measurement problems. Eliminating queues and curtailing the production of sub-par and useless products should not be viewed as threats to consumer welfare. Real reforms represent a radical break with the previous system.

In the actual experience of reforming the formerly socialist economies, however, the problem is more severe than just mismeasurement. In the case of the former Soviet Union, reform simply did not take place. As a consequence, while the old regime and old way of doing things had been de-legitimized, no new system had been able to emerge to promote social cooperation under a division of labor. Illicit markets and small-scale markets continued to operate, but large unregulated markets are still a thing of the future. However, without the introduction of large-scale markets and the establishment of a rule of law that protects unfettered markets, the peoples of the former Soviet Union are doomed to continued economic deprivation.

The processes of market interaction fundamentally lay beyond our control. Rather than attempt to design optimal plans and control social forces, our intellectual efforts must be devoted to asking questions about the institutional framework within which activities beyond our control will take place. Raising and providing useful answers to such questions, however, requires an array of disciplines.

Economics is an important, in fact essential, component in this inquiry. But, economics cannot provide all the answers. Politics, philosophy, history and cultural theory, along with other intellectual disciplines and common sense, must also be employed.

Most importantly, though, moral reasoning must be allowed to regain a legitimate place in scholarly endeavors. Perhaps the most fundamental reason why Sovietologists were so surprised by the events of the late 1980s was the hegemony of a scientific methodology which disregarded evidence from the humanities (such as literature and personal testimony) and dismissed questions of human meaning as metaphysical nonsense. Reasoned debate about such fundamental issues can, and must, take place if we are to think in an effective way about the politics and history of our times.

## NOTES

### 1 INTRODUCTION

- 1 John Stuart Mill, 'The claims of labour' [1845], in *Essays on Economics and Society*, vol. 4, *Collected Works of John Stuart Mill* (Toronto: University of Toronto Press, 1967), p. 370.
- 2 See Stanislav Shatalin, N. Petrakov and G. Yavlinsky, *Transition to the Market* (Moscow: Cultural Initiative Foundation, 1990), republished as *500 Days* (New York: St Martin's Press, 1991). See also '500 Days to Shake the World,' *The Economist* (15 September 1990): 93-4, and David Remnick, 'Gorbachev shifts on economy,' *The Washington Post* (13 September 1990): A30-A31.
- 3 See Ed Hewett, 'The new Soviet plan,' *Foreign Affairs* (Winter 1990/91): 146-67. Hewett argues that the major strength and stumbling block to the 500-Day Plan was the issue of confederation which correctly recognized the collapse of the union, but was a position which Gorbachev simply could not endorse in the fall of 1990. The Ryzhkov Plan, on the other hand, while retaining central power, granted some increased autonomy to the republics. Gorbachev enlisted the services of Abel Aganbegyan to draft a compromise plan of the Shatalin and Ryzhkov Plans, which eventually became the Presidential Plan.
- 4 See the reports by Quentin Peel, 'Reformers despair of 500-day plan as Soviet prices soar,' *Financial Times* (12 October 1990): 20, 'Gorbachev's economic program,' *New York Times* (17 October 1990): A8, Bill Keller, 'Gorbachev offers his plan to remake Soviet economy, but includes no timetable,' *New York Times* (17 October 1990): A1 and A8, 'Soviet plan in the middle,' *New York Times* (18 October 1990): A1 and A14, 'Gorbachev's economic plan approved,' *New York Times* (20 October 1990): A6 and Peter Passell, 'Gorbachev counsels a prudent revolution,' *New York Times* (21 October 1990): E3.
- 5 Boris Pinkser, a leading pro-market Soviet intellectual and the husband of Larissa Popkova-Piyasheva, holds the opinion that Reagan's military build-up was the major contributory factor responsible for the breakdown of the Soviet empire. (Personal conversation with Pinkser on his visit to New York in 1991.) A sample of Pinkser and Piyasheva's views can be found in Lev Timofeyev (ed.) *The Anti-Communist Manifesto*

- (Bellevue, WA: Free Enterprise Press, 1990). Piyasheva created a polemical stir in the market debate in the Soviet Union when she published her short paper, 'Where are the Pigs Meating?' (*Novy Mir*, no. 5 (1987)), translated in Anthony Jones and William Moskoff (eds) *Perestroika and the Economy* (New York: M. E. Sharpe, 1989), pp. 99-103. See also her, 'Why is the plan incompatible with the market?', *Annals* (January 1990): 80-90.
- 6 The idea of Gorbachev as a benevolent liberal reformer became the dominant Western perspective after the events of 1989. See, for example, the discussion of Gorbachev in Joshua Muravchik, 'Gorbachev's intellectual odyssey,' *New Republic* (5 March 1990): 20-5. Muravchik argued that Gorbachev 'may yet complete his odyssey by sailing the Soviet ship of state safely beyond the grotesque clutches of Leninism and Marxism to the friendly port of democracy and freedom.' For the events of 1989, Gorbachev was awarded Man of the Decade by *Time* and won the Nobel Peace Prize.
- 7 See *New York Times* (1 January 1989): A1.
- 8 See the discussion of the economics of German unification in Leslie Lipschitz and Donogh McDonald (eds) *German Unification: Economic Issues* (Washington, DC: International Monetary Fund, 1990). On the importance of the collapse of the East German model for Soviet reformers see Marshall Goldman, *What Went Wrong With Perestroika* (New York: Norton, 1991), pp. 56-7.
- 9 Aggregate measurements of well-being, such as per capita GNP, place the former Soviet Union at about 25 per cent of the corresponding figure in the US economy. See *PlanEcon Report*, 6 (52) (28 December 1990): 17. However, since many goods are not available in the state stores at the official price, such calculations do not measure the per capita income of citizens in a shortage economy.
- 10 See George Orwell, *Animal Farm* (New York: Harcourt Brace Jovanovich, 1946). Orwell's book was a parable of the corruption of the Soviet revolution by Stalin and the consequences of collectivization and industrialization. The ideological dictum that all animals were equal gave way to the reality that though all animals were equal some animals were more equal than others. In the end, one could not tell the difference between the pigs (the leaders of the animals) and the humans outside of the farm - the pigs had become just like their previous oppressors.
- 11 See David Levy, 'The bias in centrally planned prices,' *Public Choice*, 67 (1990): 213-26. Also see Konstantin Simis, *USSR: The Corrupt Society* (New York: Simon and Schuster, 1982), and Olimpiad Ioffe, *Gorbachev's Economic Dilemma* (St Paul: Merrill/Magnus Publishing, 1989) for a discussion of the monopolistic and rent-seeking behavior of individuals within the Soviet economy.
- 12 See the pioneering studies on non-market decision-making under non-democratic regimes by Gordon Tullock, *The Social Dilemma* (Blacksburg, VA: Center for Study of Public Choice, 1974) and *Autocracy* (Boston: Kluwer, 1987).
- 13 See Mancur Olson, *Rise and Decline of Nations* (New Haven: Yale University Press, 1983).

## 2 THE ROAD TO NOWHERE

- 1 Arthur Koestler, *Darkness at Noon* (New York: Macmillan, 1941), p. 18.
- 2 See the reports in *The New York Times* (2 May 1990): A1, *The Financial Times* (2 May 1990): 1 and the report by Quentin Peel, 'Revolt against Moscow gathers pace across Union,' *The Financial Times* (3 May 1990): 2.
- 3 See the reports of the Revolution Day Parade in *The New York Times* (8 November 1990): A1 and A12, and *Wall Street Journal* (8 November, 1990): A21.
- 4 See Robert Kaiser, *Why Gorbachev Happened?* (New York: Simon & Schuster, 1991), p. 247, and Hedrick Smith, *The New Russians* (New York: Random House, 1990), p. 132.
- 5 See Robert Conquest, *The Great Terror: A Reassessment* (New York: Oxford University Press, 1990) and *The Harvest of Sorrow* (New York: Oxford University Press, 1986), and G. Warren Nutter, *The Growth of Industrial Production in the Soviet Union* (Princeton: Princeton University Press, 1962) and *Political Economy and Freedom* (Indianapolis: Liberty Press, 1983). Also see Gary Becker's discussion of Nutter in 'Capitalism vs. communism: why it's still no contest,' *Business Week* (2 May 1988): 20. For a discussion of Conquest see Tatyana Tolstaya, 'In cannibalistic times,' *New York Review of Books* (11 April 1991): 3-6. As she points out, when Conquest's *The Great Terror* was published in the Russian journal *Neva* in 1990 many readers exclaimed that they knew all this already. But where had they learned it? From Conquest. When the *Great Terror* was first published in English twenty years ago, Tolstaya informs us, it quickly became an underground classic in the Soviet Union with which all thinking people were acquainted. For an interpretative essay on the rise of historical conscience under Gorbachev see David Remnick, 'Dead souls,' *New York Review of Books* (19 December 1991): 72-81. Also see Thomas Sherlock, 'Politics and history under Gorbachev,' *Problems of Communism* (May-August 1988): 16-42.
- 6 See Roy Medvedev, *Let History Judge*, revised edition (New York: Columbia University Press, 1989), Alexander Tsipko, *Is Stalinism Really Dead?* (New York: Harper Collins, 1990); and Nikolai Shmelev and Vladimir Popov, *The Turning Point: Revitalizing the Soviet Economy* (New York: Doubleday, 1989). Shmelev created a stir with his article, 'Advances and debts,' *Novy Mir*, no. 6 (1987), as did Vasily Selyunin with 'Sources,' *Novy Mir*, no. 5 (1988); both articles fundamentally challenged Soviet claims to economic success.
- 7 *Pravda* (9 November 1991): 1, translated in *The Current Digest of the Soviet Press*, 43 (45) (11 December 1991): 1-2. Though no official government parade occurred, two demonstrations did take place. At one demonstration, in fact, several pro-communists set flowers at the foot of the Lenin monument and carried signs denouncing Gorbachev and Yeltsin. In the other demonstration at Lubyanka (formerly Dzerzhinsky Square), pro-democracy groups held signs that included one that read: 'Lenin - the national disgrace of Russia! Forgive us, Russia, for this