presence on the playing field of productive enterprise. What this amounts to is a revolution in citizens' political and economic relations with the state and with each other. Government and party would no longer be the main organizing vehicles for the creation and exchange of goods and services. The foundation laws, especially those on ownership of property and farm land, are to be the legal and social framework for these changes.

It is necessary to resort to some comparative economic theory to help understand why this framework is so crucial. American political-economist Charles Lindblom has described[2] modern industrialized economies as having three kinds of markets: the labour market where energy and talent is exchanged for money, the consumer market where individuals exchange money for goods and services, and third, and usually larger than the first two combined, the intermediate market where enterprises (corporations, firms, farms, businesses large and small, and government departments) buy and exchange parts, raw materials, business services, energy, and the like.

LINDBLOM'S INSIGHT INTO THE SOVIET ADMINISTERED system is that it disestablished this third market. Since 1929, factories and collective farms and stores and newspapers and restaurants have traded with each other only at the quantities, prices and dates set in advance by the government plan. Such is the smothering effect of the planning system, that the Soviet Union has comparatively few production organizations – numbering in the tens of thousands compared to the millions of businesses, partnerships, not-for-profit companies in the US, an economy of comparable size.

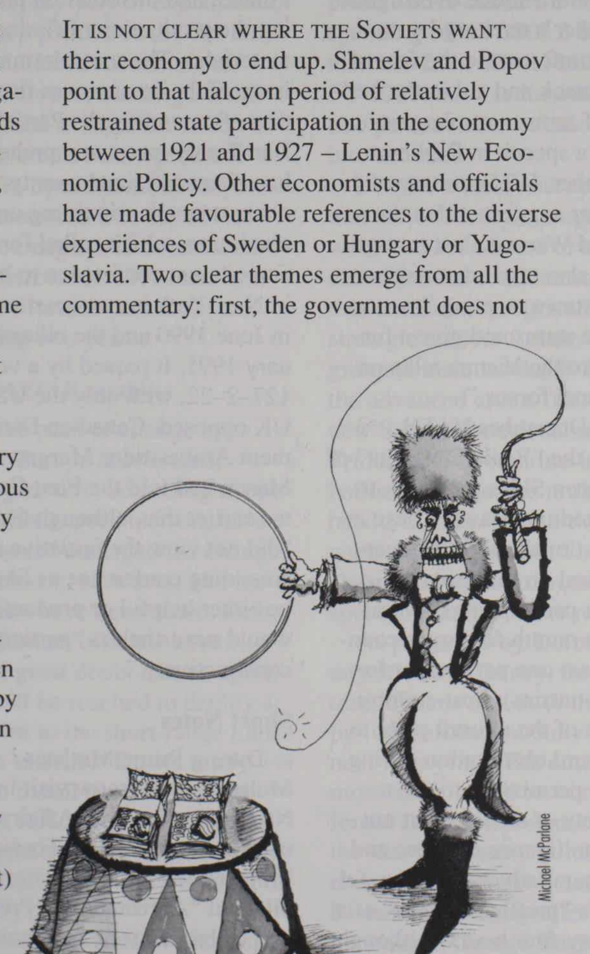
Modern post-industrial life in the West is composed of millions of commercial transactions between all manner of businesses – some of these transactions are large products for great sums between big companies, but most are not. They are instead the "trifles" as Shmelev and Popov call them – buttons and packaging and wire and paperclips and sundry services – that make up a dense and prosperous economic existence. Since there are relatively few businesses in the USSR, write Shmelev and Popov, there is a constant shortage of indispensable "trifles."

Shmelev and Popov's account of the lunacies of the planning process shows why. Even if one firm wants to trade with another, say by purchasing paper clips from the factory down the road, there is no money outside the plan with which to pay for them. And the factory down the road cannot sell them (even if they do have some to spare) since the plan says they shouldn't have them (the plan is perfect) and the extra money earned from unplanned sales further distorts the plan. So instead of counting it as a profit, the planning ministry fines the firm four times the value of the sale.

It is these weak and underused intermediate markets – the economic space left when the government retreats – that Soviet citizens will have to occupy with various kinds of producing entities. Which is where the proposed property and land laws come in. In the West, commercial activity is nested in an array of laws, customs and institutions which allow individuals to come together in groups, outside the direction of the state, for the purposes of making things and making money. Property law, commercial lending regulations, laws to limit corporate liability, anti-trust legislation, patent rules, to name only a few, are essential in one form or another to establish and regulate production outside a Soviet-style command system.

Little of this legal framework exists in the Soviet Union. Even the most fundamental notions of "rule of law," where individual rights and property are protected from arbitrary action by the state, remain to be firmly established and are essential if Soviet citizens are to start up companies of their own or work for others who do. The character of these laws and customs, and how they work in harmony with or against a culture that is already in great ferment, will determine the nature of the economy that emerges.

IT IS NOT CLEAR WHERE THE SOVIETS WANT their economy to end up. Shmelev and Popov point to that halcyon period of relatively restrained state participation in the economy between 1921 and 1927 – Lenin's New Economic Policy. Other economists and officials have made favourable references to the diverse experiences of Sweden or Hungary or Yugoslavia. Two clear themes emerge from all the commentary: first, the government does not want, in Ericson's words, "freewheeling Western markets;" it seeks the egalitarian outcomes embodied in socialist ideals. And second, with the exception of those whom Ericson termed "conservative engineering types" who believe that with modern computers the current administered system can be salvaged, the Soviet leadership seems to understand that it cannot order up the results it wants – it's going to have to learn to tolerate a little market chaos.



According to Ericson, there is residual fear of the "anarchy of the market" so the government wants to ensure against undesirable consequences like too much reward for individuals. "Socialist markets" envisaged by Soviet economists would remain steerable and manipulable by the government, and there continues to be a strong antipathy to "capital-based value" which is regarded as "unearned" income or exploitation. He offers this example: under the new property and enterprise laws a minimum of three people will be able to own a factory and split the profits from its operation ("labour-based value"), but they will not be able to sell at a profit the factory and its equipment to someone else – capital accumulation. In short, there will be a market for goods produced by enterprises but no market for enterprises themselves.

ERICSON REGARDS THE GOVERNMENT'S CURrent programme as an untenable middle ground between Western-style capitalist markets and the existing system. He may be right in that once let off the leash the new markets may make their own rules. Or worse, if the legal mechanisms turn out to be at odds with traditions and cultural values, the economy might not get going at all.

It is not clear, for example, why three people should invest in an enterprise if, should they get bored or old, they cannot get back the money invested plus some reasonable amount for the capital they have had tied up. Presumably, the state could buy back enterprises at the cost of purchase plus some amount for interest, but the apparatus for administering such a system reinvents the very machinery the government claims it's trying to dismantle. A viable marketplace for goods seems to lead inexorably to a market for businesses – ideological predilections notwithstanding.

Economists everywhere will be watching the USSR (or Russia if it comes to that) with great attention. It is the largest experiment in applied economic theory ever attempted, and the well-being of 300 million people rides on the results. □

1. *The Turning Point: Revitalizing the Soviet Economy*, Nikolai Shmelev and Vladimir Popov, New York: Doubleday, 1989.

2. *Politics and Markets: The World's Political-Economic Systems*, Charles E. Lindblom, New York: Basic Books, 1977.