

# Why Perestroika Failed

by Peter J. Boettke

When Mikhail Gorbachev came to power in 1985, he inherited a political and economic mess. The Novosibirsk report prepared by Soviet sociologist Tatyana Zaslavskaya, published in the West in the spring of 1984, already had revealed the deep structural problems confronting the Soviet leadership. The years of Communist rule had choked the economy—stifling innovation and destroying initiative—and produced political cynicism born of overt corruption of the ruling elite. Gorbachev knew full well the extent of the situation he inherited.

But after six years in power and despite much talk about renewal and restructuring, the economy is worse off and the Soviet Union no longer exists as a political entity. As a program of economic restructuring, perestroika must be judged as an utter failure. Glasnost to be sure produced a political and cultural awakening of sorts unknown during the 74 years of Communist rule, but perestroika failed to deliver the economic goods. Why?

One of the main reasons perestroika failed was because it wasn't tried. During his six years in power, Gorbachev introduced at least 10 programs for the "radical restructuring" of the Soviet economy, not a one of which was implemented. Instead, economic reform was limited to inconsistent and incoherent half-measures. The law on individual economic activity, the law on state enterprises, and the various price-reform proposals, for example, amounted to nothing more than half-measures incapable of producing

the desired economic results even if they were implemented in an ideal environment.

Conceptually, economic reform is a fairly simple matter. Private property in resources must be established and protected by a rule of law; consumer and producer subsidies must be eliminated; prices must be freed to adjust to the forces of supply and demand; responsible fiscal policy should be pursued that keeps taxation to a minimum and reins in deficit financing; and a sound currency must be established. Introducing such reforms—even within Western economies—is anything but simple. And the major problem is not just a conceptual one of designing the appropriate sequence or plan of reform.

One of the most important insights derived from academic research in modern political economy is the potential conflict between good economics and good politics. In democratic regimes, where politicians depend on votes and campaign contributions to remain in office, research has shown that the logic of politics produces a shortsightedness with regard to economic policy. Popular economic policies are those that tend to yield short-term and easily identifiable benefits at the expense of long-term and largely hidden costs. Deficit financing and inflationary monetary policy are but two examples from Western economies.

In the formerly Communist political economies, this argument about the logic of politics can be intensified. The benefits of public policy fell mainly on the only constituency that mattered: the party bureaucracy. From the nice dacha to special access to stores, the party elite were the primary beneficiaries of the system. Economic reform

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promised to disrupt this system and yield very real short-term costs.

If market reforms had been introduced sincerely by Gorbachev, the short-term prospects would have been higher prices as consumer subsidies were eliminated, unemployment as inefficient state enterprises were shut down, and overt income inequality as new entrepreneurs took advantage of opportunities for economic profit. In other words, structural economic reform promised short-term and easily identifiable costs to be borne mainly by the party bureaucracy, and long-term and largely hidden benefits in terms of increased economic efficiency and consumer well-being. The logic of reform was in direct conflict with the logic of politics, and politics won out.

### Economic Reality Prevails

Even though the ruling elite fought economic reform at every step, they could not repudiate economic reality. The Soviet economy had exhausted its accumulated surplus in terms of natural resources and Western technology and was unable to continue to develop. The economic situation grew worse under Gorbachev, and the demands for structural reform grew louder and more threatening to the old system. Glasnost, in addition to the events of 1989—from Tiananmen Square to the Berlin Wall—mobilized the intellectual and cultural elite. As a Russian saying went, “We are still on the leash and the dog dish is still too far away, but now we can bark as loud as we want.”

The failed August 1991 coup was the last gasp of the main beneficiaries of Soviet rule: the privileged

apparatchiks and ruling elite. For 60 hours the world first shuddered, then gasped as the coup unraveled, and finally cheered as the ordeal ended. But the coup was a precondition for the beginning of real reform of the system. Otherwise, the party bureaucracy would still have held a degree of legitimacy and power that no longer exists. The displacement of dominant interest groups, as Mancur Olson argued in his *Rise and Decline of Nations*, is a prerequisite for systemic political and economic reform.

The paradox of government, as James Madison so eloquently pointed out, is that a workable constitution must first empower the institution of governance with the ability to govern its citizens, and then force it to govern itself. As the leaders of the former Soviet republics debate their future economic and political ties and the legal frameworks that will govern their societies, they must bear in mind the most important lesson of the 74-year history of Soviet Communism—when politics is allowed to dominate economics as an organizing principle, political and economic irrationality result.

A workable constitution must protect against unwarranted political intrusions (even in the name of democracy) into the operation of economic forces. The law must establish “rules of the game” that protect the economic freedom of the people. Only in this manner can hope and prosperity come to a people who have been blessed with natural resources, but who have lived with the curse—first under the czars and then under the Communists—of bad rules that failed to restrain the political whims of the ruling elite. □

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