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**Michael Burawoy and Kathryn Hendley  
Paper No. 29, June 1991**

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**Michael Burawoy and Kathryn Hendley**

**Paper No. 29, June 1991**

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**STRATEGIES OF ADAPTATION:  
A SOVIET ENTERPRISE UNDER  
PERESTROIKA AND PRIVATIZATION**

**Michael Burawoy and Kathryn Hendley\***

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**STRATEGIES OF ADAPTATION:  
A SOVIET ENTERPRISE UNDER  
PERESTROIKA AND PRIVATISATION<sup>1</sup>**

**I. Introduction**

In the classic studies of the Soviet enterprise, the failures of central planning are attributed, not to some traditional or "non-economic" logic, but to the enterprise's rational pursuit of its own interests. Berliner (1957) and Granick (1954, 1960) have shown that rational strategies lead to irrational outcomes. Thus, enterprises bargain for loose plan targets by hiding resources, by not overfulfilling plans and by exaggerated underfulfillment of difficult targets. Enterprise performance is evaluated according to plan indicators which, if followed, lead to wasteful use of resources and the production of goods no one wants -- heavy machinery, thin glass or large nails. (Nove, 1977, pp. 93-99) So, they conclude, it is impossible to create an incentive system that stimulates the production of what is needed.

The more recent literature on enterprises in the reformed economies of Eastern Europe, particularly the Hungarian economy, argues that the same pathologies persist when physical planning gives way to fiscal planning. Kornai (1980, 1986) argues that soft budget constraints inevitably follow from state ownership of the means of production, and therefore enterprises seek to increase their bargaining power with the state by

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<sup>1</sup>The authors would like to thank the Social Science Research Council and the Center for German and European Studies of the University of California, Berkeley, for their support of the research reported here. They would also like to thank Donna Bahry, George Breslauer and Peter Maggs for helpful comments on an earlier version of this paper.

expanding as rapidly as possible. This results in a distribution of investment resources which is unrelated to enterprise efficiency or profitability. In a more elaborate bargaining model, Bauer (1978) shows how enterprises entice government sponsorship of new investment schemes by underestimating the costs of new projects. Once hooked, the government can be subjected to considerable pressure to continue financing the new project even as costs escalate. The government overextends its resources and is forced to abandon half-finished projects.<sup>2</sup>

In all these perspectives, the enterprise is not a passive recipient of plan targets, but an active strategist in pursuit of its own interests. Indeed, strategies even govern structure. Thus, the earlier models showed how soft budget constraints systematically produce shortages, leading enterprises to try to guarantee their supplies through "backward integration." They would manufacture the needed product themselves, even if this involved costly duplication of production facilities in the economy as a whole. (Berliner, 1976, pp. 70-72; Granick, 1967, pp. 144-47) In Kornai's model, sheer size is important, so enterprises expand and amalgamate. Stark (1985, 1989) shows how, with the development of the "second economy," enterprises create

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<sup>2</sup>Gregory (1990, ch. 6) and Dyker (1983) demonstrate that Soviet enterprise managers suffer from a similar sort of investment hunger. Leggett (1983, p. 142) reports that, in 1980, the amount of unfinished construction was equivalent to about six percent of the value of the total capital stock in the economy, and to almost eighty percent of total fixed capital investment. According to Aslund (1989, p. 71), twenty-five percent of the investment projects that were transferred to the new five-year plan in 1986 were designed 10-20 years earlier.

their own internal second economy in the form of cooperatives or work partnerships as a flexible response to shortages.

All these theories of the socialist enterprise share one feature: they assume the enterprise to be an internally coherent, strategic actor. The enterprise has more or less unambiguous interests in relation to its economic and political environment. The lines of division are not within the enterprise but between the enterprise and the central planning authorities. This assumes that either the work force shares a common interest with management in extracting as much from the state for the least effort, or management establishes and enforces such common interests by acting through the party and trade union. The different factions of management are seen as sharing a common interest in controlling labor and bargaining with the state.

In this paper, we question the continuing validity of this model of the Soviet enterprise. The present context of political and economic uncertainty has multiplied organizational choices, leading different parts of the enterprise to pursue divergent interests. With the breakdown of the political order both outside and inside the enterprise, these interests have entered into open conflict. The result is that enterprise strategies are determined not in the context of bargaining with the state, but are the product of strife within the enterprise. Consequently, in order to understand the trajectory of the Soviet enterprise under perestroika, we must examine how its internal structure gives rise to diverse and competing strategies.

Our claims are based on a two-month (January to March 1991) case study of a single enterprise, Rezina, in

Moscow.<sup>3</sup> Our analysis begins with a description of Rezina and a brief outline of the problems it faces in trying to maintain the expected levels of production in the face of the current economic instability. We then examine in some detail the strategies that have been adopted by the management of Rezina and that of its various constituent parts in response to the opportunities created by the restructuring of the Soviet ownership system. Finally, we analyze the evolving internal political regime. The unifying theme is the differentiation of interests within Rezina and the consequent conflicts over its future direction. We are endeavoring to open up what has so far been largely a black box in order to see how structure gives rise to strategy. The general applicability of our claims rests on the fact that the external pressures, which have created new opportunities and conflicts at Rezina, must be at work in all contemporary Soviet enterprises. Just as one case is sufficient to challenge a theory, so one case is also sufficient to reconstruct that theory to take into account new conditions.

## II. Rezina: Victim of the Shortage Economy

When inviting us to study Rezina, management contended that it could fairly be regarded as a laboratory of perestroika, *i.e.*, that all the problems confronting Soviet society could be found within its walls. In the course of our research, we became

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<sup>3</sup>Although technically Rezina is not an enterprise (predpriiatie), but rather a production association (proizvodstvennoe ob"edinenie) of the sort created in the early 1970's (see Il'in, 1973; Gorlin, 1976), we have referred to it as an enterprise throughout this paper.

convinced that this was true. We began to see how the daily struggle to keep the enterprise afloat reflected the turmoil in society in general. Precisely because conditions were perhaps more desperate at Rezina than at the typical Soviet enterprise, the economic and political tensions of perestroika were thrown into even greater relief.

### An Enterprise in Trouble

Rezina is engaged in the production of a wide variety of rubber products.<sup>4</sup> It falls under the jurisdiction of the USSR Ministry of Chemical Industry. It was founded in Riga and was transferred to Moscow during World War I.<sup>5</sup> Following the Revolution, it became one of those "leading" enterprises which housed "the vanguard of the working class." Its celebrated political prominence as well as its notoriously bad working conditions make it well-known to Muscovites.

Rezina began operations in Moscow in 1915 in a location which, at that time, was on the outskirts but which is now regarded as the heart of the city. It is prime real estate. Vacant lots adjacent to Rezina tend to be allocated to residential construction -- not further industrial development. Being unable to grow laterally, Rezina has grown vertically. Its production departments are distributed among the lower levels of a six-story building.

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<sup>4</sup>Table 1 is found at the end of this section and provides data on the number of employees and average monthly wages, along with a description of the products produced in each shop.

<sup>5</sup>Rezina's original organizational form was that of a joint-stock company (aktsionnernoie obshchestvo), a form to which, as we will see, certain factions within Rezina would like to return.

To walk around these production departments is to be transported back to the last century. They are dark and dingy and the noise from the antiquated machinery can be deafening. The technology is so old -- some of it harkens back to pre-World War II days -- that many of its own employees liken it to an industrial museum.<sup>6</sup> Indeed, some forty-year veterans have spent their entire work life on the same machine. Management and workers alike crave modern technology, yet neither group is particularly sanguine about the likelihood of getting it anytime soon. This skepticism seems well-placed. Even if Rezina had the wherewithal to obtain new machinery, it probably could not be installed due to physical limitations (space and strength of the floors).

The General Director claims that Rezina would not exist in any economically "rational order." In the Moscow City Soviet, we heard rumors that it was going to be liquidated due to environmental and fiscal concerns. Rezina's continued existence is due in large part to its virtual monopoly over the production of basic rubber parts for the Moscow machine and vehicle industry.<sup>7</sup> Rezina produces a vast array of products -- 80,000 different named products for 3,500 buyers! This reflects

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<sup>6</sup>A fair amount of this machinery was imported from Europe and even the United States. We were told that when representatives of the German conglomerate, Krup, visited Rezina, they were so amazed that machinery made in their factories in the 1920's and 1930's was still in good working order that they asked to buy it in order to take it back to Germany for their museum.

<sup>7</sup>For example, when one of Rezina's subdivisions was shut down in July 1990 by order of the local council (raispolkom), within days this caused a work stoppage at a large Moscow auto plant (ZIL), thus giving Rezina management considerable leverage when bargaining to have the subdivision reopened. The shut down lasted for ten days.

in part the monopoly position of Rezina, the demands of the State Committee for Material Supply (Gossnab)<sup>8</sup> but also the lack of standardization in Soviet industry. Although there is considerable concentration of the leading buyers, so long as Rezina has to fulfill state orders (goszakazy) there is little hope for reducing the demand for a continuing diverse product mix. In principle, enterprises can now choose their own customers but, in practice, a presidential decree commands that enterprises continue to fulfill the terms of contracts which have existed for longer than two years.<sup>9</sup>

The seven main recipients of Rezina's products account for 54.9 percent of the value of the total output in 1989 and 53.4 percent in 1990. They include the three main producers of cars (ZIL, AZLK and GAZ) and the huge conglomerate -- Gosagroprom -- which supplies the USSR with all forms of agricultural machinery. Only about 10 or 15 percent of Rezina's annual output is "reserve," i.e., not subject to state orders.<sup>10</sup>

Production for these diverse rubber products is distributed among seven shops (tsekhi) in the main plant and Rezina's three subdivisions (rezinovo-tekhnicheskoe izdelie or "RTI"), which are situated in different parts of Moscow. RTI-1 and RTI-2 have product mixes similar to that of the main plant. Indeed, prior to being merged

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<sup>8</sup>For a discussion of the role of Gossnab in theory and practice, see Berliner (1976, 66-70), and Hewett (1988, 112-113, 153-57).

<sup>9</sup>"On Urgent Measures for the Stabilization of Economic Ties in the Fourth Quarter of 1990 and During 1991," Izvestiia, September 28, 1990, p. 1.

<sup>10</sup>Asluns (1989, p. 105) reports that having a substantial percentage (or even 100 percent) of production taken up by state orders was commonplace for state enterprises.

with Rezina in 1973, they were flourishing independent enterprises.<sup>11</sup> As we shall see, each is presently trying to regain its independence. In contrast, RTI-3 has always been part of Rezina. It produces the resin mixtures which are the basis of the production process throughout the enterprise. Thus, although physically separate, from a structural point of view, RTI-3 is effectively a part of the main plant. In fact, some refer to it as "Shop 1."

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<sup>11</sup>See Il'in (1973) and Gorlin (1976) for a discussion of the policy of consolidating enterprises into production associations (proizvodstvennoe ob"edinenie).

Table 1: Employment, Wages and Production at Resins, 1990

	Employees	Wages (Rs/month)	Product
<b>MAIN PLANT</b>			
Shop 3	269	267	"Formed Rubber" parts, particularly washers and gaskets, used in vehicles, produced by ZIL, AZLK and GAZ.
Shop 4	196	259	Wide variety of hoses for use in mining, agriculture, construction -- suction and pressure hoses for gas, oil, water and steam.
Shop 5	81	239	Rollers for printing and textile industry, car mats, non-conducting rubber fittings for cars, large hoses, roofing slates.
Shop 7	159	371	Conveyor belts of varying strengths and widths, belts for driving machinery.
Shop 8	91	268	Glue for use in other shops. Membranes and vacuum seals for airplanes. High quality production for military.
Shop 9	167	218	Non-formed rubber for different types of moldings for various types of vehicles.
Shop 10	126	250	Hoses reinforced with cotton and metal.
RTI-1	366	221	Rubber coverings of metal fittings used in cars, formed rubber, hockey pucks, water hoses. Leather production such as washers and gaskets for industry (including bottling plants) as well as collars and leashes for pets.
RTI-2	311	250	The two most important products are ventilation tubes for mines and linoleum but they also produce a variety of other products including water hoses, car mats, conveyor belts, car parts, leashes.
RTI-3	491	320	Resin mixtures and hand rails for underground escalators.
TOTAL	3534	251	

### Supply Problems

Rezina, like all Soviet enterprises, operates in a shortage economy. That is, its problems are not to find customers for its products but to find the raw materials, labor and machinery with which to manufacture orders. Thus, the Assistant Director for Commerce is not concerned with sales, as one might expect, but with garnering material supplies. The department concerned with buyers of Rezina's products was the production department, which was without a manager for the two months we were at Rezina.

In the daily production meetings which we attended, there was a continual reference to shortages, particularly of resin and transportation. Indeed, the meeting always began with the "dispatcher" recounting how many wagons of rubber had arrived and been unloaded and how much resin and of what type had been made at RTI-3. Typically, this report would be followed by complaints from shop level managers (nachal'niki) that they had not received enough resin. Oftentimes, these shortages in resin lead to temporary work stoppages (prostoi).

The Soviet Union does not produce natural rubber and cannot afford to import it and so the basis of Rezina's rubber products is synthetic rubber. RTI-3 takes synthetic rubber produced elsewhere in the Soviet Union and combines it with different chemicals (according to "recipes" developed by the in-house laboratory) to create a variety of resin mixtures that are the basic raw material for much of Rezina's production. Most of Rezina's synthetic rubber comes from a plant in Yaroslavl and, while the current economic uncertainty has put a strain on this relationship, the rubber continues to arrive at RTI-3. However, certain recipes require a

unique synthetic rubber that was produced by a single plant in Erevan.<sup>12</sup> This plant was shut down in 1989 for ecological reasons by order of the Armenian Supreme Soviet.<sup>13</sup> Rezina does not have the necessary hard currency to import the rubber from the West and has been unsuccessful in finding a completely satisfactory domestically-produced substitute. The products which required this special rubber were typically high-priced and so Rezina's inability to obtain this raw material has had a direct impact on its profitability.

Transportation problems are yet another manifestation of the shortage economy which complicate life for Rezina management. For the most part, raw materials arrive by train at RTI-3, the only part of Rezina adjacent to a railroad depot. Those materials not directly used by RTI-3 must be trucked to the site where they are needed. The volume of material that needed to be so transported far exceeded the capacity of Rezina's fleet of trucks. The transportation bottleneck oftentimes resulted in temporary work stoppages and, not surprisingly, was a recurrent topic at the daily production meetings.

Things are no less complicated when the material is to be used by RTI-3. Perhaps the best example of this is the synthetic rubber, which arrives in wagons containing

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<sup>12</sup>See Kroll (1991) for an interesting discussion of the problem of monopolies in Soviet industry.

<sup>13</sup>According to the juriskonsul't, Rezina filed suit in arbitrazh over the Erevan plant's failure to live up to its contractual obligations. Arbitrazh ordered the Erevan plant to pay a fine of 250,000 rubles, but lacked the authority to order the reopening of the plant, despite the continuing injury to Rezina. See Pomorski (1977) and Kroll (1987) for a discussion of breach of contract in the Soviet context.

30 kilogram parcels. Because the Soviet Union has no freight container system, they have to be unloaded by hand from the wagons onto a fork lift truck. This presents two problems. First, this is very heavy and not terribly appealing work. Even though their monthly wages are 640 rubles (nearly three times the Rezina average), recruiting and retaining such workers has proven to be extremely difficult. RTI-3 records reflect that, on January 1, 1988, there were 25 men unloading, on December 1, 1990, there were 15 and, by January 15, 1991, there were only 8. Soldiers have had to be enlisted to do the work. RTI-3 management believes that in order to retain workers they should be paid 1,000 rubles per month, which would violate limitations on the wage fund. But, as the director of RTI-3 told us with a wink and a nod, there are ways around those restrictions.

However, the more difficult problem is the shortage of fork lift trucks. Rezina used to receive them from Bulgaria but like so much trade with Eastern Europe these deliveries have been drastically cut. The result is that wagons stand idle in the siding for which Rezina sustains huge fines. In December 1990, they had on average 20 wagons standing, incurring a fine of 11,000 rubles; whereas in January 1991, they had on average 55 wagons standing which cost them 50,000 rubles. These fines come out of profits. The managers of RTI-3 have designed their own container system which would cost about one million rubles to manufacture. But they are not permitted to draw on their profits to make this. It requires a special capital reconstruction fund to obtain the necessary materials which, in turn, requires ministerial approval.

The bottleneck in transportation means less resin is produced and so the shops cannot fulfil their quotas

which in turn means that workers, paid on a piece rate system, receive lower wages. Indeed, during 1989, 8.4 percent of the labor force left (see Table 2 below). Those who remain tend to be older and female.<sup>14</sup> Although Rezina's turnover (tekuchest') rate is actually lower than the national average (Malle, 1990, pp. 62-63), management nonetheless views it with great concern, perhaps because of its difficulty in attracting young workers. The sort of heavy physical labor found at Rezina is not prestigious or appealing to young Muscovites. Approximately 40 percent of all workers are engaged in manual labor. Indeed, the working conditions are so difficult and potentially injurious (vrednye) to the workers' health that they are permitted by law to retire five years before the normal retirement ages.<sup>15</sup> All of the production-level managers we spoke with complained about a shortage of workers.<sup>16</sup>

Prior to 1986, Rezina was able to mitigate its recruitment difficulties by employing "limitchiki," that is, workers from outside Moscow who are recruited with the promise that after five years they would receive a

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<sup>14</sup>Two third of Rezina's workers are women. Malle's (1990, p. 155) data indicate that this is high, even by Soviet standards. She reports that female employment in heavy industry is usually around 30 percent and ranges as high as 50 percent in the machine building and petrochemical branches.

<sup>15</sup>This means that women can legally retire at age 50 and men at 55. Many Rezina workers continue on the job after reaching retirement age because they do not believe they could live solely on their pensions.

<sup>16</sup>Sabel and Stark (1982, pp. 451-57) argue that a persistent labor shortage increases workers' bargaining power. We saw little evidence of that at Rezina.

permanent residence permit for Moscow (propiska).<sup>17</sup> However, Rezina is no longer permitted to hire these limitchiki. Along these same lines, they experimented with imported Chinese workers, but this turned into a disaster.

The result of these difficulties in obtaining raw materials, transportation and retaining workers so typical to firms working in a shortage economy is that the number of employees, the output and the profitability of Rezina have been declining steadily over the last five years from 13.8% to 9.2% as shown in Table 2.

Table 1: Economic Indicators for 1986 - 1990

YEAR	1986	1987	1988	1989	1990
<b>No. Employees</b>					
Workers	3302	3226	3118	3107	2846
Total	4274	4225	4107	3811	3534
<b>Average Monthly Wages (Rs)</b>					
Workers	214	211	210	205	n/a
Total	201	200	197	230	251
<b>Resin Production (tons)</b>	4832	4902	4160	3288	3420
<b>Value of Finished Products (mill Rs)</b>	140.86	144.40	136.89	135.49	127.04
<b>Profit Rates (%)</b>	13.8	13.6	14.4(?)	13.0	9.2

<sup>17</sup>The head of the personnel department at Rezina told us that, at one time, fully half of Rezina's work force was made up of limitchiki. For a brief but trenchant discussion of limitchiki, see Granick (1987, pp. 31-33).

Apart from the gradual diminution of workers, there is also a problem of capital renewal. We have already commented on the aging nature of Rezina's capital stock, including machinery. All agree that its replacement is absolutely critical if Rezina is going to make the transformation into a going concern in a world of hard budget constraints. Since the Soviet Union does not manufacture the necessary capital equipment for rubber production, machinery has to be imported.

However, in obtaining the funds, Rezina finds itself fighting an uphill battle for several reasons. First, it has no direct access to hard currency, but must work through the ministry, thereby involving additional layers of bureaucracy. This is further complicated by the central government's current shortage of hard currency. That which does exist goes to sectors of the economy with a higher priority than producers of rubber goods. (Aslund, 1989, pp. 71-74) There is also the well-known preference of Soviet planners for investing in new projects rather than modernizing and retooling existing factories. (Hewett, 1988, p. 215; Aslund, 1989, p. 71) As a result, Rezina's plans for capital renewal have met with little success. One notable exception is the modern and highly automated rubber presses purchased from France and installed in Shop 3 several years ago. The same French firm shipped additional machinery to Shop 3 last year, but at present they stand idle, covered in plastic, since the ministry has reneged on its promise to pay for them. The French company retaliated by refusing to send in experts to show how the machines work.

### Perestroika and the Shortage Economy

How has the shortage economy changed with perestroika? To what extent is the exacerbation of shortages the result of the breakdown of the command economy? In the past, of course, the ministry would have been expected to help ease the supply crunch. (Gregory, 1990, 44-52, 94-99; Linz, 1988) The present nature of the relationship between Rezina and the ministry never became entirely clear to us, perhaps because it was changing even as we were querying management about it. At times, the manager for supplies and the General Director of Rezina would tell us that the ministry was of little help in getting materials in short supply. At other time, the General Director would imply that the ministry-enterprise connection was vital to Rezina's continued survival. The upshot seemed to be that while they still contact the ministry when they are desperate for materials, they no longer assume that the ministry can solve their problems. The manager for supplies and his direct superior, the Assistant Director for Commerce, are constantly working the phones, trying to make deals that will get them through that day's crisis. The vice-president of the trade union federation of chemical workers also said that he now receives phone calls from trade union activists at plants begging him to help them find materials. Had this happened five years ago, he would simply have called the ministry, but that now seemed pointless to him, given the impotency of the ministries. Instead, he tries to negotiate with other plants, using his trade union contacts. Occasionally, he will be successful if the target supplier is in the chemical industry.

The state's halfhearted attempts to move towards a market economy have also complicated management's life.

One example of this can be seen in the realm of price reform. Although restrictions have been lifted (or at least eased) on many items, the prices on certain products deemed essential continue to be rigidly controlled. While we were conducting research at Rezina, the price of cotton tripled. Cotton is used in the production of conveyer belts. However, the price of these conveyor belts continues to be fixed by the state. Thus, Rezina found itself in a no-win situation: it was obligated by law to maintain production in order to fulfill its state orders, yet production had ceased to be economically rational. Management reacted by dispatching telegrams, sending delegations to the ministry and threatening to refuse to pay the higher prices. Indeed, there was even some talk of discontinuing the production of conveyor belts. The problem remained unresolved when we left, but illustrates well the difficulties of life for Rezina in the age of perestroika.

Likewise, the state's efforts to reign in inflation have had the perhaps unintended consequence of hampering Rezina's attempts to recruit and retain its work force. The state has effectively instituted a wage freeze by permitting increases in the enterprise wage fund only when gross output has increased (rather than linking them to increased profits).<sup>18</sup> This could spell disaster for Rezina whose production has been falling and which already has had difficulty enough in retaining its workers in the face of competition from cooperatives and joint ventures.

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<sup>18</sup>See the Basic Provisions on the Composition of Wages To Be Included in the Cost Price of Production (Work and Services) at Enterprises of the USSR, Decree passed by the USSR Council of Ministers on November 5, 1990, Ekonomika i zhizn', January 1991, no. 2, pp. 14-15.

This then is the negative side of the breakdown of the command economy. Are there any positive sides? Has Rezina been able to take advantage of any greater autonomy it may have been granted by the state? What strategies have been deployed to keep it alive?

### III. Organizational Choice

At the heart of the economic reforms of perestroika has been the multiplication of organizational and property forms.<sup>19</sup> It is now possible to form independent cooperatives both inside and outside state enterprises, to carve out independent "small enterprises" within state enterprises, to establish autonomous divisions which have a leasing arrangement with a parent enterprise, to create joint ventures between enterprises, to found companies of limited liability and even to transform state enterprises into joint stock companies. From a legal point of view, all of these organizational forms share one basic feature: they create an entity that is a distinct legal person (iuridicheskoe litso) that has the right to act independently and, most important to the production-level managers with whom we spoke, to enter into contracts.

The General Director of Rezina has actively promoted these different possibilities by encouraging certain parts of the enterprise to pursue these opportunities. In this part of our essay, we shall try to show the rationality behind the diverse strategies adopted by the shops in the main plant and by the three subdivisions of

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<sup>19</sup>For an intriguing analysis of the debate over the restructuring of the system of ownership, see Pomorski (1991) and Hanson (1990).

the enterprise while in the next part we will discuss the political coordination of those strategies.

### Development of Cooperatives Within Rezina

Cooperatives became legal in 1988, only a few months before the election of the present General Director of Rezina.<sup>20</sup> As part of his plan to revitalize the enterprise, he established a cooperative within Rezina and turned to a large and well-established cooperative for guidance and financial backing. He chose to become affiliated with Avtomatika-Nauka-Tekhnika ("ANT") -- the huge cooperative that subsequently collapsed in a profusion of scandals resulting from its questionable dealings in armaments and strategic metals.<sup>21</sup> Rezina's involvement with ANT was completely aboveboard. Indeed, investigators from the procuracy reviewed the records but, according to those involved, found nothing questionable.<sup>22</sup>

Following the demise of ANT, the General Director decided to set up a new system of cooperatives at Rezina.

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<sup>20</sup>See the Law on Cooperatives in the USSR. Anders (1989, pp. 163-73), and Tedstrom (1990) provide an analysis of the law and the reaction to it.

<sup>21</sup>For background on the ANT scandal, see TASS, January 31, 1990, February 3, 1990, and February 7, 1990. More details can be found in "Prizemlenie 'Vzleta' [The Crash of a Take-Off]," Pravda, February 1, 1990, p. 3. The then-Prime Minister, N.I. Ryzhkov, was implicated and, in an extraordinary exchange with A.A. Sobchak during a session of the Congress of People's Deputies threatened to resign in connection therewith. A transcript can be found in BBC Summary of World Broadcasts, March 22, 1990, SU/0719/C-1.

<sup>22</sup>TASS (February 13, 1990) reported that the KGB participated in the ANT investigation. No one at Rezina mentioned KGB involvement in its portion of this investigation.

Try as we might to disentangle the details of this network we could not. Some cooperatives were empty shells or accounting devices, some were mainly connected to ventures outside Rezina, others were merely fronts for dispensing overtime. Different people gave us different accounts of the system as a whole, and the accounts from the same person might vary from conversation to conversation or even within the same conversation. It seemed that the network was designed, on the one hand, to make it impossible for outsiders to distinguish real from nominal transactions and, on the other hand, to create opportunities for flexible response to the barrage of decrees regulating the operation of cooperatives. The system was designed to be enshrouded in mystery.

What is a cooperative? They turn out to be very different from what we might normally think of as a cooperative. They look like a small capitalist enterprise. At Rezina they are typically organized by a small group of "members" (rarely more than the legal minimum of three, including the cooperative president) to produce goods that are similar or even identical to those produced by the enterprise.<sup>23</sup> The cooperative is entitled to sell the goods at prices agreed on by the parties, *i.e.*, "contractual" (dogovornye) prices, rather than at those set by the State Committee on Prices (Goskomtsen), *i.e.*, "state" (gosudarstvennye) prices. The cooperative employs workers from the enterprise (who are generally not "members" of the cooperative) and they, in return, receive about three times their normal hourly

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<sup>23</sup>A number of the important legal rights of "members" (chleny), such as the right to share in the profits and to participate actively in management decisions, do not accrue to those who merely work for the cooperative. Articles 11, 12, 13 of the Law on Cooperatives (1990).

rate. They use the equipment of the enterprise (and often other services too) but only outside normal working hours. In return, the enterprise receives a share of the cooperative's profit, usually about 60 percent. The "members" of the cooperative work very closely with the management of the shops in organizing work. Indeed, the boss or nachal'nik of the shop and his or her assistant would be employed as managers of the work and would be remunerated most handsomely.<sup>24</sup> The cooperative "members" were more likely to be responsible for obtaining materials, finding buyers, bargaining over prices and concluding contracts. They were responsible for making most of the contacts and transactions outside the immediate sphere of production. In contrast to the shop management who were usually older women, the cooperatives were invariably run by well-dressed young men. They were entrepreneurs adept at maneuvering through the shortage economy for which they took risks in order to earn considerable profits.

#### Cooperatives and the General Interest

One of the reasons for the success of cooperatives lies in their appeal to a multiplicity of interests within the enterprise. The most general interest they served was increased retention of enterprise earnings. The General Director often reiterated how the state traditionally took 88 percent of profits, leaving Rezina with virtually nothing. There was, therefore, little possibility and, even more important, little incentive to increase efficiency. In stark contrast, cooperatives

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<sup>24</sup>In at least one instance, the chief assistant to the nachal'nik was also a "member" of the cooperative.

retained all but three percent of their profits.<sup>25</sup> Keeping in mind that almost two-thirds of these retained profits are kicked back to Rezina, it becomes clear that everyone benefitted from the expansion of cooperative production. However, beginning in 1991, enterprises and cooperative profits are to be taxed at the same rate (45 percent).<sup>26</sup> As we shall see, this led to new strategies among managers.

What other interests do cooperatives serve? Cooperatives were a way of increasing employees' wages without depleting the enterprise's wage fund.<sup>27</sup> Much of the work performed by cooperatives was previously done by the same workers on overtime shifts. Calling it cooperative work served the interests of management and workers alike. Workers were pleased because they made more money. On overtime, they were paid approximately one and a half times the normal rate, whereas they might be paid three times the normal rate for cooperative work. Management benefitted because the money to pay for these

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<sup>25</sup>There was more to it than low tax rates. The original cooperative law put no limit on wage payments. By paying high enough taxes, a cooperative could reduce its profit and hence its taxes to almost zero, since wages were a cost of production that could be deducted from gross income in determining profits.

<sup>26</sup>The new tax legislation of 1990 (Vedomosti SND SSSR, 1990, no. 27, item 522) effectively closed the loophole described in note 24 by providing that "excess" or non-productivity-related wage payments have to be added back into profits when determining taxable income. The tax rates were in a state of flux as we left. It may well be that the actual tax rate for 1991 will turn out to be considerably higher than 45 percent. The important point, from our perspective, is that the tax liability for all forms of economic organization has been equalized.

<sup>27</sup>For a comparative perspective, see Stark (1985, 258-63).

cooperative shifts came not from the wage fund, but from other more flexible enterprise funds. Overtime wages, in contrast, had to be taken from the wage fund. The result was that management ended up with the same amount of work being done, yet less money being taken from its wage fund. This allowed them some room to maneuver in setting wages.

Rezina was far from alone in finding and benefitting from this loophole in the law. In November 1990, the Council of Ministers attempted to close it by issuing a decree declaring that wages for work on state orders, whether done by a cooperative or in a normal shift of the state enterprise, had to come out of the enterprise's wage fund.<sup>28</sup> But it turned out that there was a loophole in this decree as well since it only applied to cooperatives that were sponsored by a state enterprise.<sup>29</sup> Those cooperatives that operated inside the enterprise but with external sponsorship could still work on state orders without wages coming out of the enterprise's wage fund. Furthermore, those originally sponsored by a state enterprise could simply eliminate this provision from their charter. Thus, the decree turned out to be largely meaningless in practice.

The profitability of a cooperative depended on the price it could get for its products. Although a cooperative can almost always demand and receive a higher "contractual" price for its output, the most lucrative form of production was to manufacture something that the cooperative itself had designed, for which there was no

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<sup>28</sup>Ekonomika i zhizn', November 1990, No. 47, p. 13.

<sup>29</sup>The phrase in Russian is: kooperativy sozdannye pri gosudarstvennikh predpriiatiakh.

baseline state price. The next best alternative was to redesign a standard product, making it just different enough to justify a new pricing scheme. This is what the cooperative affiliated with Shop 9 had done. Its "members" had developed a new way of making the rubber molding that goes around the windshields of cars. They were selling them to an intermediary for 350 percent profit. The normal state production of this item made a profit of 30 percent. The state is trying to prevent such windfall profits by mandating a maximum profit level of 30 percent. But the cooperatives have already found a way around this. They simply resell the same output to a series of interconnected cooperatives, with the producing cooperative raking in a 30 percent profit on each transaction. One can, indeed, begin to see the purpose of a dense network of cooperatives!

The profit margin (rentabel'nost') for cooperatives was consistently much higher than for state enterprises, despite the correspondingly higher wages of workers and salaries of supervisors. This was not only due to the less rigidly regulated prices, but also to the ability of cooperatives to extract more from workers than could state enterprises. Cooperatives could demand both greater intensity and higher quality work. When cooperative production was simply overtime under a new name, it was organized as it would be on a normal shift. But when it was for special products (unrelated to the fulfillment of state orders), then it was often organized very differently. It could operate like an inside contracting system in which a group of workers would be paid for the completion of a job. They would decide among themselves how best to distribute the remuneration.

The nachal'nik and his or her assistants decided who would receive the lucrative cooperative employment which

enhanced their power over workers. The very existence of cooperatives had a positive effect on discipline in the shops.<sup>30</sup> Those with bad work habits, who went absent or drank, or who talked back to the nachal'nik could be penalized by being denied access to cooperative work. The bosses received very lucrative incentives for organizing cooperative work -- we heard figures of six or seven times their normal hourly wage. So we see, at the same time that cooperatives serve the common interest, they also benefit some more than others. Herein lies the source of much conflict.

#### Who Benefits from Cooperatives?

Workers expressed considerable resentment toward cooperatives, not only toward those outside the enterprise which charged exorbitant prices for goods that were previously available in state stores but also toward those internal to the enterprise. One doesn't have to look far for the reasons. First, workers resented the fact that the most lucrative cooperatives were only open to the chosen few. This gave even more power to the nachal'nik and workers complained that they had to "butter up" their bosses in order to earn a decent wage.

Second, insofar as cooperative production was just another name for overtime, they were bitter that they had to work longer and longer hours and still not keep up with the escalating cost of living. Due to the unprecedented shortage of basic foodstuffs in early 1991, they were having to spend more and more time searching and queuing at the same time they were working these

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<sup>30</sup>Stark (1985) reports that "work partnerships" in Hungary, which can be viewed as analogous to Soviet cooperatives within state enterprises, also had a positive influence on work place discipline.

longer hours. In this context, cooperatives were a means of extracting more work for less purchasing power.

Third, while workers seemed to accept the idea that the state should not pay them for the full value of their work, since the state did bestow certain benefits, they could not tolerate this from cooperatives. Their hostility was aimed at the middlemen who made huge profits from running the cooperatives. Indeed, one cannot fail to notice how smartly these "Young Turks" dressed. Their offices were often more spacious, well furnished and even equipped with Western computers, providing a stark contrast to the dingy and cramped quarters of the production-level managers employed by Rezina. The planning department was still using abacuses to make calculations. Its most sophisticated machine was an electric calculator of the sort that disappeared in the West twenty years ago.

#### Where do the Cooperatives Develop?

Not only workers but also specific shops were singled out for participation in the cooperative movement. Some had lucrative cooperatives while others did not. Insofar as cooperatives were initiated by well-connected middlemen who were usually prior Rezina employees, so they would choose shops where they had or could develop a close working relation with management. Also relevant was the relationship of these middlemen with Rezina's General Director, since no cooperative (or other change in organizational form) could take place without his blessing. But there were also more basic economic conditions which influenced the location of cooperatives.

Most important were prices. In order to justify the establishment of a cooperative, the department had to

produce that which could be sold for "contractual" prices, that is, prices that were sufficiently high to make cooperative production worthwhile. Thus, the nachal'nik of Shop 4, which produced hoses, complained that the prices for her products were strictly regulated by the state. In the past, her shop had made very high quality hoses which had a high profit margin. However, these hoses could not be produced without the special synthetic rubber made only by a single plant in Erevan which had been closed for over a year. Rezina had long since run out of any reserves of this special rubber and has been unsuccessful in finding a substitute. As a result, Shop 4 has been relegated to production of more ordinary, less profitable hoses. During the Wednesday afternoon production meetings held in the General Directors's office (a glorified version of the daily "dispatcher's" meetings), she vociferously protested that she was not getting enough resin from RTI-3 to make the plan. The shortage of resin only further discouraged the growth of cooperatives in her shop. The low returns to production in her shop placed her in a weak position to compete for resin, for cooperatives and she found herself losing workers. She stoutly defended the old command system and accused the bosses upstairs of bad planning and creating chaos in the shops.

Different situations pertained in other shops. Shop 7, where the very profitable conveyor belts are produced, had a thriving cooperative. The nachal'nik of Shop 7 was an old-time communist who had made Rezina her life. She refused to talk to us but people said she virtually lived at the work place and even at home was always on call. Despite the fact that her shop consumed more resin than any other shop, she never complained (at least not publicly) about being shortchanged by RTI-3. She had

established a good working relation with the cooperative based in her shop, which was not particularly surprising given that her closest assistant was one of its "members." This cooperative had branched out to external commercial operations in fish and souvenirs and had also entered into a joint venture with a group of Americans and Italians to build a supermarket on the outskirts of Moscow.

Shop 3 was the one place where some modern machinery (imported from France) had been installed to produce formed rubber products. As with Shop 7, the nachal'nik of Shop 3 was not given to complaining about shortages of resin at production meetings. He explained to us that was due not so much to his shop being favored, but to the fact that its needs were comparatively low and therefore easy to satisfy. It had had a cooperative but it had been terminated in December 1990 because the advent of the new tax laws made it much less lucrative. Instead, the shop formed a joint venture with a "small enterprise" of "consultants" who through their contacts had been able to obtain both extra labor but also badly needed technology, in this case, "press forms."<sup>31</sup> Since Shop 3 is not a "legal person" (iuridicheskoe litso), the outside partner had to enter into a contract with Rezina -- a contract that involves profit sharing between the partners. As with the cooperative, the small enterprise is responsible for all the external relations and hires the use of five machines, and the services of the nachal'nik and selected workers.

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<sup>31</sup>These sorts of associations or joint ventures are contemplated by the relevant laws. See Article 2 and 3 of the USSR Law on Enterprises (1990); and Article 4 of the Decree of the Council of Ministers on the Creation and Development of Small Enterprises (1990).

RTI-3, the resin for all the shops is produced, provides an interesting contrast. When interviewing at the main plant, we had been told that it also had cooperatives which produced resin at contractual prices for sale to the cooperatives in the main plant. This seemed logical but the director of RTI-3 and his assistant flatly denied it, providing the following reasons. First, a necessary condition for the existence of cooperatives is the possibility of selling products outside the enterprise. The resin mixtures produced by RTI-3 are so badly needed within Rezina that there is little opportunity for such external sales. The 10 percent of production that is sold to other enterprises for contractual prices does not give RTI-3 any extra profits. The proceeds are appropriated by the central management of Rezina. Second, the production process at RTI-3 is too specialized and too dependent on specific individuals, they said, for them to organize separate cooperative shifts. Instead, separate orders come to them from the cooperatives for which they charge higher prices which are then returned to workers at RTI-3 in the form of premiums. Interestingly, with one exception, the leaders of the cooperatives denied they paid any more for their resin mixture than the shops themselves. One cooperative president said he simply gets on the phone to the director of RTI-3 and obtains the required resin mixture without difficulty!

When we asked the director whether he was interested in adopting one of the new organizational forms which would make RTI-3 more independent, he said no. RTI-3 was after all in a monopoly position and, as he put it, "at the heart" of Rezina. He controlled the most critical resource and has no need of independence. Besides, he was entirely dependent on the head offices for

administrative services and for obtaining supplies. In effect RTI-3 was little more than a glorified shop. Nevertheless, they were geographically separated from the main plant and head offices and were trying to hatch schemes for enticing foreign capital to invest on their premises. The director was skeptical about the now fashionable pursuit of autonomy, saying that one should wait for the economic and political situation to be more stable. That perspective, of course, reflected RTI-3's position in the enterprise. His assistant, on the other hand, wondered whether there might not be some rubber company in the United States which was undergoing capital renewal and would be happy to ship its old machinery off to RTI-3 as an investment. But it was hardly a realistic proposition. As we shall see the other subdivisions -- RTI-1 and RTI-2 -- had much more concrete proposals for their independence.

#### From Subdivision to Independence

In 1973 when RTI-1 and RTI-2 joined Rezina the trend was toward amalgamation of enterprises into larger production associations or proizvodstvennie ob"edineniia. (Gorlin, 1976; Il'in, 1973) This was encouraged by the state but it also complemented the enterprise strategy of increasing bargaining power through increasing size. In the last year, the trend has reversed itself, with these conglomerates breaking up into their constituent parts.<sup>32</sup> RTI-1 and RTI-2 illustrate this trend. As we shall see, the logic of the marketplace is as important

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<sup>32</sup>Even while the old production associations are breaking apart, Kroll (1991, pp. 153-56) reports that new forms of amalgamations, such as the kontsern, the konsortsiium and the assotsiatsii, are taking hold.

in governing the transformation of enterprises as are relations to the state.

When we visited RTI-1, its management was in final negotiations with Rezina over its transformation into an independent "leased enterprise" (arendnoe predpriatie).<sup>33</sup> The path taken to this point was somewhat tortuous, but the story is nonetheless interesting and revealing.

RTI-1, which produces both rubber and leather products, is located in a primarily residential area. Like the rest of Rezina, its production pollutes the atmosphere. In July 1990, the local council (raispolkom) acted on the recommendation of a Deputies' Commission for Ecological Questions to order the closure of RTI-1. The President of the Commission, who had been elected on a radical ticket, was looking for publicity and a symbolic act. According to the director of RTI-1, there were a number of worse offenders, but his factory was chosen because it was so small and vulnerable. The plant was actually closed down for ten days. During this time, the General Director of Rezina, acting through various intermediaries, was able to persuade the Council of Ministers to categorize Rezina as an essential enterprise on the grounds that it provides critical parts for Soviet manufacturers of automobiles, trucks and agricultural machinery. e.g., ZIL, AZLK, GAZ, Gosagroprom. This action had the effect of reopening RTI-3, but only on a temporary basis. It was only in December 1990, following efforts to improve conditions and emissions, that RTI-3 was officially given permission to operate again.

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<sup>33</sup>See the Fundamental Principles of Legislation of the USSR on the Lease (1989).

During the closure, the employees of RTI-1 got together through their labor council (sovet trudovogo kollektiva or STK) to consider their future.

It seemed as though pressure from local politicians would force them to abandon the production of rubber products and so they decided to take advantage of new laws that might give them greater independence from Rezina. They would then be able to develop a different production profile which would not be an ecological danger. But there was another force driving RTI-1 toward independence and that was the local council. If RTI-1 was independent, then the local council would receive taxes from the factory. In return for this additional income they might tolerate pollution, at least on a temporary basis. That was the deal apparently struck between Rezina and the local authorities. Once RTI-1 decided to pursue its independence, the local council and Deputies' Commission were pacified, although management of RTI-1 is still hoping to move its rubber production out of the city.

The form of independence chosen by RTI-1 is a "leasing" arrangement (arenda) in which they pay a rent to Rezina for the use of the fixed assets of the factory. At the same time they will continue to fulfill the state orders so long as Rezina supplies the necessary raw materials.

Why did they choose the "leasing" form of independence? For one thing, at the time of the July 1990 closure, much more was known about the "leasing" than about the newer and more complex forms of privatization. In addition, it is generally seen as a stepping stone to complete independence. Management of

RTI-1 plans to buy out Rezina's interest within a year.<sup>34</sup> A more interesting reason for taking the "leasing" option was given by the director and also the chairman of the STK which organized support for the agreement. They both said that, as compared to a limited liability company or a joint stock company, the "leasing" arrangement was both easier to complete and easier to explain to employees. Likewise, it was more palatable to workers just beginning to come to grips with the notion of private property. The concern of the organizers about workers' ability to grasp the plan is understandable. The law requires that the decision to form a "leased enterprise" be approved by not less than two-thirds of the members of the work collective.<sup>35</sup> Such approval was easily obtained at RTI-1.

Just as we were leaving at the beginning of March 1991, the lease agreement was signed between Rezina and RTI-1 and registered with the local council.

At RTI-1 the impetus for privatization was first and foremost political, although, according to the chairman of its STK, it was also a very popular move. He said that since the decision was taken discipline had improved and the incidence of drinking at work had decreased. He told us that workers longed to feel like they have a stake in the output of their labor; as if they were owners or khoziainy. He reported that workers were already behaving as though the enterprise was theirs. But they were also expecting that independence would lead

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<sup>34</sup>Article 10 of the Fundamental Principles of Legislation of the USSR on the Lease (1989) sets forth the basic framework for buying out the lessor's interest.

<sup>35</sup>Article 16, Fundamental Principles of Legislation of the USSR on the Lease (1989).

to considerable and immediate wage increases. This was the biggest headache for the director of RTI-1 who found himself trapped by the government wage freeze which permitted wage increases only as a result of increases in output (not profits). He was looking for large, lucrative orders that might help him meet workers' expectations. He was also thinking of creating a small enterprise within the large enterprise. Still, the economic plans for the future were remarkably unclear. The director was hoping to attract foreign investors and to expand production but his proposals were as vague as those of RTI-3. He seemed to think that independence, i.e., a mere change in organizational form, would of in and of itself make for economic success. Once RTI-1 was autonomous from Rezina, he simply assumed the situation could only get better.

The strategy of the other subdivision of Rezina, RTI-2, is different. Their independence is geared more closely to specific economic plans. Like RTI-1 it had been merged with Rezina in 1973 and subsequently became its most profitable part. According to the chief engineer of RTI-2, for the last fifteen years it has been pouring money into the coffers of Rezina without seeing any returns in terms of capital investment. Already in 1973, he himself saw the writing on the wall and left to work elsewhere. He returned in 1989 at the urging of the director of RTI-2 on the understanding that Rezina would fund a major capital renewal. The chief engineer unveiled detailed plans for the wholesale reconstruction of RTI-2. It was in a strong position to pursue independence because of the profitability of their products (particularly ventilation tubes for mines and linoleum) and because they had an in-house capacity to make resin. The chief engineer said that many of the new

machines had already been delivered, and they just needed specific parts to set them up. They were hopeful that they would be able to sell some of their products abroad for hard currency.

Rather than pursue a "leasing" arrangement with Rezina, RTI-2 wanted to establish themselves outright as an independent enterprise. They had not yet decided which organizational form would best suit them. They vacillated from wanting a limited liability company to wanting a joint stock company.<sup>36</sup> Similarly, they were undecided on when to make their move for independence. Unlike RTI-1 and Shop 9, they had not yet taken steps to prepare the necessary documentation. Presumably, they were intent on getting as much out of Rezina and establishing a stronger economic foundation before they attempted to stand on their own. One quality they shared with RTI-1 and the shops of Rezina was an almost childlike optimism that this change in organizational form would somehow make life infinitely better for them.

#### From Cooperative to Small Enterprise

Early on in our research we were told that the most successful cooperative was to be found in Shop 9 which was soon to become a "small enterprise" (maloe predpriatie) within Rezina.<sup>37</sup> A small enterprise is like a cooperative in that it is a legal entity that can enter into contracts on its own behalf. In contrast, however, it can continue to be a constituent part of a

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<sup>36</sup>See the Statute on Joint-Stock Companies and Limited Liability Companies (1990).

<sup>37</sup>The Decree on the Creation and Development of Small Enterprises, promulgated by the USSR Council of Ministers in August 1990, legalized this organizational form.

state enterprise, so long as the total number of employees of the small enterprise does not exceed 200.<sup>38</sup> Apart from legal autonomy, small enterprises typically enjoy a two-year tax holiday. This benefit was not available to Shop 9 because its small enterprise was being formed on the base of an existing state enterprise.<sup>39</sup>

So why were they making the move? The president of the most successful cooperative in Shop 9 was the architect of the transformation. He said that there were now so many different units operating in Shop 9 that they had decided to integrate their operations into a single concern. They decided on the "small enterprise" as the appropriate legal form because it could be created quickly and easily.<sup>40</sup> Also, it lacked the pejorative connotation that had plagued them as a cooperative. Just as important, the small enterprise would permit a much bigger wage fund so that wages in Shop 9 could be doubled. In the hope that this would prove to be

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<sup>38</sup>This cap of 200 employees applies only to industrial and construction concerns. Lower limits are imposed for other types of businesses. See Article 3, Decree on the Creation and Development of Small Enterprises (1990).

<sup>39</sup>See Article 6, point 8, of the Law of the USSR on Taxes from Enterprises, Associations and Organizations (1990).

<sup>40</sup>Article 5 of the Decree on Small Enterprises (1990) requires registration to be effectuated within two weeks from the date on which the documents were filed. In contrast, Article 11, point 3, of the USSR Law on Cooperatives (1990) and Article 10 of the USSR Statute on Joint-Stock Companies (1990) gives the registering authorities 30 days in which to act; and Article 16, point 2, of the Fundamental Principles of Legislation on the Lease (1989) provides no deadline for action by registering authorities.

correct, workers voted for the transition. In contrast to the requirements for the startup of a "leased enterprise," the law does not require workers' consent for a transition to small enterprise. Thus, the vote was sought as a means of building popular support for the change.

But from where would the money come to double the wages? According to the cooperative president, legal restrictions on the size of the wage fund meant that profits could not be converted into wage increases. Such increases are permitted only when gross output increases. With the consolidation of the work of the former Shop 9 and its affiliated cooperative, he believed output would increase sufficiently to warrant a big boost in the wage fund. Other shops don't have plans to become small enterprises not only because they lack an active organizer but also because their non-state order production is not terribly lucrative.<sup>41</sup> As we have already noted, one of the items produced by the cooperative in Shop 9 enjoys a 350 percent profit margin.

What is in this for Rezina? It will contribute 60 percent of the initial capitalization of the small enterprise and will receive 60 percent of its profits. It has also provided assurances that RTI-3 will continue to supply the needed resin. In return, the small enterprise has promised to fulfill all state orders in a timely fashion. The cooperative president expects the small enterprise to lose money in the first year but, with new machinery and with their entrepreneurial talents to develop new products, he hopes to turn the shop into

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<sup>41</sup>A number of Rezina's shops (and subdivisions) have more than 200 employees and, consequently, are legally barred from transforming themselves into small enterprises.

a thriving concern. The small enterprise gives flexibility to shop production but it still operates within the framework of Rezina.

So far we have endeavored to demonstrate that the economic strategies of the different shops and subdivisions of Rezina follow a clear economic logic, linked to their position within the enterprise as a whole. Each part pursues goals that maximize the common economic interests of its members. But how are these interests coordinated? What happens when the interests of the different parties come into conflict? This is a question of the internal political order of the enterprise to which we turn next.

#### IV. Rezina's New Political Regime

So far we have focused on responses to the new economic opportunities of perestroika. We now turn to the political changes of perestroika and how they impinge on the realization of interests within the enterprise. Whereas the early period of perestroika opened up democratic possibilities and brought down the old political regime within the enterprise, the more recent period has seen a retrenchment of authoritarian forces and this too can be seen at work within the enterprise.

#### The Collapse of the Old Order

For the purposes of this paper we are going to assume that the old political regime of Rezina was one in which the party and trade union were instruments of managerial domination and that all three were firmly entrenched in hierarchies controlled from above -- the party apparatus, the trade union bureaucracy and the ministry. (Nove, 1977)

One of the first clearly articulated goals of perestroika was to free enterprise management from the "petty tutelage" of ministries. To this end, a new enterprise law was enacted.<sup>42</sup> Although passed by the USSR Supreme Soviet in the summer of 1987, it became effective only as of January 1, 1988. In addition to enhancing enterprise independence, the law also attempted to involve workers in the management of the enterprise. For example, the law provided that the general directors of enterprises were to be elected on a competitive basis, created the councils of the labor collective (STK) and gave them a voice in setting policy.<sup>43</sup>

In the spring of 1988, an election for the post of general director of Rezina was held. Initially, there were eleven candidates, including the then-General Director, a man well-remembered even today for his dictatorial and abrasive style of management. Four candidates were selected for a final run-off. These candidates had campaign speeches and written programs outlining their proposals for the future of Rezina. The present General Director, Ivan Andreevich, seemed to be the most enterprising and articulate of them. Despite (or perhaps because of) the fact that he was an outside candidate, having previously managed a factory in the Baltics, he was enthusiastically endorsed by the STK and,

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<sup>42</sup>The Law of the USSR on the State Enterprise (1987). Agenbegyan (1988, pp. 197-202) sets forth the lofty goals of this law and Puginskii (1989) details its general failure.

<sup>43</sup>See Articles 6 and 7 of the Law on the State Enterprise. Sovetskoe gosudarstvo i pravo (1988, no. 1, 51-69; no. 2, 39-50) printed a round-table discussion on whether top management should be elected. "Vybornost' rukovodiashchikh rabotnikov predpriatii, uchrezhdenii, organizatsii [The Electivity of Enterprise Leadership]."

at its conference, he was voted into power by delegates sent from the work places.

Ivan Andreevich took office in 1988, promising to build a new managerial team. There were numerous vacancies in top managerial positions but he filled them with people who would not challenge his authority, people whose loyalty he could be sure of. Indeed, in many cases, he chose pensioners who subsequently became little more than figureheads in their departments. Many of the younger managers who had actively supported his candidacy were soon disappointed: "What sort of General Director is it, who consults with you after he has already signed and sealed a decision?" "The partisans of perestroika change their tune when it comes to defending their own positions."

Although the party apparatus within Rezina was undoubtedly a force to be reckoned with at the time of Ivan Andreevich's election, by 1991, it was clearly crumbling. We need only compare the situation we found in the summer of 1990 with that which we confronted upon our return in January 1991. We spoke with the party secretary in July 1990, shortly before the 28th Party Congress. Our conversation was held in the party's suite of offices, staffed by a receptionist and dominated by a long table at which more than twenty people could comfortably be seated. The party secretary was a young but clearly competent young woman brimming over with ideas about how to transform the role of the party in the work place. She envisioned the party serving as a link between workers and management. While conceding that party membership within Rezina was declining, she seemed confident that the tide would be stemmed once the party clarified its agenda at the Congress.

As it turned out, her optimism was not born out by events. When we arrived in the middle of January 1991, we found a new party secretary, an old man who had just been elected, sitting all alone in a huge bare office. All the furniture had been removed except a small desk, dominated by a telephone switchboard that no longer worked. He was shuffling papers, waiting for someone to visit him. But no one, except ourselves, ever seemed to come into his office. Why should they? Everyone was amazed that we would even bother to talk to him. We asked him why he would take up such a position now, when the party was without any importance within the enterprise. He sadly recounted that he had always wanted to be a party secretary but had never had the contacts or influence. He confessed that only now, when being a party secretary meant nothing, could someone like him be elected. He saw it as his chance to serve the party. He hoped the party would now champion the genuine interests of workers and so effectively compete with other parties which only represented the interests of intellectuals. But the appeal of the party within Rezina continues to fall precipitously. During the second half of 1990, membership declined from 500 to 265 (including 90 pensioners). In the last year, only two new members joined and those who remain are mainly older workers.

If the party was effectively defunct, had any other body emerged to play a similar role? With the advent of the new enterprise law in 1988, the labor council (STK) came into its own.<sup>44</sup> This law envisioned the STK as

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<sup>44</sup>Fogelklou (1986, pp. 171-73) and Livshits (1986, pp. 29-30) discuss the peripheral role of the labor collective in the past. They both conclude that the lack of a representative organ hampered the development of worker participation in management. The STK fills this gap.

playing an active role in policy making. Yet the statutory language was so vague that no one was entirely sure of the STK's authority.<sup>45</sup> Indeed, taken as a whole, the law is somewhat schizophrenic. Not only does it endorse this revolutionary (at least in the Soviet context) notion of worker management, it also reconfirms the continued validity of the principle of one-man management (edinonachalie) in state enterprises.<sup>46</sup> Another inconsistency is that being the chairman of the STK is not a full-time position. This stands in contrast to the party secretary and the chairman of the trade union committee who are freed (osvobozhdennyi) from their regular job duties.

At Rezina, the STK became a key player in the politics of the enterprise, including the election of the new director. It was more concerned with the operation of the enterprise than was the trade union, which remained as it always had been -- a welfare agency which collected dues, organized cultural activities and distributed benefits, places in holiday homes, "zakazy"

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<sup>45</sup>For example, Article 7 of the Law on State Enterprises directs the STK, among other things, to "map out measures to facilitate more efficient work by the enterprise. . . and handle questions of improving the management and organizational structure of the enterprise." This article goes on to provide that decisions of the STK which are within their jurisdiction are binding on management. The parameters of this jurisdiction are far from clear. See generally Puginskii (1989).

<sup>46</sup>Article 6, point 4, of the Law on State Enterprises provides that the general director is to "direct all the enterprise's activity and organize its work." It further provides that "within the bounds of the enterprise's jurisdiction, its executive issues orders that are binding for all employees." Once again, we are confronted with jurisdictional uncertainty.

(scarce goods from basic food to automobiles), etc. (van den Berg, 1990; Hauslohner, 1988; Pravda and Ruble, 1986) The trade union continued to be very much "in the pocket" of management, rubber stamping dismissals, lay-offs, distribution of premiums, etc.

Yet like the trade union committee (profkom) at Rezina, the STK was dominated by mid-level management, the so-called inzhenerski-tekhnicheskie rabotniki, and not by production-level blue-collar workers (rabochie). Although the members of the STK seemed sincere in their efforts to understand and redress the concerns of ordinary workers, they lacked a direct link with these workers. Oftentimes, the workers were unaware of the efforts being undertaken on their behalf by the STK.

#### Struggles for the Future of Rezina

While the production sectors of Rezina were developing strategies to take advantage of the opportunities created by the barrage of new property forms, the service sectors were making their own plans. In particular, the engineers and technicians in the laboratories were thinking how they could sell their expertise outside the enterprise. The heads of the various laboratories, which are critical to the research and development efforts of Rezina, went to the economist who ran the Center for Scientific-Technical Creativity of Young People (Tsentr Nauchno-Tekhnicheskogo Tvorchestva Molodezhi or NTTM) and asked him to prepare plans for an independent consulting firm.

These NTTMs have been established in many enterprises with the purpose of furthering the careers of "young specialists," particularly those who had been active in the party's youth organization, Komsomol. The NTTM within Rezina resembled a cooperative in that it

solicited outside contracts for technicians at Rezina and indeed other enterprises. Like the cooperatives, it had to pay Rezina for the use of its premises and its association with Rezina. According to its president, this payment was not a percentage of NTTM profits, but rather a lump sum of 3,000 rubles per year. The NTTM president and the General Director had an openly contentious relationship. According to the president, the trouble started when the General Director demanded that he be granted the right to investigate the books of NTTM and to exercise greater control over the distribution of its profits. The president refused on the grounds that, according to the original contract, Rezina was to be a silent partner, and so began their feud. [An alternative picture was painted by another young technician who said that NTTM had agreed to pay Rezina a certain percentage of net profit but the General Director was suspicious of NTTM's accounting practices and so wanted to examine its books.]

The president of NTTM prepared a more general plan for the development of a consulting "cooperative" and the leaders of the laboratories and NTTM took this to the management of the enterprise in December 1990. The General Director opposed their plan and denied them the right to set up this consulting firm. So began the confrontation between Ivan Andreevich and the heads of Rezina's laboratories, who claimed to represent the interests of technicians and engineers. This group was led by a laboratory chief who also served as the chairman of the STK. Although she now actively supported Yel'tsin and Popov, she had previously been a dogmatic communist and, in fact, had served as chief of ideology in the party organization of the enterprise.

Thus, the STK became the focal point for opposition to the General Director. By January 1991, they were already developing a plan to transform Rezina into an employee-owned joint-stock enterprise. We sat in on the meeting of the STK as they discussed the first proposal, which had been prepared by the same president of NTTM. The plan was based on the draft RSFSR legislation on privatization. Its most important points were that shares would be given out to employees free of charge, that Rezina would transfer itself from the jurisdiction of the All-Union ministry to that of the RSFSR ministry and that ultimate managerial authority would rest with the STK. Along these lines, the General Director would be elected by a conference of Rezina's labor collective for a five-year renewable term of office and his rights and duties would be laid out in an employment contract to be entered into between him and the STK. Rebuffed by the General Director in their attempts to advance their own interests through the creation of a consulting firm, the younger intelligentsia, operating through the STK, were challenging Ivan Andreevich by presenting their interests as the interests of all employees. However, we found no evidence that the STK had communicated their plans to or even had much contact with workers. When the proposal was circulated and a meeting called by the General Director, only managers were invited.

The General Director was well-prepared for the challenge. He quickly launched into a vehement personal attack on the architect of the plan under discussion, the president of NTTM, telling the 40 managers assembled, "to listen to the young economist even though he was a liar, a cheat and an incompetent." The president of NTTM was allowed to present his plan but was quickly subjected to hostile interrogation from supporters of the General

Director. The chief engineer was so infuriated by what he heard that when he could contain himself no longer he launched into a flurry of abuse about the unprofessional behavior of this upstart. Only then did the director of RTI-3 try to turn the tables against the chief engineer, who subsequently got up to walk out, only to be told by the General Director to sit down and be quiet. The chairman of the STK tried to defend the proposal but was shouted down and/or ridiculed by the General Director. Most seemed hostile to the scheme and the few who supported it were not prepared to defend it publicly.

What was at stake here? It was more than a struggle for power. The STK was challenging the General Director by claiming to speak on behalf of all employees. At the same time, the proposal was very much a draft and contained major ambiguities, such as who could become a shareholder and what they could do with their shares. People were skeptical about the idea of giving shares out free to employees and doubted whether this would stimulate greater effort. Then there were serious reservations about Rezina's chance of survival as an RSFSR enterprise. They were already facing unprecedented shortages and to cut themselves off from the All-Union ministry would be to cut themselves loose from their only lifeline.

The chairman of the STK, on the other hand, retorted that this supposedly powerful ministry was doing little to help Rezina with its supply problems and the situation could hardly get worse if they transferred their allegiance to the RSFSR ministry. In her opinion, talk about economic viability only obscured the real issue which was that directors like Ivan Andreevich were feathering their own nests by forging close ties to the ministries at the expense of employees. She feared that

Rezina would be run down slowly through decrees from above, without employees participating in those decisions. She championed the right of workers to decide their own fate in this crisis.

But the struggles within the enterprise were closely connected to the wider struggles between the Russian republic and the Soviet Union. The radical market proposals of the Yel'tsin-led Russian government are more than alternative strategies or ideologies. They represent a challenge to the monopoly power of the ministries, that is, to the economic power of the central government. Thus, Rezina was a Soviet enterprise but, because it lay within the RSFSR, it could in principle alter its locus of registration. But the power base of the General Director lay with the All-Union ministry and would be eroded by changing the jurisdiction of the enterprise. The chairman of the STK supported transferring Rezina's affiliation to the Russian Federation because it would weaken the position of the General Director. She publicly championed market reforms and persuaded the factory to endorse a letter of Yel'tsin's condemning the Soviet government for its brutal acts in the Baltic Republics. Interestingly, the General Director (perhaps because he had spent almost a decade working in the Baltics) also strongly endorsed this statement.

### The Fate of the STK

The pro-Russian stance of the STK was not only governed by a desire to weaken the General Director's ties to the ministries. On a deeper level, it was a fight for survival. In June 1990, the USSR Congress of People's Deputies passed a new enterprise law which made it clear that the experiment with workers' management was

over. No mention was made of the STK. In its place the deputies created a new form of "enterprise council" (sovet predpriatiia), half of whose members are to be appointed by the General Director.<sup>47</sup> Although the 1990 law gives the "enterprise council" broad managerial powers similar to those given to the STK under the 1987 law (stated in the same kind of vague and declarative language),<sup>48</sup> the very fact that the membership of this new council is stacked in favor of the General Director convinces us that the law represents a triumph of the principle of one-man management (edinonachalie). Indeed, the STK chairman labelled it as the "directors' law" because so many of the deputies were enterprise directors and the legislation so clearly defended their interests.<sup>49</sup>

Ivan Andreevich saw this new law as freeing him from what he viewed as the constant interference of the STK in management matters. He told its chairman that he was terminating the STK. She refused to go away quietly, telling him that since the STK had been elected by a conference of the labor collective, only that body had

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<sup>47</sup>Article 18, Law on Enterprises in the USSR (1990). This law became effective as of January 1, 1991.

<sup>48</sup>For example, the "enterprise council" has the right to "determine the general orientation of economic and social development of the enterprise [and] determine the procedure for the distribution of net profit. . ." Perhaps the most bizarre provision is that which empowers the council to determine its own sphere of competence. Article 18, points 4, 5, Law on Enterprises in the USSR (1990).

<sup>49</sup>The accuracy of this characterization was confirmed by a more impartial source, R.Z. Livshits, Head of the Legal Sociology Sector of the Institute of State and Law. Interview, February 1991, Moscow.

the right to terminate its existence. She also took heart in the new Russian Law on Enterprises and Entrepreneurial Activity (passed by the RSFSR Supreme Soviet on December 25, 1990) which upheld the position and form of the STK.<sup>50</sup> Thus, the continued existence of the STK at Rezina depended on its becoming a "Russian" enterprise. Not for nothing was the chairman of the STK a fervent supporter of Yel'tsin and independence for the Russian Republic!

If the first meeting was called by the General Director and held in his spacious office, the return match was called by the STK and held two weeks later in a large hall. It was, in fact, the annual conference of the STK to which came delegates from all parts of Rezina.<sup>51</sup> At the top of the agenda was the fate of the STK -- to be or not to be -- and the closely connected question of continued affiliation to the central government. In the previous meeting the STK chairman and her plans for Rezina were under the gun. Now it was the turn of the General Director to bear the brunt of an attack on his management. The chairman of the trade union committee chaired the meeting.

The General Director opened, as was customary, with a fifteen minute report on the economic state of Rezina. He painted a very depressing picture, showing just how difficult was the present situation. The chairman of the STK had thirty minutes and she devoted most of it to a

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<sup>50</sup>Article 30, Law of the RSFSR on Enterprises and Entrepreneurial Activities, Sovetskaia Rossiia, January 12, 1991, p. 4. The law became effective as of January 1, 1991.

<sup>51</sup>There were 202 delegates, elected on a 1:15 ratio, of which 136 registered. Most of the delegates seemed to be management, with only a smattering of blue-collar workers.

relentless assault on Ivan Andreevich's style of management. She didn't pull any punches. She wondered what had happened to the restoration of the Culture House that had been closed down. The only part that had been renovated had been turned into a cooperative restaurant that was well beyond the means of the workers at Rezina. It had attracted prostitutes and expensive cars and people had already complained that it was bringing a bad reputation to the neighborhood. More pointedly, she asked: what were the profits of the restaurant and where were they going? She for one had not been able to find out. She moved onto another "doubtful" operation: the joint venture, Gulliver, through which the General Director has use of a BMW car. What was the agreement between Gulliver and Rezina? Again she had tried to find out but had been stymied. Then she brought up the question of the Chinese workers who proved such a disaster. Had the General Director consulted anyone about this decision? The criticism was simple: the rhetoric of the General Director might be democratic but he was not prepared to share the financial details of all the operations at Rezina nor consult with others over crucial decisions.

At the end of this diatribe, which was not warmly received by the audience, the General Director insisted on having his say. As he became more and more worked up, he unleashed a torrent of personal abuse against the chairman of the STK. He defended his record and ended with a self-righteous declaration that he came from a humble background and lived in a small three room apartment. The prevailing sentiment from the floor was against both protagonists for such an appalling exchange of insults. The chief engineer came to the podium, as did most of the senior managers, to defend Ivan

Andreevich. The nachal'nik from Shop 7 was received with rapturous applause when she said that in her forty years at Rezina she had never witnessed such an exhibition. She turned to the chairman of the STK and told her that she should be ashamed of herself. After nearly three hours of breast beating much of which avoided the issues at hand -- whether the STK should be dissolved and whether Rezina should become affiliated with the Russian republic -- it was decided to take a vote on the former question. But when the vote was taken there was no longer a quorum and the decision had to be postponed to the upcoming trade union conference on the collective contract. The delegates streamed away, annoyed that their time had been wasted.

Certainly, the STK did not seem to have a great deal of support and it would have gone down had there been a vote. It had not established roots among rank and file workers and most managers seemed to have more confidence in the present regime than in one run by the STK. While the STK's attempt to represent the wider interests of the employees at Rezina may have been genuine, it did not appear that way to the employees in attendance at the meeting.

#### V. Conclusion

In this essay we have described how the present political and economic circumstances encourage different factions of management to pursue different interests. We have tried to reveal the rationality behind managerial strategies -- how they are tied to structural position within the enterprise and to external opportunities. The diverse strategies were coordinated through the political order of the enterprise which allowed different groups to

voice their interests, albeit in a limited way. In short, the strategy of the enterprise has to be seen as the political aggregation of structurally defined interests.

This model of the divided enterprise is very different from the usual picture which regards the Soviet enterprise as a monolithic actor bargaining with the state. In this conventional view, strategy shapes structure rather than the reverse. The conventional model is flawed in the present circumstances for two reasons: the environment supplies an array of economic opportunities which divide management and the political order of the enterprise has lost its earlier coherence.

In earlier periods, the interests of all employees were first and foremost in bargaining with the state for a loose plan and then finding ways to fulfil it. For all the ambiguity of plan indicators, it was rational for all to try and pursue a common enterprise interest. Moreover, the despotic order of the enterprise based on the triple alliance of party, trade union and management made opposition very costly. As the state offers less and less and the administrative-command economy breaks down, bargaining with state becomes less salient. As a result, different interests within the enterprise crystallize and come into open conflict, particularly with the disintegration of bureaucratic despotism.

### Methodological Appendix

The political and economic context of perestroika provides new opportunities not only for enterprises but also for researchers. We believe that the intensive case study we conducted would have been impossible even two years ago. Despite the apparent reassertion of authoritarianism in early 1991, much of the public propaganda remains pro-market and pro-America. Enterprises can boost their standing by claiming association with the West and particularly the United States. Thus, the General Director of Rezina was quick to inform the ministry that he had two American scientists working in the plant. From spies, Americans have become symbols of progress -- at least in some quarters.

The relatively unique way we conducted this study poses problems of a comparative nature. To what extent do our results diverge from earlier studies of the Soviet enterprise because of the very techniques of research adopted? Our close and enduring contact with the enterprise contrasts with earlier studies which had to draw on newspaper accounts, limited survey data and emigre interviews. It might help the reader evaluate our conclusions if we related more about the study itself.

As part of her dissertation research on the role played by law in the Soviet enterprise, Hendley had worked with the lawyer and various trade union activists at Rezina. They asked her if there were other people at Berkeley who might be interested in doing research at Rezina. Burawoy happened to be in Moscow at this time and went with Hendley to talk to the trade union and management of Rezina. Management agreed to give us facilities for two months research in exchange for our

providing computers for their two kindergartens. Hendley remained to conclude the negotiations and draw up a contract with Rezina which stipulated the conditions of the research. We would observe and interview employees, we would attend meetings and we would have access to documents. Rezina would pay for our accommodation and give us a stipend of 500 rubles per month. In return we would provide them with "recommendations" and on completing our research we would give them the two computers. That is what happened.

From the beginning we had unusual access to all levels of management. We assumed such access and we were given it. We began with the organization chart and visits to the production shops. We soon became interested in the strategies adopted by different parts of the enterprise to cope with very difficult economic conditions. This guided the questions we asked and the people we talked to. Accordingly, we spent more time with managers of divisions, the nachal'niki of the shops, the organizers of cooperatives, than with workers.

Although we had our own office -- one vacated by the production manager who had left to become director of RTI-1 -- we conducted our interviews in the offices and shops of the respondents. These might take anywhere from ten minutes to several hours. We did not waste much time trying to get hold of people since they were on the premises and the General Director had publicly announced our research, requesting everyone to cooperate. In the beginning, the chairman of the trade union committee and the assistant to the chief engineer set up our interviews. But very quickly we were able to arrange them ourselves.

We did not have a fixed agenda of questions but tried to tailor our questions to the concrete experiences

in the enterprise. Hendley, who is fluent in Russian, conducted the interviews, consulting from time to time with Burawoy who was only learning Russian. Such consulting allowed us to take stock of the interview and plot its subsequent direction. As foreigners, we did have one advantage. We could ask naive questions which managers would not have tolerated from a Soviet sociologist. They assumed we understood nothing and some, unfortunately, assumed we would never understand anything.

Sociologists are not as unfamiliar to managers in the Soviet Union as they would be in the United States. Most Soviet industrial plants have their own "sociologists" who prepare and administer questionnaires. Thus, the one at Rezina had been dismissed, we were told, because he or she was not even competent to even make up a questionnaire. Since we had no fixed interview schedule our research, therefore, appeared both strange and more threatening. Managers wanted to respond to some fixed list of questions. We tried to explain that the use of questionnaires presumes one knows the "right" questions and the possible answers but these were precisely what we were trying to find out. No doubt, managers would have preferred to have filled out a questionnaire, or responded to a set of standard questions and have done with us. We refused to go away so easily.

Particularly in the beginning we were forever being asked what our purpose was. Our answers never seemed to satisfy until we began referring to Rezina as a laboratory for studying perestroika. Even then many of the managers wondered (or worried) what they were going to get out of our research. Others were embarrassed by the backwardness of the enterprise -- "I'm sure you have

never seen a place like this before?" they would say. Often, the more profitable conversations took place in more informal settings over dinner or during the weekend at the enterprise's winter resort. We developed a set of key informants who helped us understand the multiple levels of enterprise reality as well as the history of the struggles we were witnessing. Furthermore, the conflicts encouraged partisans to present their point of view to us -- once it was clear how much we already knew.

Most meetings were open to us. Particularly in the beginning, it was difficult for some managers to get used to our presence. Nevertheless, we insisted on attending meetings regularly -- production ("dispatcher") meetings in the mornings as well as the larger Wednesday afternoon meetings. We were also able to attend the special and, as it turned out, tense meetings where the future direction of the enterprise was debated. We attended meetings of the trade union committee and the workers' council. We also spent time in the shops and had a number of discussions with workers, individually and collectively. But talking with workers was not easy since management would introduce us and hang around watching over and sometimes even participating in our interviews.

The only meetings we were not allowed to attend were those called to discuss the withdrawal of 50 and 100 ruble notes from circulation. This currency reform was ordered by Gorbachev<sup>52</sup> and, although ostensibly designed

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<sup>52</sup>See Izvestia, January 23, 1991, p. 1, for the text of Gorbachev's "declaration" (zaiavlenie). The details are set forth in the accompanying decree of the Council of Ministers, "On Terminating the Acceptance as Legal Tender of 1961-Series 50 and 100 Ruble State Bank Notes and On Procedures for Exchanging Them and On Limiting Cash Withdrawals From Citizens' Deposits,"

to weed out the mafia and speculators, the hardest hit were ordinary people, particularly pensioners. Overnight their savings were made worthless unless they could change their notes within three days. For those who were employed, the enterprise was supposed to carry this out but no one (not even the General Director) was clear on exactly how this was to be done. There was panic and confusion. For three days, the enterprise almost came to a standstill while everyone worried about how they were going to change their money.

Resistance to our research is as revealing as consent. We failed to talk to three managers in particular. The most frank in her refusal was the leader of Shop 7, a long standing communist who had devoted her life to Rezina. She was widely respected as an effective and dedicated manager, but she wouldn't talk to us, despite repeated approaches by ourselves and managers. She barely acknowledged our existence even when we bumped into her. She did, however, allow us to talk to her assistant who said she was embarrassed by the state of her department. When attempting to explain to us why she refused to speak with us, everyone used the same word to describe her, namely "svoeobraznaia," which loosely translated means a "real individual."

Although we never directly asked to talk to him, it seemed clear that the chief engineer, deputy to the General Director, wanted as little to do with us as possible. He was a long-time veteran of Rezina who seemed less than enthusiastic about such new ideas as bringing in American social scientists to study the plant. Being responsible for production under the most difficult of circumstances, he had more important things

to do than answering our ridiculous questions. The General Director, on the other hand, as representative of Rezina to the outside world, had more to gain from our presence.

Even more interesting was the response we got from the managers dealing with supplies, namely the Assistant Director for Commerce and his immediate subordinate, the manager for supplies. Theirs were thankless tasks. The supply manager was continuously attacked in production meetings for not meeting commitments. It was obvious that the major day-to-day constraint on enterprise strategies came from the supply side and we wanted to know what changes there had been in the way the enterprise obtained its supplies. The supply manager agreed to see us but was singularly uninformative. We asked him for concrete instances of supply problems and how he tried to resolve them. He said that the only way for us to understand would be to sit and watch him all day. To his surprise, we jumped at the opportunity. When we tried to do this, he made all sorts of excuses to get us out of his office, even to the extent of giving Hendley a calendar and notebook as a parting gifts. Although he clearly didn't want us to return, we did, toward the end of our research, asking for data that would highlight supply problems. He shrugged his shoulders and said there were none. He showed us the books they use to record supplies but the data was product specific and not aggregated. While they did prepare special memos of badly needed products for the ministry, they had no overall assessment of shortages. Given the enormity of the problem this was striking in itself. It suggested that there was no point in compiling such statistics as it wouldn't cut any ice. Rather, supply problems are dealt with on a day-to-day,

moment-by-moment basis. We repeatedly tried to talk to his boss, the Assistant Director for Commerce, but he always failed to turn up or postponed, saying he was too busy. He was appointed two years ago on the recommendation of the ministry -- a youngish graduate with an economics background but with little experience in rubber production.

We were not only interested in the problem of external supplies but also the internal problem -- how resin which was in such short supply was distributed to the different shops. How was it decided that one shop rather than another should receive resin? We never got a satisfactory answer to this question. We were told that RTI-3 tells the dispatcher how much of each resin mixture is produced and she distributes it accordingly. But who decides which resin mixture to produce? Well, that's formulated in the plan. And the plan is formulated by management every year and every month. So, we were asked to believe that the distribution of resin was decided rationally. The vocabulary of planning was consistently used to obfuscate the political character of resin distribution. When we asked the planning chief who makes the decisions about the distribution of resin she replied cynically that often no one makes decisions.

When we asked how cooperatives got hold of their resin, we were given a variety of answers: the cooperative president simply rang up RTI-3 and they got it for normal prices; the cooperatives had to pay a premium price; the cooperatives worked through the nachal'nik of the shop. We were clearly touching raw nerves and so we backed off.

At the end of the research, we reluctantly complied with the contract. Many people had asked us what we would be "recommending." We wrote a report that was general in

character, making some comparisons to Hungary and the United States, but with very few specific references to Rezina. The General Director convened a meeting for staff, mainly from the personnel department. They may have wanted to ask us many questions, however the General Director decided whether their questions were appropriate or not, and then answered most of them on our behalf.

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