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Gorbachev's Reforms and the United States Economy

by Ronald A. Rolighed

On March 11, 1985, Mikhail Gorbachev, a new generation leader, became General Secretary of the Communist Party of the Soviet Union. Since his elevation to power, his ideas for social reform and foreign policy initiatives have received widespread attention from western media. While the West applauds his new social ideas, Gorbachev is also working to implement strategic economic changes to bring the U.S.S.R. closer to the economic levels of the West, of the United States in particular.

The struggling economy of the Soviet Union has dampened the communist spirit and raised doubts about the ability of communism to compete with capitalistic systems. Gorbachev's goal is to remain fundamentally Marxist while achieving the economic efficiency and competitiveness of the United States. Interaction between the Soviets and the West is vital for his reforms to work. This article examines some of the implications of these internal reforms on relations between the two superpowers and, thus, their impact on the U.S. economy.

Soviet Economic Problems

Following the global economic boom that began after World War II, the Soviet Union was ill-equipped to adjust to economic change. As technological advances fueled Western economic growth, the Soviet system of centralized planning failed to adapt to change.

Major reasons for this failure are the political and economic contradictions inherent in a system of central planning. Central economic planning in the Soviet Union puts the responsibility of capital allocation into the hands of communist party ideologues who promote political theory over economic rationality. According to University of Illinois economics professor Dr. James Millar, "The main problem of a social economic system is that it can escalate the most trivial economic decision into a vital political decision" (1988). Concentration on political concerns and

objectives rather than on economic considerations has restrained Soviet economic progress.

Another difficulty with central planning is its emphasis on economic isolation. The Soviets adhere to a belief that their economy should be protected from capitalistic influence. An application of this view is the Soviet policy of making the ruble inconvertible in international markets. A Soviet ruble has no value outside the U.S.S.R.. Although this lack of convertibility has helped protect the Soviet economy from outside economic influence, it has also hindered trade and technological exchanges. Economies such as Japan's have demonstrated the usefulness of economic interaction with the United States by taking advantage of high technology exports from the U.S.. The Soviets, in contrast, have missed out on high-technology trade and are now suffering the consequences.

The Soviet system of central planning has also had negative consequences on productivity. Since 1980, productivity of industrial capital in the U.S.S.R. has declined at an annual rate of 4.1% (Directorate of Intelligence, 1985, p. 63). Capital inefficiency in the Soviet Union is partly caused by the centralized system's stress on quantity through a system of quotas. Soviet industrial ministers and factory managers have traditionally been rewarded for producing more goods rather than improved goods. A production manager who slows production by trying to implement quality innovations risks losing his production quota bonus (Goldman, 1985, p. 60). The emphasis on quantity goals has not only misdirected resources but has also wasted time. It is not unusual for a plant in the U.S.S.R. to virtually shut down once a quota has been reached and another one not yet set.

The Soviet's economic woes are compounded by the fact that labor has little incentive to strive for efficiency. In 1985, productivity of the Soviet industrial worker was only 55% that of his counterpart in the United States (Directorate of Intelligence, 1985, p. 63). In the Soviet Union, lax production efforts pose little if any threat of unemployment. Soviet leaders have repeatedly denounced unemployment as an intolerable aspect of capitalist society. Although unemployment is rare in the Soviet Union, underemployment of both natural and human resources is a serious problem. In addition, the past concentration on investment in industrial goods has led to a relatively scarce supply of quality consumer goods. This scarcity discourages employees from striving for higher income by keeping the standard of living relatively income neutral. A higher income does not necessarily translate into more comfort and luxury because of the scarcity of consumer goods.

Gorbachev's Reforms

Gorbachev's words reflect his stress on the need for economic reforms. He has called for: "a decisive revolution of the economy," "a deep reconstruction of the economic mechanism," and "a profound transformation of the economy" (Goldman, 1985, p. 58). Such statements by Gorbachev repudiate traditional economic planning.

One of Gorbachev's first acts for economic reform was to make new political appointments. The chiefs of seven all-union economic ministries were replaced immediately after Gorbachev came to power (Bergson, 1985, p. 12). Such political appointments show that he chooses not to tolerate the present state of inefficiency. Another way Gorbachev has taken on the challenge of improving central planning is to experiment with private enterprise in the agricultural economy. Farm households may now contract to raise livestock on behalf of collective farms (Hough, 1985, p. 44). Experiments in agriculture may serve to test the waters for further reform of the central planning system. It appears that Gorbachev is trying to both increase the quantity and improve the quality of goods and services available to Soviet citizens by reforming the system of central planning.

New Social Ideas

It can be argued that Gorbachev's new social reforms, while advertised as being focused on humanistic concerns, are based more on national economic goals. As noted earlier, some of the major problems in the Soviet economy are lack of work incentives and low productivity. There is a direct correlation between the perceived quality of life and the incentive to work. If Gorbachev's *perestroika* and *glasnost* reforms can elevate the perceived social welfare of communist society, this perception can perhaps raise the willingness of people to improve it via hard work. New policies such as alcohol abuse prevention, eased press policies, better intragovernment communication, and more cordial relationships between bureaucrats and proletariat could ultimately lead to improved worker incentive and productivity.

Foreign Policy Initiatives

Gorbachev's foreign policy reforms may also further economic objectives. The new policy with perhaps the greatest economic consequences is that of openness to the West. The new attitudes toward western democracies suggest the Soviets plan to use international goodwill to supplement their internal economic advancement. New foreign policies such as the sale of debt issues to the West and joint industrial efforts weaken the traditional Soviet policy of economic isolation while, at the same time, supporting Soviet economic reform. Setting aside the slight chance that the Soviet bureaucracy has adopted a new attitude toward its compatibility with capitalism, it is not difficult to see how new foreign policies may favorably affect Soviet economic development.

One major result of Gorbachev's foreign policy reforms is the development of an environment that is more conducive to western economic assistance. Such assistance is of great importance to the success of Gorbachev's economic plans and, some would argue, the chief goal of recent political actions. As Gorbachev has become more cordial, the West has responded by substantially increasing loans to the Soviets. Since Gorbachev took over in 1985, total Soviet indebtedness to the West has more than doubled; Soviets now owe \$25.9 billion to western commercial banks, and \$12 billion in trade credits backed by western governments (Shelton, 1988, p. 20). Such borrowings may be used to speed up industrial reform and improvements.

Another Soviet foreign policy initiative with economic implications is the proposal to allow joint industrial ventures. Under most new agreements, western companies bring new technology into the Soviet Union in exchange for access to the Soviet market. Joint ventures with western companies not only provide the Soviets with capital but also offer them a variety of western products that can increase their standard of living. Hundreds of western companies have discussed possible joint ventures with the Soviets. Few agreements have been reached, however, because of the complex regulations a company must follow in order to be considered. Strict guidelines, both legal and political, make a joint venture an enormously time consuming endeavor. Gorbachev has worked to ease these restrictions.

Effects on the U.S. Economy

Clearly, Gorbachev hopes that the United States will play a large role in the reformation of the Soviet economy. The question now remains, "How will his plans affect the U.S. economy?"

A major benefit from heightened interaction between the Soviets and the U.S. is greater access to the Soviet market. In the past, the American-Soviet trade relationship has been slight. In 1986, only 1.5% of U.S. exports went to the Soviet Union, and only 0.2% of U.S. imports were from the Soviets (Becker, 1987, p. 67). The market for western consumer goods in the Soviet Union is enormous and, if expanded, could become highly profitable for a wide variety of U.S. industries. As noted previously, joint industrial ventures could open the Soviet market to U.S. business. If the legal and political barriers to such ventures continue to lessen, the chances are good that more and more U.S. industry will expand into the vast Soviet market.

Gorbachev's reforms may not only present many profit opportunities to the U.S., but they may also pose several dilemmas. First, if Gorbachev's foreign policy initiatives and new military agendas decrease Soviet military expenditures and diminish the Soviet military threat, they could indirectly alter the role of the military in the U.S. economy. Huge U.S. military budgets approved as a result of the Breshnev doctrine and the Afghan invasion could lose support following the Afghan withdrawal and unilateral arms reductions. If Gorbachev's reforms encourage decreased U.S. military expenditures, the U.S.S.R.'s financial obligation to maintain military competitiveness will decrease, thus freeing resources for struggling Soviet industries. If successful, Gorbachev's reforms could have enormous consequences for the U.S. economy, given the role of the military buildup of the 1980's in the economic growth of the United States.

On a broader scale, if Gorbachev can succeed in making the Soviet industrial complex more efficient, productive, and competitive, the Soviet Union's internal capabilities could overwhelm the U.S. economy and make Japan's remarkable growth pale in comparison. The Soviet Union is blessed with the most abundant supply of natural resources of any nation in the world. If the Soviets efficiently tap their natural and human resources, the United States could face yet another challenge to maintain its position in the world economy. The odds of this occurring in the short run are small given the major challenges Gorbachev faces. If Gorbachev marks the beginning of a progressive era in the U.S.S.R., however,

Soviet reforms will offer a variety of opportunities, challenges, and dilemmas to the political and economic leadership of the United States in the twenty-first century.

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