

## CHAPTER ONE

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# The Steel Cage

## *The Politics of Economic Restructuring*

A mural depicting the heroic history of metallurgy—from its invention through its role in the defeat of the invading Nazis—stretches across the length of the main gate to the world’s largest steel plant. Above the mural in giant letters is the slogan, “The Business of the Party Is the Business of the People.”

Forty-three kilometers around, the Magnitogorsk Works, a dense mass of smokestacks, pipes, cranes, and railroad track, consists of 130 shops, many of which are as large as whole factories. “Steel plant” would be an inadequate description of the complex formed by an ore-crushing and ore-enriching plant, a coke and chemical by-products plant, 10 gigantic blast furnaces, 34 open-hearth ovens, and dozens of rolling and finishing mills. The Magnitogorsk Works produces more steel each year than Canada or Czechoslovakia and almost as much as Great Britain.

The metallurgical complex dominates city life in every way. The works owns apartment buildings in the city housing two hundred thousand people, eighty-five children’s institutions, several hospitals, a number of nearby resort complexes, and an entire agricultural system of state farms and greenhouses in the surrounding countryside. It manages its own food service, which serves hundreds of thousands of meals a day. It owns and operates the city’s mass transit system, ferrying its employees and those of every other enterprise to and from work.

Signs of industrialism are everywhere, from the multicolored and unbreathable air to the many young men wearing bandages or walking with a limp. The intimate connection between the factory and the city is expressed in the names of city streets and districts, while the roar and smoke and smell of steelmaking can be sensed from any part of the city twenty-four hours a day.

Magnitogorsk was built at the site of one of the country's richest and most accessible iron-ore deposits, which by virtue of its location in the Urals region lay beyond the reach of an invading army. By 1938, less than a decade after construction began, the core of the Magnitogorsk Works was in place. Further work was halted until the war necessitated abrupt expansion. Additions to the plant continued throughout the 1950s and 1960s, when by replicating itself on the basis of its 1930s design the plant doubled in size to reach its current proportions. By the early 1970s, however, the great mountain of iron ore was exhausted; "they ate it," as the locals say. The steel plant must now import iron ore from other regions. (It has always had to import its energy source, coking coal.) Moreover, in the age of long-range bombers and space technology, Magnitogorsk is no longer invulnerable, and it remains far from most of the markets where its products are consumed. To top it all off, there are serious problems with the plant's operation.

To be sure, Magnitogorsk supplies steel to many of the leading branches of industry in the USSR, including the military, and exports to thirty-five (almost all formerly socialist) countries. Yet although the factory seems to have no trouble maintaining or even increasing the quantity of steel it produces, recently, according to experts within the factory, it has had trouble meeting the quality standards of its customers, and even greater problems are anticipated.

Ivan Romazan, the director of the Magnitogorsk Works, noted in an interview with the national Komsomol (Communist League Youth) newspaper in 1989 that "more than one-half of all fundamental equipment has been in use for more than thirty years." Two years earlier, Iurii Levin, deputy director for economic affairs, had been more blunt. "The factory," Levin told a correspondent for *Pravda*, "has the largest assemblage of obsolete equipment in the country."

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Nikolai Gurzhii, Magnitogorsk's director of trade, was graduated from the local Mining Institute, after which he went to work in the steel plant, where he became active in the Komsomol. Soon he moved to the

city party committee bureaucracy. He spent seven years in the party's trade department and since 1980 has worked in the local soviet's trade apparatus.

"The supply for Magnitogorsk forms part of the overall plan for the Cheliabinsk region [*oblast*] drawn up in Moscow," he explained during an interview in his office. "The authorities in Cheliabinsk divide up their allocation to all cities under their jurisdiction according to the number of inhabitants of each place. Within the region there are no special designations affording privileges to a city because of its size, contrary to widespread belief. In each case the precise number of inhabitants of a locality determines its supply.

"The goods assigned to Magnitogorsk are then assigned by us to the retail networks of each of the three city districts strictly according to the size of their populations. Nevertheless, certain adjustments are made for age (districts with disproportionately old or young people require a greater supply of goods appropriate to their specific needs).

"The centralized supply system does not satisfy everyone's needs. People are not starving, they're not naked, but they're not satisfied. Here on average, we can supply 80 percent of food products (as determined by scientifically established consumption norms) and 75 percent of industrial goods. The shortfall is called our 'scarcity level' [*uroven defitsita*]."

According to Gurzhii, one could get a sense of what a "scarcity level" means by considering the availability in the city of both money and goods. "As of today," he disclosed, "savings banks in Magnitogorsk contain enough money in deposits so that people could, if they wanted to, buy up half of everything we currently possess in stores and warehouses." He conceded that the situation was even more serious if one took into account that a significant portion of the goods on hand had long languished unsold and was thus essentially dead inventory.

"At low fixed prices all desired goods are sold as they appear," Gurzhii explained. "There's nothing left on the shelves, and people hold onto large sums of money they cannot spend. Theoretically, decontrolling prices would mean that the shortages would 'disappear' because with the bidding war expected to occur, not everyone presently purchasing goods would be able to afford them. Thus, lifting price controls, with so much money available, would cause runaway inflation in the short run and severely damage the poor." He might have added that if producers proved incapable of responding adequately, devastating social dislocation would have been caused without any positive benefit.

"Meanwhile, we have nothing for a rainy day. How long would we

last if suddenly all incoming supplies ceased? We do have a small reserve of industrial goods. But absolutely no food reserve. None. Forget about reserves. We currently have in Magnitogorsk 60 percent of the city's calculated need for shaving cream. Sixty percent. There's nothing in the shops, and there hasn't been for how long. What people are shaving with I'd like to know."

Much of Gurzhii's efforts were devoted to what he called "correcting the mistakes of the plan," which he did by sending his own agents around the country in search of wholesale goods. He claimed that he had developed regular commitments with several extraplan suppliers, "although 'contracts' are routinely broken." Trade in planned goods amounted to 470 million rubles in 1988; during the same year, extraplan activity reached 65 million rubles. Gurzhii emphasized that "all this is entirely up to us. We are not obliged to travel." In addition to deal-making, Gurzhii's office, with a staff of seventeen, oversaw a city trade network with hundreds of stores and almost ten thousand employees. Although public eateries fell outside his jurisdiction, his office supplied them with milk products and investigated problems called to his attention.

One of his biggest headaches was trying to coax large local enterprises, such as the steel plant and the two separate wire factories, to produce goods not provided to the city by the central supply network. "They don't show initiative in these matters. We beg them to help us. They do not manufacture products our city needs without prodding. The pressure approach is the only one that produces results."

Even those locally produced products mandated by central plans remained largely unavailable in the city. Central directives required that more than 85 percent of output at the Magnitogorsk steel plant's sizable furniture factory be shipped out, despite the severe shortages in Magnitogorsk. The city's sewing factory, the largest in the country, turned over for local sale 2 percent of output. The city received the same 2 percent of output from the local shoe factory.

"People in trade in the West worry about how to sell goods. We are preoccupied with trying to obtain goods to sell. We travel fifteen hundred kilometers to the Belorussian republic to buy shoes made in Magnitogorsk," Gurzhii remarked, holding his head in his large hands.

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Sergei Chudinov, my escort for a tour of the Magnitogorsk Works in May 1989, occupied the position of deputy secretary for ideology of the factory's party committee. In response to my barrage of probing ques-

tions before the van for the factory tour arrived, Chudinov rattled off information randomly and in an indifferent manner, pausing intermittently to allow me to catch up with my notetaking.

“Of the factory’s sixty-three thousand employees,” he began, “about fifty-four thousand actually work on the factory grounds. The rest can be found in the nurseries and farms owned and operated by the plant. Pay at the plant averages 310 to 330 rubles a month [about 50 percent, or 100 rubles, above the average for the city]. Blast furnace operators and steel smelters earn up to 650. Some engineers make even more. The director probably makes about 2,000.

“The plant produces some sixteen million tons of steel annually. Up to one thousand loaded rail cars a day come and go. ‘Interruptions’ of major raw materials—iron ore, coking coal, metal—are extremely rare. There are no problems with the quantitative supply of either water or energy. Sometimes the availability of more trivial items presents a problem. Foreign customers rarely purchase finished product like rolled steel. They are much more interested in pig iron and blooms. But the ministry severely limits what the plant may sell abroad. The metal, we are told, is needed at home.

“Consumer goods, chiefly furniture and kitchen items, account for around 2 percent of output. Soap is currently being manufactured in one of the rolling mills from oils. The state farms under our jurisdiction work a sown area of twenty thousand hectares and contain more than thirteen thousand pigs and six thousand cows. We produce twenty-five kilos of meat and ninety-six kilos of milk per worker annually. From our greenhouses we receive a large supply of vegetables, which can be seen at the lunches served in factory canteens.

“Employees can buy all the meat they can afford on factory territory. The same goes for butter. Through the trade union organization between ten thousand and twelve thousand places are available each year at summer camps for employees’ children. Not all summer camps are the same, however. It’s pretty much impossible to get a spot at one of the plant’s preferred lakeside bungalows during the summer. Any other time of year, there’s no problem. The number of trips abroad has been declining. This year there are 230 to 250 twelve-day trips to socialist countries for the whole plant. For those lucky enough to get one, the trade union pays 70 percent of the cost. The number of trips to capitalist countries is too small to mention.”

When I asked Chudinov to name the biggest problems at the plant today, he responded immediately. “There are two. One, the difference

between the conditions of work and the pay for it. Either we sharply improve conditions, or we sharply raise pay.” Were workers complaining? “People are posing very sharp questions,” he let out, smiling and shaking his head. “This did not happen before. Previously, it would have been considered a revolt.”

The other issue he singled out was the environment. “This is problem number one,” Chudinov said, suddenly getting extremely serious. “With the existing equipment, either you stop production or you destroy the air. That’s the situation. And you have the plan and bonuses to consider. That’s why they violate the directives about reducing pollution. The solution is related to the reconstruction.” Reconstruction of the plant, he added, would cost an estimated 3.5 billion rubles and take until the year 2000.

The factory’s party organization boasted almost nine thousand members and candidate members, only eighty of whom, including Chudinov, sat on the party committee. Yet far from seeing himself as a member of a privileged group, Chudinov at first expressed ambivalence about his status. He had worked two years as a shop boss, a job he said he preferred. “As a shop boss you see the results of your work; the metal is packed up and shipped out,” he explained. “It’s easier to do your job. Sometimes with party work, you wonder whether if you weren’t there, anything would be different.”

But he was there, along with the rest of the large factory party organization. After a moment of reflection, he added that “we [party workers] definitely do some good. When a shop goes to pieces, it’s always because ‘they stopped working with people,’ as we say. Discipline falls, and so on. I guess party workers are like sociologists and psychologists. We work with people. It’s much harder, however.” The van arrived.



The city soviet’s trade agency had a special market department with six employees who oversaw the city’s two “peasant” markets: a highly organized indoor market on the right bank, selling food grown on private plots, and an outdoor bazaar on the left bank, selling anything and everything. Prices at both markets were allowed to fluctuate in response to supply and demand.

A trip to the bazaar revealed a large selection of high-quality boots, coats, and shoes; sporting goods; windshield wipers, gaskets, whole carburetors, even a fleet of uncannily well-preserved secondhand automobiles. Prices, however, were significantly higher than in state stores.

“People constantly come to us to complain of high prices,” Nikolai Gurzhii acknowledged. “But the only way to influence prices at the markets is to sell more goods through state stores or [state] cooperative trade (which accounts for only 4 million rubles out of nearly 500 million total sales), where prices fall between those in state stores and those at the free markets. If we tried to mandate lower prices, people would stop producing, and prices for the remaining goods would climb still higher.”

At the right-bank food market, he continued, “we can ask for the documents of anyone selling something, inquire where the food came from, establish that the person selling food grew it himself. But that’s it. As for the other market, anyone can legally sell his or her own property, either at secondhand stores (which may take up to 7 percent commission) or at the left-bank flea market. It is illegal to sell new products at markets that are not self-made. Anything you yourself produce you can sell at whatever price you can get. But you must actually have produced the entire good. If you buy a t-shirt at a state store, affix a picture of Michael Jackson, and sell the shirt for five times what you paid, this is speculation. The product was not entirely self-produced.”



Assaulted by a rush of swirling smoke and deafening noise, I, a first-time visitor to the Magnitogorsk Works, worriedly asked what had happened. Had there been an explosion? “No,” I was told matter-of-factly, “we’re fulfilling the plan.” Although the fact that the steel plant is operating can be verified from anywhere in the city, the factory gates symbolize a divide in the consciousness of those who have witnessed steel-making firsthand and those who have heard about it but through no lack of effort cannot really imagine what it is like—until at last they set eyes on it.

Crossing the gate is like entering the bowels of a huge animal. A thick webbing of pipes crisscrosses above one’s head. Dark, heavy smoke circles between the pipes. Even out in open space, it is impossible to see the sky. A forest of tall structures, rising to heights of one hundred meters, overwhelms a mere human. Below lie graveyards of discarded metal, piled up accidentally yet in such a way that they seem to form suggestive shapes. Breathing becomes extremely difficult, so concentrated is the smoke, so noxious the chemical stench.

Inside blast furnace no. 10 flames shoot up into the air. Drafts of heavy smoke blow intermittently. Orange rivers of pig iron flow

through canals, directed by metal rods held by human figures wrapped from head to toe in heavy clothing drenched in soot. The temperature of the rushing orange lava reaches sixteen hundred degrees Celsius. Heated air moves up and down in waves, producing a surreal view. The brightness and temperature make it possible to stand there observing only for a few seconds at a time. Much closer to the heat, the workers put in eight-hour shifts. The sea of hot iron surges into seventy-ton ladles that carry it away. The cascading metal is so hot that it sustains a permanent fire on top. Sparks flow continuously into the air in a kind of mock holiday display. After the entire process is finished, the canals are cleaned. Within two hours, it starts up again.

Open-hearth shop no. 1 by itself produces almost eight million tons of steel a year—an incredible figure made more believable by the ear-shattering noise, which makes it virtually impossible to hear this information. Electric cranes drag along tracks running from one end to the other of the aircraft-hangar-sized shop, pausing to push metal into roaring furnaces. Open hearths permit the worker to “look” inside and regulate the steelmaking process as it unfolds. In this way the worker can attempt to assert control over the chemical content of the steel and hence influence its quality. Yet twenty meters from the furnace it seems barely possible to endure the heat. Although summers are hot in Magnitogorsk, conditions in the shop improve considerably. The glass covering the structure housing the equipment is removed, opening it up to the sky and allowing for ventilation.

Between shops there was time for more questions. Could it be very safe to work here? Without hesitation Chudinov ticked off the following grim figures: “In 1987 there were fourteen deaths at the Works; in 1988, around ten; five months into 1989, there have been three.” How long did people last in such conditions? “Some work twenty-five, thirty years. They cough and wheeze, spit out black gobs. They’re special people, strong folk. Everyone knows who they are.”

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Gurzhii took a deep breath and let out a sigh. “Here no one is interested in producing. We see what goes on abroad. They do whatever they want; they produce like crazy. On the other hand, we ‘do everything for the people.’ We build and build, and there are no goods for our people. How many decrees and proclamations? No goods, no equipment, no packaging, no containers for transporting goods. Our machine-building



industry produces millions of tons of machines a year, for how many decades now? Where are they? What are they making? Try to buy even the simplest machine. It's disgraceful. Seventy years we live like this.

"At city enterprises no one is interested in his work. People don't work for their own city, but for 'Uncle.' There is no desire to do better, to produce more. We can't keep it, so why bother? This nonsensical situation applies throughout the Russian republic. In the Ukraine and the Baltic republics, there is a different system. There, local needs are satisfied first. In Russia, the center is not interested in our problems.

"We go to the manufacturers, show them our needs. They claim they can't help us. They don't have the resources, don't have the personnel, don't have the technology. Maybe not this year, okay, we'll wait until next year. Not next year either. They offer us no prospects. It's hopeless. How can it be that we have needs and yet no producer is in a position to fulfill them?

"It's no use appealing to the central trade authorities. The whole process usually culminates in one of their 'studies of demand.' They then include this in the reports of their work and receive bonuses for it! Our sewing factory is plastered over with posters of outstanding workers; you can't buy an article of clothing in our stores.

"We torture employees in trade. Their situation is intolerable. They work like animals, all the while cursed and denounced. They receive the lowest pay, they work all by hand, without proper technology, and they suffer nothing but abuse. What is this?

"Why do the planners punish people in trade? They give us a plan for 100 percent of consumption norms, yet we get goods for only 75 percent. Of course we can't meet the plan. We lose our bonuses. Public opinion is aroused against us. Isn't this real wrecking? The planners are economists. They know the consequences of their actions. If there are no goods, there will be no trade. You don't have to be a genius to figure it out. Yet for seven years in a row we have been given a plan that we could not under any circumstances fulfill. What the hell kind of plans are they throwing in our faces? Who benefits from this?

"All of this is offensive. War has been declared against all of this, but they do not allow us to work. The USSR Ministry of Trade, the Russian republic Ministry of Trade, the Cheliabinsk Regional Trade Management—they don't actually 'trade' anything. All they do is get in the way, hinder us, load us with inane regulations and contradictory orders. They gave us independence in law, but in practice they take it away. We are

forced to comply with their orders; we are under their domination. If we resist, they fight us through their control over the banks; they withhold money, etc.

“I get a huge package of documents from the higher authorities every day. Just to read them takes up half my day and ruins my mood. I often spend the rest of the day filing official complaints to the trade authorities about themselves. They passed a law prohibiting us from going to Moscow to the ministry to try to solve our problems. Now we can do it only at our own expense, which we do. Then they ask us why we did not ask them for permission to come! But we paid for the trip!

“I need to go all the time to bang the table, both to Moscow and to Cheliabinsk, where they do absolutely nothing, aside from piling up paper. There are in fact three steps—the Cheliabinsk Regional Trade Ministry, the Russian republic Trade Ministry, and the USSR Trade Ministry—before I can get to Gosplan [the State Planning Commission]. Everyone has an apparatus of thousands. I see all this with my own eyes. We could live without their flood of paper. How to disperse these ministries—that is the main problem facing the country today.”

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When first built in the 1930s, Magnitogorsk was hailed as one of the most modern steel plants in the world. No more. “We had some Japanese here,” said Vadim, a rolling-mill worker, to a visiting American journalist in the summer of 1988. “We said, ‘Tell us, how far behind are we?’ They said, ‘Forever. You’re behind us forever.’”

Plaintive calls for the total overhaul of the Magnitogorsk plant began more than twenty-five years ago. But reconstruction was perennially postponed, and the factory was called upon to make do with what it had: shore up a bit here, patch things together there, in short, give itself a sort of artificial respiration. The factory employs many more repair workers than steel smelters.

The delay in reconstruction was not caused by ignorance of the problems or lack of proposed solutions. “There is a veritable sea of different plans,” acknowledged Nikolai Panishev, professor of mining and metallurgy at the Magnitogorsk Mining Institute, in an interview in 1987. Panishev drew attention to a monograph published in the 1970s that outlined in detail the kind of reconstruction to be done. The dilemma at the plant arose more or less as a direct result of government policy. Despite the more than adequate profits for reconstruction generated by the plant, the Ministry of Ferrous Metallurgy repeatedly decided to

forego the gigantic capital reinvestment required to reequip—until just recently.

A quarter century after it was first deemed urgent, large-scale reconstruction of the Magnitogorsk Works finally began with the building of a gigantic new steelmaking shop, a BOF converter, to replace the ancient open-hearth ovens. Even factory officials admitted, however, that the new converter shop, which was due to begin partial production in 1989, represented only the beginning of a long and very expensive process. A second converter was tentatively planned. Several larger and more efficient blast furnaces were envisioned to replace most of those in operation, but construction was put off. New rolling mills appeared necessary, at the very least, to replace those in operation since the 1930s.

The funds for reconstruction were to come out of the profits of the factory, part of the new policy of “self-financing.” Magnitogorsk in fact was one of the first enterprises in the country to embark on reconstruction through its own financial resources, when it was put on self-financing in 1985. Nevertheless, what self-financing meant in practice remained unclear. The factory was still obliged to turn over its profits to the ministry, which then decided what percentage to return to the factory. In 1988 the factory requested to keep thirty kopecks for each ruble of its profit, but the ministry returned only fifteen. And those fifteen kopecks had to finance not only reconstruction and the building of new shops, but workers’ housing, schools, medical care, the city’s transport system, and so on. Factory management was livid.

A controversy over the dispute broke out in the central press in the spring of 1987. The ministry was taken to task for “starving” the plant in its hour of great need, as well as having denied for almost three decades persistent and urgent requests for reconstruction. After supplying the country with so much steel for so many years, Magnitogorsk felt cheated, the article noted. One manager divulged with considerable bitterness that “other enterprises in ferrous metallurgy receive back more than thirty kopecks per ruble of profit. In a way, we are punished for our profitability. Our profits are used to subsidize the many inefficient plants operating at a loss.” Decentralization of the Soviet economic system remained no less important, in his view, than the technological reconstruction of the steel plant.

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Laws permitting “individual labor activity” for certain groups of the population (retirees, students, housewives, people with disabilities) and

private businesses (called “cooperatives”) were issued by authorities in Moscow in late 1986 and early 1987. Significantly, an announcement in the Magnitogorsk newspaper in the spring of 1987 that a group of musicians had formed one of the city’s first cooperatives, far from endorsing individual initiative, struck a threatening tone.

“The creation of a musician’s cooperative will end all sources of non-working [*sic*] income, which until now was accrued by so-called orchestras, crooks that played funerals,” explained a city official in charge of culture. “Now,” he cautioned the public, “only musicians from the cooperative are to play funerals.” His words were echoed by G. A. Stekolshikov, a judge who warned that “the ‘organs’ were going to verify all those engaged in individual labor activities.” It seemed a curious way to promote individual and collective enterprise.

A short while before, a group from one of the city’s iron-cement products factories had founded Magnitogorsk’s first cooperative: Obelisk, makers of gravestones. Standard metal grave markers made by state agencies predominated in the two existing city cemeteries. The cooperative members had promised not only stone but quality work at an affordable price (270 rubles).

Obelisk got off the ground relatively quickly, primarily because of the support its members received from their patron-employer, iron-cement products factory no. 1, which leased them space and equipment and provided supplies. “Not for free, of course,” wrote the newspaper. “Marble, cement, metal—all at retail prices, which were twice as high as wholesale. Nevertheless, the benefits were mutual.”

In sixteen months of operation, the coop produced a profit for the factory of 61,000 rubles. A further consequence of the coop’s work was the reconstruction of the cemetery. Moreover, the coop’s price for a gravestone had fallen from 270 to 230 rubles. Then all of a sudden, in November 1988, the iron-cement factory director, citing the pressure to meet his yearly production plan, declared that he needed the space back. According to a local journalist, however, someone at the factory overheard the director say, “Why keep a coop when you can do it yourself?”

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Planning, Soviet economists readily admit, is a tricky business. For example, there are, as Boris Rumer observed in his excellent monograph on the Soviet steel industry, more than one million sizes and shapes of

rolled steel required by Soviet firms.\* It is impossible to predict in advance the exact proportions of each size or shape that each firm will need. Usually, a range is provided. But because every plant's performance is measured by the aggregate weight of output, a plant gets more "credit" for producing heavier strip. Unfortunately, there is a greater need for the thinner varieties.

When customers are forced to choose between the thicker strip or nothing at all, they accept the thicker variety. Perhaps they can barter the thicker strip. Most likely, they will end up machining the strip to the desired thickness. Much metal thereby goes to waste. Thus, the planning system, conceding its own limitations by suggesting a range of strip to producers, ends up encouraging production of greater quantities of metal than the planning agency itself deems necessary to meet specified needs.

Nevertheless, although a customer may be forced to shave off a significant portion of the structural metal shapes it is allocated, Soviet machines, tractors, and refrigerators are heavier than otherwise equivalent Western counterparts. A number of reasons account for this phenomenon, but a primary cause must be that the performance of machine-building firms is measured not by profits but by overall output tonnage.

Measured in gross output, the Soviet Union produces more than 20 percent of the world's steel. Yet Soviet firms, especially in the machine-building branch of the economy, ritually bemoan the desperate shortage of steel. Can the world's leading steel producer simultaneously be suffocating its steel-consuming industries?

Someone familiar with market economies might surmise, as Boris Rumer suggested, that the Soviet Union exports a significant volume of its steel. In fact, it would like to export more steel than the current pittance it does, especially for payment in hard currency, if only that steel's quality made it competitive on the world market. Perhaps in an expanding economy, demand for steel is just outstripping domestic capacity. As it turns out, however, the Soviet economy is not growing, or at least not growing very much. And in any case, intensive production, or "storming," at peak periods demonstrates that the Soviet steel industry does not operate at or near full capacity most of the time.

If neither insufficient capacity nor excessive exports explain the ostensible paradox of impressive production totals alongside a perpetual steel

\* *Soviet Steel: The Challenge of Industrial Modernization* (Ithaca: Cornell University Press, 1989).

hunger, what does? The planned—or, more accurately, “command”—economy itself.

Soviet firms are not allowed to purchase steel directly from other firms. Instead, they put in “bids” for metal to the State Supply Commission (Gossnab). Because a firm knows it will receive less than it requests, the firm logically asks for more than it otherwise might need, secure in the understanding that it will not suffer for higher costs because an enterprise need not make a profit to stay in business. Gossnab tries to anticipate this upward bidding and almost always allocates less than requested, but without the lever furnished by cost, the commission invariably finds the task of disciplining enterprises impossible.

Rumer pointed out, however, that if the pressures on the demand for metal resulted simply from Gossnab’s ignorance of real production needs, the problem could perhaps be alleviated. But firms experience repeated interruptions in the supply of even the metal they have been allocated. Naturally, they seek to insure themselves against potential disruptions by maintaining “reserves.” Together with the absence of cost considerations, the operation of the central allocation system thus creates an unlimited demand for metal.

To buttress the point, Rumer cited an investigation undertaken during 1981 and 1982 of three hundred industrial enterprises in Moscow, all of which were found to have large metal reserves. The authors of the published investigation asserted that “stockpiling” at some plants had created artificial shortages at others. In fact, the investigators failed to find a single plant where shortages existed. Instead, reserves at all plants were found to be accumulating from year to year, thereby putting great stress on already inadequate storage facilities. Often supposedly scarce metal was simply “stored” outside in huge, undifferentiated heaps, where it naturally rusted.



Cooperatives in Magnitogorsk have no better friend than the city newspaper, which has conducted a vigorous campaign on their behalf. “They appeared according to the laws of social reality,” the newspaper wrote in a long article on coops in 1988. “They will aid the state, do what the state cannot do. They are not only economically but socially beneficial, raising people’s initiative and independence. True, some of this activity took place earlier, but now it has become lawful. Thus, consumers will be protected, illegal activities and speculation will be ended, and taxes will be paid.”

All the same, letters demanding the immediate closing of the cooperatives deluged the newspaper. “It’s no secret,” wrote one person, “that under the guise of cooperation assembled those who for a long time before the birth of coops lived on unearned income, engaging in speculation and black marketeering. Coops are equally unseemly. And they gouge. Who needs these profiteers?”

M. N. Afanaseva wrote an anguished letter denouncing coops. “What will these cooperatives bring? . . . We have small pensions, we are not included in the group of war invalids, and so we do not have their privileges, as if we are guilty for coming out of the battles whole. What’s more insulting—we fought, we worked without respite, and what do we have to show for it? Can you compare our income with coops? . . .

“Recently I observed how strong men, twenty-five to thirty-five years old, trade in watermelons. I inquired how much they pull in for a day’s ‘work’ in the fresh air, not having to swallow the dust and smoke of the factory shops. ‘To hell with you and your open hearths and blast furnaces,’ one openly answered. ‘What does one make there? Here I’ll sell something, the boss’ll come by, and out of the receipts he gives me fifty rubles cash.’” Afanaseva claimed she waited until the end of the day and “sure enough, he got his money.

“So I began to wonder, who will take the place of today’s cadres at the works if everyone flees to sell watermelons? Youth today are literate. Do they want to swallow smoke for peanuts? And what about us, with our miserly pensions, if coops gouge for everything? How can our powerful and rich motherland allow them to mock honest, working [*sic*] labor?” Added the reporter: “She is far from alone in her opinions.”

Indeed, conversations overheard by that same reporter at the left-bank flea market indicated considerable displeasure:

“How much are the jeans? What? You get that kind of money? You don’t want to stand at the bench; you don’t know how such money is really made.”

“Aren’t you ashamed to charge that much for a rag? Did you sew it yourself? You could pull a plow and yet you sit behind a sewing machine like a broad.”

“They untied the hands of these privateers, and now they dream about Rockefeller. They live off us.”

The newspaper tried to reason with its readership, pointing out that “coops pay the state a fee to rent a space at the market. They are assessed

charges for utilities. As for raw materials, they must search high and low, rummaging through what state enterprises throw away. This waste they turn into useful items. All these factors go into the price. If you don't like the price, don't buy!" To consumers with few options, such words are insulting.

Special blame for harassing the coops was assigned by the newspaper to the city bureaucracy, which "remains unwilling to make available its own retail facilities. Instead, it smothers coops in paperwork." Members of the tilemaking coop *Mozaika* (Mosaic) complained bitterly of having to fill out innumerable forms and obtain endless stamps and signatures. "They cannot alter any product or service without forms and permission; plus there's a negative mood against them."

Notwithstanding those obstacles, prices for cooperative goods were already dropping, the newspaper asserted, and their quality was high. "Take the example of this pair of pants here. Isn't this what we dreamed of? Fashionable pants, and quality, too? But instead, we call these people 'new Nepmen,'\* hunters after big money. If only everyone who said such things was rounding up junk and turning it into usable consumer goods! All our problems would be solved!"



Not simply the country's largest producer of steel, the Magnitogorsk Works was the most profitable enterprise in the ferrous metallurgy branch of the national economy. In 1988 the enterprise was officially 800 million rubles in the black. In 1989 operating profits topped 1 billion.

Nevertheless, in a command economy it is nearly impossible to determine a firm's "actual" profitability. Price controls on key raw materials and transport subsidies mean that, say, a steel mill, especially a remote one, benefits from state-set lower costs. (Magnitogorsk received seven hundred wagon loads of coal a day, many from as far away as two thousand kilometers, and almost an equal number filled with iron ore.) At the same time, however, the plant provided its workers with low-priced lunches and operated extensive day-care and resort facilities at a loss. What was most critical, a market system might come up with a price lower than the one set by the ministry for Magnitogorsk steel—if

\* *Nepmen* is a derogatory term for the postrevolutionary "bourgeoisie" that purportedly arose in the 1920s as a result of the so-called New Economic Policy (NEP), under which certain types of private trade were made legal again.