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**CONSTRUCTION COOPERATIVES IN
THE KOMI ASSR: A CASE STUDY***

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A. Introduction

This case study focuses on a category of cooperatives identified as "construction" cooperatives. It is based on a review of several such cooperatives in the Komi ASSR over a week long period during June and July 1989. A construction cooperative is one whose activities include the construction of roads, buildings or related activities. Most such cooperatives also engage in a variety of other activities like wood cutting and processing, equipment installation, equipment repair, etc.

One construction cooperative, Severnyi, based in the city of Uhta, was studied in more detail and accounts for much of the detail in this case study. However, observations from at least five other construction cooperatives were incorporated to provide greater depth and validation of the empirical evidence. In addition to construction cooperatives, a "joint stock" company engaging in construction and other activities was also observed as an example of a non-cooperative form of enterprise, but one which operates in market-oriented mode.

The Komi Autonomous Republic occupies a 415,000 sq. km. area in the north of the European side of the Soviet Union. It is an area rich in natural resources: timber, oil, gas and coal. There is a good deal of waste wood available in the Republic, creating opportunities for cooperatives. Severe weather and undeveloped transportation present obstacles for cooperatives; however, the Komi Government seems to be very favorably disposed towards them.

There are several hundred cooperatives operating in Komi with about 250 concentrated in the Uhta area. The great majority of these cooperatives consists of industrial, production-oriented cooperatives.

B. Historical Perspective

Cooperatives in what is today the Soviet Union appeared first in prerevolutionary times, in the first decade of this century. These cooperatives were associations of individuals banded together for a common productive purpose. They continued to exist during and after the revolution of 1917 and indeed flourished during the time of the New Economic Policy (1921-29). This form of enterprise was abolished in the late 1920's along with all other forms of market-oriented activity after Stalin took over.

Yet cooperatives did not disappear completely from the Soviet Union. At least one form of cooperative, a worker-oriented cooperative of a type largely confined to the mining industry and identified by the name "artel" survived at the fringes of a completely centralized economic system. One such artel, the Pechora artel, was established in the 1920's and continued to operate in the Komi ASSR until 1987. The Pechora artel initially was a cooperative of miners, mining gold and other minerals which they sold to the State. The artel was a highly egalitarian form of labor association with a great deal of discipline, camaraderie and self-sufficiency. At the time of its disbandment, the Pechora artel had approximately 1,500 members. By that time it had branched out far beyond mining activities and was earning most of its income from road-building activities. This antagonized the Soviet Ministry of Non-Ferrous Mines in whose jurisdiction the artel was operating, and the latter succeeded in breaking up and effectively disbanding the artel in 1986, following a protracted legal proceeding.

The members of the disbanded Pechora artel sought related employment in various state enterprises but retained their cohesion within a number of smaller groups. When the cooperative law seemed to be imminent in the Spring of 1988 these groups reformed and sought registration as cooperatives under the new law. Thus the Pechora artel gave rise to an estimated 15 mostly construction-oriented cooperatives in the Komi ASSR. The largest of these is Severnyi. The last leader of the Pechora artel emerged in Karelia as the head of another construction cooperative.

The main point of this historical review is that in the Komi ASSR, as in many other areas of the Soviet Union, where arteis were allowed to operate, there is a strong cooperative tradition and experience which greatly facilitated the establishment of new production cooperatives in 1988 and 1989, but also strongly influenced their character and operations in a manner resembling the artel form.

The Severnyi cooperative started its operation in May of 1988 with eight members. The initial activity was a stone crushing operation which they performed for a mining association (state enterprise) in Vorkuta, in the far north-east part of the Republic, on facilities leased from the enterprise. This operation was highly successful with production more than tripling over that of the state enterprise within the first six months. This success led to a second project for a gas development state enterprises (Sever Gas Prom, hereafter referred to as SGP). The project consisted of road building and gas development construction in the far north. At that time 200 workers from the State Gas Construction Department (most of them previously with the Pechora artel) joined Severnyi as members. The gas development portion of the project was delayed for environmental reasons, but the cooperative was able to quickly redeploy its labor to other projects and grow rapidly to a workforce of 708 as of the end of June of 1989. Of these, 702 are cooperative members.

Most of the other construction cooperatives in Komi started their operations approximately a year ago. Typically, a nucleus of a few individuals with entrepreneurial drive, most likely employees of state enterprises, would come together to start a cooperative. They would be later joined by others (again, former employees of state enterprises) with the original nucleus typically taking the management positions and the later arrivals forming the production workforce.

C. Detailed Description

1. Operations of Construction Cooperatives - Overview

Construction cooperatives in the Komi ASSR engage in a variety of construction activities from roadbuilding, to building construction, to construction of industrial facilities (such as factory shells, gas field and oil field construction, etc.). They are also involved in numerous other related activities such as equipment installation and repair, quarry operations, and wood construction. Because forestry is a major economic activity in Komi, several of the construction cooperatives are involved in wood cutting and processing.

The most striking phenomenon regarding the operations of these cooperatives was their close, symbiotic, relations with state enterprises. Typically, the cooperative would perform all or a large part of its work for a particular state enterprise, or in some cases several state enterprises.

Construction cooperatives perform valuable services for their state enterprise patrons. They help them achieve their plans by producing goods, facilities and services which the state enterprises would have difficulty obtaining within the "system". Typically, state enterprises have funds available but are unable to use them because one or more critical inputs (material, equipment or labor service) may not be available when needed, even though all other inputs may be available (perhaps in abundance). A typical scenario is one in which all the materials and equipment for the construction of a facility are available but the state enterprise which is to do the construction cannot schedule the work to meet the host enterprises Schedule. Or a certain type of tubing may not be available. Some types of construction may be of too small a scale to merit any kind of priority for the construction state enterprise which tries to meet its quantitative targets. Construction cooperatives step in to fill the gap. They do almost any kind of construction by organizing all the necessary inputs (materials, equipment and labor) to meet the necessary targets. They are able to do it because of the greater degree of flexibility they have and the incentives they offer to their members, and because of their entrepreneurial drive. For example, if a certain material or equipment is in short supply, they will immediately search for a supplier near and far and they will enter into sometimes complicated barter arrangements to exchange inputs available in excess for those in short supply. The expert was told that people with this type of talent are among the highest rewarded cooperative members.

Furthermore, because of their flexibility in organizing labor, the ability to work long hours and be more productive (as a result of the substantial monetary and other incentives they offer), cooperatives are often able to complete a given construction task at a fraction of the time it would have otherwise taken.

Also, most state enterprises now have production quotas for consumer goods. Such production is usually a distraction from the enterprise's main task. Again, cooperatives step in to produce a variety of consumer products, often using waste materials or idle equipment. For example, many of the cooperatives visited make furniture or other wood products from waste wood.

Finally, cooperatives will perform tasks for state enterprises which the latter could not put into their plans or the need for which surfaced too late to be included in the plan, yet they are critical in helping the enterprise achieve its targets.

In return for these services, a state enterprise provides the cooperative with steady business, usually without competition, and all the wherewithal that allows the cooperative to operate within a system that makes virtually no provision for entities such as cooperatives other than to allow them to exist. In addition to the use of materials, equipment and facilities, a state enterprise can provide such facilities as license to do foreign business, securing visas and passports for foreign travel by cooperative managers, etc. It should be noted that theoretically, cooperatives do not need state enterprise patronage to obtain many of these facilities; however, they are often required to have a state enterprise's permission or support in a system which still operates under the principle of "what is not specifically permitted is prohibited".

This system of patronage/dependency has a number of implications for cooperatives. On the positive side, it provides cooperatives with a form of linkage to the current economic management system in the absence of a formal linkage. On the negative side, it makes them dependent on the vagaries and whims of state enterprises and more specifically the personalities that run them. The construction cooperatives observed had a close relationship and personal allegiance to the director of the state enterprise that patronizes them. This makes the cooperatives vulnerable in other ways. Even if no unsavory favors are extracted, the cooperative must often do work at a loss to maintain patronage. Sometimes, they are asked to kick back some of their revenues to the state enterprises (perfectly legal), or do personal favors. An example was the construction of a community recreation center for the director of a state enterprise who happened to also be a local elected official. Even though community development funds were used for the construction, it is doubtful that this facility would have been constructed if it were not for the cooperative's eagerness to please its patron.

However, the major problem of this patronage system for cooperatives is the risk and uncertainty it creates. Usually, no long-term contracts for facilities are negotiated with the state enterprise. Arrangements in general are rather informal and, therefore, the cooperative cannot be assured of its continued viability. This, of course, is bound to affect the behavior of the cooperative and especially its ability to make investments or other long-term decisions. Other side-effects include a desire on the part of the cooperative to discourage competition by offering to do a variety of tasks, some of which others may be more qualified to do.

In addition to the structural limitations described above, there is one formal limitation imposed on construction cooperatives. That is the prohibition on manufacturing and using explosives. Since explosives are used extensively on certain types of construction, cooperatives must depend on a state enterprise for this type of work. They often have to "grease" the provision of this service to meet their deadlines.

2. Inputs, Origin and Prices

Construction cooperatives share with other types of cooperatives the problem of input availability. Factors of production are allocated within the Soviet economy through central orders. However, all allocations are made to state enterprises. Cooperatives do not receive any allocations directly, as if they did not exist. They are, therefore, forced to obtain their inputs from other (usually state) enterprises, which drastically limits their ability to operate independently.

Space must be leased from state enterprises. Although theoretically leases can be long-term, in practice space is difficult to find and state enterprises usually do not lease out space for long terms and can extract high rents. This creates a great deal of uncertainty and inhibits long-term decisions, such as investment in buildings, machinery and equipment. Obtaining equipment is an equally daunting task. Most equipment is leased from state enterprises. Equipment rental is usually very costly and it is very difficult to obtain a long-term lease. An example was given of a truck being rented at 100 roubles per shift. Given that the average truck costs a state enterprise 18,000 roubles, the state enterprise gets a payback in anywhere from 6 to 3 months (depending on whether the truck is used for one or two shifts). By law, rental cannot be extracted for more than 2 shifts, making the third shift more profitable for cooperatives and explaining why so many cooperatives work the third shift.

Everybody interviewed in the cooperatives would prefer to own their own equipment; however, this is not easy. In addition to needing to find a state enterprise willing to sell the equipment, a cooperative is faced with the problem of accumulating funds to buy it. Currently the only source of such funds is the development fund of the cooperative, a form of retained earnings, which, however, does not enjoy any tax preferences. Such earnings are taxed the same way as other earnings (after deducting operating expenses). Equipment acquired by cooperatives is usually very old and often in bad condition. Yet cooperatives are doing an admirable job repairing and reconditioning old equipment. Such rehabilitation is truly one of the most notable contributions of cooperatives to the Soviet economy. The expert saw many examples of equipment that was literally a scrap heap, being repaired and put into working order by cooperatives.

An excellent example of utilization of idle facilities and equipment is the wood processing facility that Severnyi operates at Camdin, 70 kms outside of Uhta. This facility was built as a training center by the Ministry of Forests about 18 years ago. After a brief period of 3 years, the facility was abandoned and stood idle for 15 years. Severnyi got its patron state enterprise to lease the facility along with the surrounding forest land and with a 500,000 rouble investment of the patron, revitalized the facility. It now operates 3 shifts a day providing jobs for 50 people. The expert encountered several other instances of cooperatives buying or leasing idle or run-down equipment and facilities and turning them into highly productive assets.

The difficulty of obtaining suitable equipment makes for relatively low levels of mechanization and automation among cooperative workers. Yet, their relative productivity, compared to that of state enterprise workers seemed to be considerably higher.

Most of the materials needed by construction cooperatives are allocated through central orders. Therefore, cooperatives can obtain these materials mostly from state enterprises. As pointed out earlier, a useful service performed by the cooperatives is the sourcing of needed materials through often complicated bartering arrangements. Many examples of such arrangements were noted. One construction cooperative in Uhta routinely barter cut timber for cement with another cooperative in Latvia. In fact, cut timber because of its high value is a very useful resource for the cooperatives. This explains why so many cooperatives engage in wood cutting and processing. Another valuable bartering resource is crushed stone which explains the cooperatives' involvement with quarries. In such cases, the cooperative retains a small percentage (e.g. 15%) of the product for its own needs (e.g. to buy food), barter another 30-50% for needed materials and equipment and sells the rest to a state enterprise.

Most transactions regarding materials are conducted on behalf of the patron state enterprise which has the entitlement to the materials. Unlike other cooperatives, the Komi construction cooperatives are able to obtain most of their materials at "wholesale" (state) prices (i.e. without a markup). This is the result of their agreeing to sell all their products at state prices.

Another source of material inputs for the construction cooperatives is waste material. Enormous amounts of materials are wasted in the Soviet Union. For example, it is estimated that about 30% of the timber cut in the Komi Republic is wasted. Cooperatives, starved for inputs, actively seek and salvage such wasted wood resources and turn them into useful products.

The continuous struggle to secure material inputs has a number of repercussions for cooperatives. Again, it creates uncertainty and stymies long-term investments in equipment and other long-term decisions. Also, cooperatives opt to make as many of their own inputs (including food, shelter, and clothing) as they can to avoid dependence on unreliable supplies. Self-sufficiency is a term heard over and over among the cooperatives. This "make" (vs. "buy") bias introduces a certain degree of inefficiency since undoubtedly cooperatives do not enjoy economies of scale. Nevertheless, freedom from dependence seems to outweigh such inefficiencies.

Unavailability of materials and equipment among cooperatives causes friction between cooperative and state enterprise workers working side-by-side. Cooperative workers resent the greater availability and access to materials and equipment which state enterprise workers enjoy. Yet the former consistently outperform the latter. This often antagonizes state construction departments which retaliate by further limiting access by cooperatives to materials.

Even when cooperatives can buy materials in the open market, they are often met with hostility among the public which is led to believe that cooperatives are responsible for many of the shortages.

Finally, the need to resort to trickery and sometimes illegality in pursuit of materials and equipment has attracted to cooperatives a number of unsavory characters further tarnishing their image with the public.

In conclusion, the lack of integration of cooperatives within the system of economic management of the Soviet economy is one of the major problems facing cooperatives though this forces them to make substantial contribution to the productive utilization of capital stock and material resources of the country.

3. Outputs, Markets and Prices

By and large, construction cooperatives sell their products and services to state enterprises. By and large, they sell such products and services at state prices. They do so while at the same time outperforming state enterprises. By any measure, whether speed or quality, construction cooperatives achieve better results and this seems to make them a significant element in the Soviet economy. While in Komi, the expert witnessed several examples of the superiority of cooperative performance, including the case of one building half built by a state enterprise and half by a cooperative (because the building's owner would not trust the cooperative by itself), where the cooperative had obviously progressed faster even though it started after the state enterprise and employed fewer workers.

Asked about the reasons for their better performance, cooperative executives cited first the fact that cooperatives were paid based on completed output rather than on an hourly basis, and that worker compensation was directly related to the cooperative's earnings. This explains also the lengths to which cooperatives would go to ward off competition by other cooperatives in their corner of the market (usually serving a particular state enterprise), including taking projects at less than state prices (in effect for whatever funds were available). There was an astounding number of feats of speed and productivity despite the relative lack of equipment and materials. Workers consistently maximized their productivity because they were maximizing their share of the take from the job. An example is the first project of Severnyi which produced 261 m³ of crushed stone in the first 6 months of operating a crusher which under state operation used to produce 160 m³/yr. Another example was the erection of a 3,000m² cowshed by the same cooperative in less than a month. The expert was told it would have taken at least 6 months for a state enterprise to perform this task.

The oft-cited negative image of cooperatives among the population was less noticeable in Komi with respect to construction cooperatives. This is probably due to the fact that these cooperatives almost uniformly sell through the state network at state prices.

4. Foreign Operations

Most construction cooperatives are by their service nature locally oriented. However, Severnyi and a few others with access to timber resources were actively interested and even engaged in foreign operations. Most of them involved exporting wood products to a Western country. An example is the production of wooden trays for export to Belgium. These transactions are usually performed through some kind of intermediary (a Hungarian company in the case of the trays). The cooperatives not only lacked the knowhow to do business with foreign concerns, they also seemed to be handicapped by bureaucratic red tape. Even though as of April 1 any Soviet economic entity, including cooperatives, can engage in direct foreign economic activity (except for trade intermediation services which are reserved for state enterprises) and can have a foreign exchange account, the registration and licensing process can be horrendous. Also, even though all Soviet economic entities can obtain loans in foreign exchange through the Vnesheconombank (Foreign economic relations bank), no cooperative has yet been able to obtain such a loan.

Yet there is a significant interest to pursue foreign business among the larger cooperatives. This interest is fueled by the desire to acquire foreign exchange to use for the purchase of foreign-made equipment. Also, many cooperatives would be interested to get into joint ventures with foreign companies for purposes of acquiring knowhow.

However, there is a substantial lack of knowledge (and perhaps a little bit of fear) on how to deal with foreign companies or in foreign markets. Everybody expressed a desire for training in this area as well as wariness about fast-talking foreign trade "experts" who apparently have emerged in Moscow in recent months.

5. Organization and Structure

Construction cooperatives are organized much like other cooperatives, with a board of Directors, a chairman, heads of the various sections or divisions, department chiefs, foremen, etc. The highest authority is the General Meeting of the membership which convenes four times a year. The principal purpose of the General Meeting, aside from electing officers, is to decide on how to divide up the revenues in the upcoming time period (usually six months or a year). The real power seems to lie with the Chairman and to a lesser extent with the Board. Other officers are elected by the members on recommendation by the Board, and clearly they must enjoy the confidence of the Chairman; however, at Severnyi, it was emphasized that managers must also enjoy the respect and confidence of the members.

The expert was told by several cooperatives, without the benefit of his own comparison, that cooperatives had a much leaner management structure than state enterprises and that managers were very much involved with the actual production activities.

One major difference between the construction cooperatives in Komi and cooperatives in other areas of the Soviet Union was their relatively high ratio of members to contract workers. In most cases, contract workers constituted much less than the 30% of membership allowed. Contract workers usually did not exceed 10% of total membership and in some cases they were as little as 1%. A number of reasons seem to account for this low rate. Certainly the tradition of the Pechora artel with its strong emphasis on equality and camaraderie has an influence. Also, the fact that state enterprise employees receive extra payment for working in a remote area has something to do with it as well; cooperatives must promise a relatively higher degree of job security to attract state workers. At Severnyi, the need to elicit motivation and loyalty from workers was given as the reason for the less than 1% of contract workers compared to members.

It was noted especially that in Komi the limitation on non-member workers was accomplished not by prohibition (as in the Moscow area, for example) but by applying tax penalty if the limit is exceeded.

In certain construction cooperatives the need for employing highly specialized technicians for short intervals was given as a main reason for employing contract workers. Though construction is by its very nature a business which requires the ability to vary employment levels depending on workload, the volume of work was so uniformly high that fear of downtime did not seem to significantly affect membership levels. In actuality, membership agreements provide a fair degree of flexibility by allowing the cooperative to employ the member as few as 180 days per year without any penalties. The ideological underpinning of the contract worker limitation, the need to discourage "exploitation" of workers, did not seem to carry a lot of weight with the people interviewed. As one of them put it "30% exploitation is still exploitation." The doubling of the tax rate (expected in the new law to be from 25% to 50%) for exceeding the 30% limit acts as a deterrent for those few cooperatives which operated outside the limit. All of them planned to convert many contract workers into members.

The problem of ownership exists among construction cooperatives as much as in other cooperatives. There are really no individual ownership rights and no ownership titles. When the question was raised as to what extent this was perceived as a problem, there was hardly any concern expressed. Since property rights are not a part of anybody's life experience this is probably to be expected. However, the problem is bound to surface sooner or later when cooperatives begin to dissolve without clear titles to the assets, or when rebellious members attempt to displace present management. One occurrence which has raised the ownership question is the recent passage of a law allowing the issuance of shares to cooperative members. Such shares, which can be given to members in lieu of bonuses (and paid for from the bonus fund), are in effect collective shares rather than individual shares. Certain cooperative officials expressed the opinion that this was a retrogressive step which has the effect of "collectivizing" the cooperatives rather than moving them towards individual ownership, the more desirable ultimate outcome of cooperative evolution. Moreover, further development of this concept of collective "share" ownership raises a great many questions for which there are not even tentative answers: Do shares assign termination rights? Do they convey rights to interest earnings? To a share in the value of the underlying assets?

A common mode of work organization among construction cooperatives is the 12-hour shift (with two shifts per day). Workers commonly work continuously for two months with one month off. They are recruited from as far away as the Caucasus or Siberia and they are housed in worker camps complete with dormitories (three workers to a room), bathing facilities, recreation facilities, dining room etc. Cooperative management has found that this mode of work organization makes better use of worker time than conventional eight-hour-a-day, five-day-a-week shifts. Other cooperatives, such as urban building construction cooperatives, worked on a conventional 10-hour shift.

In addition to providing workers with as many amenities as they could afford, many construction cooperatives recognized and exercised a high degree of social responsibility toward their workers by offering several socially desirable programs such as anti-alcoholism campaigns. Severnyi has also instituted a program whereby all members giving up smoking would receive a 5% bonus for the first year.

Members typically work long hours, 60-70 hours per week. Management talent is actually in short supply in these cooperatives. There is universal agreement that the need for management training is acute and an area where cooperation with Western companies is seen as necessary. Management methods and systems could be characterized as very traditional and with a minimum of automation. Computers are very much in short supply and very expensive. Several cooperatives expressed a desire for earning foreign exchange to enable them to purchase computers abroad.

6. Compensation and Benefits

Compensation patterns in the construction cooperatives in Komi conform to those of cooperatives in general, except perhaps that differences within the cooperatives and between the cooperatives and state enterprises are less accentuated. Cooperative worker compensation ranged from 400-500 roubles/month for the less specialized jobs of general building construction to about 600 roubles/month for the more specialized construction jobs. High level specialists from Moscow or other major centers receive as much as 1,200 roubles/month. When the additional time that most cooperative workers work, compared to state enterprise workers, is factored in, average actual compensation of cooperative workers rises to 800-1,000 roubles/month. These figures seem to be in line with earnings of cooperative workers in other parts of the country. However, the wages of comparable workers in state enterprises in Komi, because of the differential paid to those working in remote areas, average 300-500 roubles/month, compared to 222 roubles/month, the average given for industrial workers in Moscow.

Compensation is based on work actually completed and is very closely tied to an individual workers output, or more likely to the output of a worker group since output is not easily attributable to individuals in a construction project. Some cooperatives, including Severnyi, compensate based on the revenue of larger organizational units, but they are moving towards smaller revenue pools to provide more direct incentives to individual workers. Payment of compensation is usually at the end of a long "shift," which is often two months long. Some cooperatives have even longer pay-cycles. For example, Severnyi pays its workers once every six months. Such long cycles are somewhat puzzling. It appears that, in addition to saving on administrative costs, this is due to a desire to average wages and bonuses thus avoiding short-term fluctuations resulting from variations in production or in recovery. There is also the psychological effect of receiving a very large sum of money.

Management compensation is calculated as a multiple of the average worker compensation, with the multiple usually ranging from two to three times for upper level managers. At Severnyi, the multiple does not exceed two.

Fringe benefits include vacation, usually around 30 days, sick leave, and for those cooperatives closely tied to a state enterprise, access to the medical insurance and perhaps the pension plan covering the enterprise's workers.

It appears that the higher wages of cooperative workers are supported ("earned") because of the higher productivity they achieve. This productivity difference is usually attributed to better work organization, lower management costs, prudent use of raw materials and higher degree of labor utilization (longer hours and more intensive work pace).

The effect on popular opinion of higher cooperative wages is somewhat moderated in Komi by the fact that everybody's pay is higher. Therefore, this does not seem to be as much of a problem as it is in other areas.

7. Financial Aspects of Cooperatives

Cooperative revenue is allocated basically to the following items: Expenses for materials, equipment and other inputs; taxes; wages and salaries, including bonuses; development fund (essentially an after-tax retained earnings fund targeted primarily for investments). Any residual revenue is either distributed to cooperative members or goes into the development fund. The distribution of revenue between the wage fund and the development fund is decided by the General Meeting of the cooperative. The tendency is to plow any residual revenue into the development fund for long-term revenue generation and growth as there are not many attractive alternatives for spending cash.

Severnyi's distribution of revenues is probably typical of construction cooperatives in Komi. In 1988 total revenues were about 8 million roubles, of which two million went for the purchase or rental of inputs and for taxes (350,000 roubles), two million roubles went into the development fund and four million roubles was distributed as wages and salaries.

The major financial problem (and in fact the major overall problem) for construction cooperatives was the same as for all other cooperatives at the the time of the mission, namely the new tax system for cooperatives which was to take effect on 1 July 1989. This system, discussed in more detail in the main report of the mission, would increase taxes for cooperatives rather dramatically in most parts of the Soviet Union.

The new law will increase taxes for construction cooperatives from an effective 2-10% of net revenues (gross revenues less cost of non-labor inputs and stages) to an average of 30%. The ostensible reason for this new tax (essentially a value-added tax) is to put cooperatives on the same footing as state enterprises. However, cooperatives, without exception, argue strongly that the new system will not level an already uneven playing field but rather it will tilt it more strongly in favor of state enterprises. The new law has drawn loud protests from all cooperatives as being essentially confiscatory, eliminating the initial "grace period" and gradual escalation features of the previous law and making no distinction between the wage fund and the ability to provide for the development (investment) fund. It was uniformly thought of by all cooperatives reviewed as potentially lethal to the cooperative movement as it would drastically limit the ability of the cooperatives to invest, adequately compensate workers or compete with state enterprises on prices.

Two other features of the new law are of particular importance to the construction cooperatives. One was the freedom of the fifteen union republics to set their own tax levels. This means that, for example, Latvia is determined to keep tax rates close to the old ones, thus giving a major advantage to its cooperatives in their competition with other cooperatives. This is seen as a threat by construction and other individual cooperatives operating over broad geographic areas. On the other hand, cooperatives generally welcome the fact that local authorities, usually municipalities, would have the responsibility for setting lower rates for each cooperative based on such criteria as community activities, size of development fund, the particular products or services produced etc.

In discussions with local officials, including a tax administrator, there is a great deal of understanding and sympathy expressed for cooperatives and a willingness to listen and accommodate individual problem situation. It was clearly stated that curtailing the activities of production cooperatives was in nobody's interest. Concern with uneven or biased application of the law by local authorities due to inexperience or undue influence was a concern of cooperatives but not a major one.

The threat of higher taxes has had a substantial impact on cooperatives' ability to secure credit. Never plentiful because of strong competition by state enterprises for funds of state banks, credit has almost completely evaporated at least for some cooperatives. As a result, several construction cooperatives are working to establish the first cooperative bank in Komi as early as the end of this year. Such cooperative banks, already successful elsewhere, are seen as an important success factor in the long-term viability of production cooperatives. Though some cooperatives can use the influence and clout of their sponsors to get favorable financing (for example the Timan Cooperative has taken out a loan with interest rates ranging from 0.75% to 1.5% from Promstroybank or the Industrial Development Bank) many are unable to get any financing at all from state-owned banks, even though theoretically they are not under any official credit restrictions and are even allowed to borrow in foreign exchange (no one seems to know of such a case). In addition to the availability and cost of credit, another motivation for establishing cooperative banks is the further reduction of the float period, currently 10 days within the Komi ASSR.