

THE SOVIET ECONOMY

Leonid Korenev

*At the Crossroads
of Perestroika*

BEFORE APRIL: "RED
LIGHT"

1985-1989: "AMBER
LIGHT"

1989 AND ON: "GREEN
LIGHT" TO THE
REFORM

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BEFORE APRIL: "RED LIGHT"

THE HARUN AL-RASHID SYNDROME AT THE END OF THE 20TH CENTURY

The legendary caliph Harun al-Rashid, unlike the historic one, was an exceptionally kind person who sincerely cared about the good of the common people. At night he would walk incognito along the streets of Baghdad and find out the truth about life from beggars. In the morning the caliph would take wise decisions, surprising his court with his knowledge of life. Unfortunately, when he would next have such conversations with the people he would learn that, instead of making all of his subjects happy, his wise decisions, having been distorted by unscrupulous bureaucrats, had done the opposite, and the life of the poor was going from bad to worse. But Harun al-Rashid did not give up and passed new decisions, only to have them distorted once again by his officials. So he kicked those officials out and got new ones and finally heard what he had long been waiting to hear: life had become better. The unscrupulous bureaucrats, also tired from the duel with the noble-minded caliph, had managed to put together a virtual army of informers disguised in picturesque rags; thus the circle was finally closed.

Legends live on when they have a basis in reality. Today, at the end of the 20th century, the "Harun al-Rashid syndrome" has come to mean a lack of communication between the authorities and society. Was this what former Soviet leader Leonid Brezhnev was suffering from? Is this perhaps what brought the Soviet Union to the verge of an economic crisis at the turn of the 1980s? Such are the questions being asked these days.

Today, when the Brezhnev era is justly criticized as a period of stagnation, a period that placed the great country in a crisis situation involving all aspects of its life, it is Brezhnev's incompetence and his unawareness of the real problems facing the state that are pointed out. I well remember that back in the mid-1970s his "directive" to "remove the urgency" from the issue of the

Translated from the Russian by M. Latsinova

Леонид Михайлович Коренев
ЭКОНОМИКА СССР: НА ПЕРЕКРЕСТКАХ ПЕРЕСТРОЙКИ
на английском языке
Цена 30 к

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supply of meat products for the opening of the upcoming Party congress was circulated as "confidential information". Although back then the "urgency" was much less grave than it is now, the problem was nonetheless still serious. Thus the idea of solving it in the few months left before the congress by means of a mere directive was, to put it mildly, unrealistic. But herein lay the problem: according to the logic of the administrative-command system of economic management the idea seemed completely natural. If something was in short supply, then urgent measures had to be taken to plan for an increase of its output, or to step up its extraction or even to import it from abroad, the logic being that, regardless of the effort, labour or other resources it might take, it had to be done. This method of solving problems, that is, of "scaling another height", no matter what the cost and at whatever the price, even if the possibilities were very limited, was for many years touted as the main advantage of centralized planning.

Military terms, the ultimate of which was that notorious cliche, "the battle for the harvest", were not accidental, they were to be expected. This is equally true of the arguments used to justify that cliche: "If we were able to win the war, build atom and hydrogen bombs, and launch satellites into space, then we can cope with the agricultural problem as well." At the same time, however, a simple truth was being ignored, that any, even impressive success can only be achieved with such an offensive-like approach at the expense of other areas, and at a cost of tremendous and often irreplaceable losses. But eventually, even this opportunity to "patch up" one hole at the expense of others is lost, since an economy which is being destroyed "piecemeal" is unrestrainedly falling apart altogether, i.e., moving ever closer to a general economic and social crisis.

This is exactly what was happening in the country during the years of Brezhnev's "stagnation-style" management. Agriculture, already backward and undermined by decades of administrative arbitrariness, was no longer able to supply the population with food, so Siberian oil was used as a remedy, a situation made possible because oil prices on the world market soared as a result of the energy crisis. The USSR became the world's biggest importer of grain, for which it paid a major part of its almost 200 billion petrodollars—a typical example of a strategically unequal exchange of non-renewable raw materials for easily renewable ones. It was believed that this tactic would give Soviet agriculture a respite and help it revive. And since the prospected reserves of

oil were so great, it was also believed that we had enough of it to pay for everything.

As a result, the situation with meat, dairy products and bread in the USSR hardly improved and in certain ways got even worse, while the petrodollars went back where they came from. Meanwhile, our oil reserves had greatly diminished and an extremely grave ecological situation emerged in the oil-extracting regions. Finally, the discovery of the "oil El Dorado" in the Tyumen region led to the appearance of one of the most socially and economically unfortunate regions in the USSR: the quality of life there is way below the country's average level. In other words, there were no winners, except for a bunch of officials who took advantage of the whole operation to make their political careers.

Many other similar situations can be cited when ill-considered and impracticable projects, whose implementation required many years and billions of roubles, were hastily adopted. Though they seemed so promising, they brought nothing but losses. That such things happened is not as bad as the fact that they were repeated with depressing regularity. Think, for instance, how long it took to build the 3,000 kilometres of the Baikal-Amur Mainline, "the longest monument to stagnation", as it has been dubbed today, in the extremely hard climatic and seismic conditions of the Far East. The reason for building the railway was to exploit the tremendous natural resources on a territory of 1.5 million square kilometres. And what were the results? Actually, the construction of the railway has not been completed to this day, but the main problem is that there is in fact nothing to carry on it. The railway does not even cover its operating expenses, let alone the cost of its construction.

Or take another "project of the century"—the diversion of part of the flow of northern Russian rivers to the south, which suffers from a lack of water. It took a fierce battle, involving virtually the whole society, to stop this project, which was done only recently. This project was in the works despite the monstrous cost, the grave ecological consequences it would have entailed for the whole country, which were obvious even to non-specialists, and the fact that its ultimate economic efficiency was very doubtful. Just one of these considerations should have been enough to nip the project in the bud. Nevertheless, it was financed from the state budget.

I could go on naming examples, all of which have one thing in common: while bringing losses to the national economy, these projects were also steadily turning one of the richest countries in

the world in terms of its resources into a poor one and were simultaneously lowering the living standard of its population. All this was happening in the country which had adopted the slogan "Everything for the sake of man, everything for the benefit of man" as its official ideology, the slogan which its leader, Leonid Brezhnev, was constantly repeating.

It is understandable that some may have believed in the sincere insistence of the country's simple-minded leader, who genuinely cared for the well-being of his people, but was ruthlessly deceived by his officials. Many facts can be cited to support this. Unlike Stalin, Brezhnev was not a hermit. He travelled extensively, both abroad and within the Soviet Union, and not incognito, which is hardly possible these days.

Actually, in this respect Brezhnev was more like his predecessor Khrushchev in whose deposition in 1964 he took a most active part. Of the many things Khrushchev was blamed for, almost all of them could be said of Brezhnev as well, among them, that the food situation had deteriorated, that the Soviet Union, formerly a major grain exporter, had to buy grain from the United States, that major economic decisions were being made hastily and incompetently, and that an atmosphere of flattery was being encouraged by his entourage.

Naturally, during his trips, the country's leader met so-called ordinary people. Here again there is a striking resemblance: by the end of both Khrushchev's and Brezhnev's time in office both of them would visit the homes of ordinary workers and see comfortable spacious apartments and would stop in at ordinary supermarkets stocked with decent, if not overly varied, food products. Naturally, the customers would all act pleased and be excited to have such a guest of honour from the Kremlin look in at their supermarket. Everybody would be simply beaming with happiness—children in kindergartens, pupils at schools, young people and pensioners.

But as soon as the VIP retinue would turn the corner the usual difficult life would return, with long queues at the doors of the shops the counters of which were soon empty. The lack of housing would be felt just as badly as before the VIP's visit, the bureaucrats would become ever more estranged from the people, and corruption would flourish. Despite the cheerful assurances that all was well with the environmental situation, the pollution from the smokestacks of new chemical plants would spread over residential areas, rivers would die, and so on.

Isn't it a classic Harun al-Rashid situation?

There is a well-known phenomenon in Russian history called the "Potemkin village" after Grigori Potemkin, the favourite of Catherine the Great, the 18th-century Russian empress. A great embezzler and at the same time a brilliant statesman, Prince Potemkin managed to build "flourishing" villages in time for the royal visit, villages that were stage sets done by the "flourishing" peasants themselves. Empress Catherine, an educated monarch who corresponded with Voltaire, liked to show concern for the peasants' well-being and allocated large funds from the state budget for this purpose. These sums were disposed of by Potemkin. According to legend which, however, has been exaggerated over the centuries to the point of becoming rather incredible, the prosperous fake villages were even moved along the Empress' route during the night, together with the "extras" and picturesque rows of young trees.

"Potemkin villages", however, did not emerge during the reign of Catherine the Great, nor did they disappear with it. Neither were they a specifically Russian phenomenon, for the history of every country has some equally striking facts. But why was this tradition, which is especially strange nowadays, in the "information age", still so strong here at the end of the 20th century? Present-day leaders have many opportunities to get objective information without "going out in the street to meet the people". In fact, meetings with the people are needed more for showing the leader to the people rather than the other way around.

Nevertheless, this phenomenon lives on. Recently, Soviet satirist Mikhail Zadornov wrote a story ridiculing a town's "fathers" who "potemkinized" it on the eve of Mikhail Gorbachev's visit. The story read by the author on TV was a great success, and all because it was patterned on real life.

Perestroika, however, has introduced important changes in the situation. Such a story would have been just as funny in Brezhnev's time, but would have been doomed to exist underground, while its author would have found himself in trouble with the law. Today the social atmosphere is different. The present Soviet leader rejects "potemkinization" and has repeatedly demonstrated his knowledge about the political situation in the country, including such a specific form as political jokes about himself (he mentioned one of them, comparing Gorbachev with Brezhnev, at the First Congress of People's Deputies of the USSR). Jokes, after all, are a form of criticism, and laughter is not the worst kind of medicine to take against errors.

But to get back to Brezhnev and those around him. It can be rather easily seen that he was not a naive leader deceived by treacherous officials who isolated him from the people, except perhaps for the last few months of his life, but then he was no longer the leader, but a sick old man who was only nominally holding his position. Both Brezhnev and his closest assistants had climbed the long hierarchical ladder that included the so-called "medium level" that is most often blamed for preventing the feedback between the authorities and the people. This sizeable and, for most people, impersonal stratum, referred to generally as the "apparatus", is blamed for everything. One gets the impression that if it were removed everything would start to get better.

Typically, talk about this "medium level" does not only refer to the past. On the contrary, it is directly connected with the present. The difference is that today, with glasnost, it is being done openly. Reflecting the popular sentiments, many prominent Soviet political journalists are throwing stones at the "apparatchiks", described as a force standing between the country's political leadership and the people and slowing down perestroika and the radical economic reform.

One could believe that the best intentions (the ones used to pave the proverbial road to hell) of the "kind" leader Leonid Brezhnev were distorted by the "apparatchiks", who presented beautiful stage sets to him instead of reality, if the only distortions of information had been the ones going from the grass-roots level up. There were indeed many such distortions. Unfortunately, there are many of them today, too, in the time of perestroika, and they slow down the process of change. Distortions appeared long before Brezhnev and over decades they have formed a solid layer of phantom information.

Even a slight upward distortion in, say, a report on fulfilled work in order to get a bonus had negative consequences on a nationwide level. For instance, in Uzbekistan, a Soviet republic in Central Asia, it was discovered that statistics on how much cotton had been harvested had been padded by as much as one million tons of cotton a year. The money to pay for this cotton came from the state budget.

The most general example is presented by the official statistics on the country's economic development over 11 five-year-plan periods. According to the state statistical department, the USSR's national income grew 84 times from 1929 to 1985. This impressive figure would have filled all Soviet people with pride except for

one thing: its authors "forgot" to calculate the impact of inflation, which in fact accounted for a substantial part of it. According to the estimates made by Grigori Khanin, an independent economist, the national income did grow a good deal over that period, but only by the considerably more modest figure of 6.6 times.

Or take the information on such a difficult Soviet problem as housing. The jubilee statistical annual *70 Years of the Soviet Economy* published by the same USSR State Committee on Statistics reports that from 1956 to 1985 "the number of people who received housing or bought their own apartments" was 310.6 million (much more than the entire population of the country). At the same time, the press is reporting about many cases where people have been on a waiting list for an apartment for 10-15 years (to qualify for a larger apartment a family must have 5-7 square metres of space per person or less). There are also homeless people, although their existence was previously denied.

WAS GEORGE ORWELL RIGHT?

Did the then current leadership of the country believe the "lullaby statistics", that five-year plans were being fulfilled and even overfulfilled, that the real per capita income had doubled between 1965 and 1981, while prices remained the same and the quality of goods kept getting higher? Let us assume they did, although a closer look at these statistics reveals that the ends did not always meet, sometimes even within one graph and much more often if the figures of plans and their results are compared to those published in earlier years. The USSR's economic history was increasingly becoming reminiscent of the "correcting history" *a la* George Orwell. This, of course, not only pertained to economic history, but to all other areas of history as well, especially the political one.

Of Lenin's closest associates, such as Lev Trotsky, Yakov Sverdlov, Lev Kamenev, Grigori Zinov'yev, Nikolai Bukharin, Alexei Rykov and Felix Dzerzhinsky, some 15 years later all except Sverdlov and Dzerzhinsky (who died young) were declared enemies of the Soviet government, accused of trying to restore capitalism or even of being foreign spies. Given that the only successor who qualified was Joseph Stalin, who used to be in the second echelon of the leadership, it was not clear how the revolution has been won when its leadership had been almost completely made up of "imperialist agents".

This contradiction was taken care of quite easily: the positions which these people filled were simply crossed out of history books. Someone teaching history, for example, would be hard put to answer some inquisitive student's question about who had headed the army during the Civil War (Trotsky) or who had succeeded Lenin as the head of the Soviet government (Rykov).

The same was true about other periods of Soviet history. One could read in the history textbooks back in the 1930s that "in the autumn of 1929 middle peasants, the main figures in the village, finally turned towards collectivization" and that "the increase in labour efficiency clearly demonstrated the advantages of collective farms". But it was impossible to learn that agricultural production in the country had plummeted to below the prerevolutionary level and did not again reach that level until the 1950s; that the best farmers were exiled to Siberia; and that in 1933 the agricultural regions were struck by a terrible drought, causing a famine which, according to rough estimations, killed some 6 million people in the Ukraine alone, and that meanwhile the USSR was increasing its grain exports despite the fact that during the Great Depression grain prices on the world market had dropped.

It was very easy to find out the length of the Moskva-Volga and White Sea-Baltic Sea canals, both built in the 1930s, which, incidentally, were depicted on the packs of popular cigarettes. The same was true about the height of the new building of Moscow University; the capacity of the powerful hydroelectric power stations on the Volga River, which were referred to as "great projects of communism"; and the names of dozens of new towns that had appeared in the Siberian taiga and tundra. But it was never said who built these things, for then it would have been impossible to avoid mentioning the convicts, the innocent people who had been put in camps and sent to work at these construction projects. Some estimates put the number of the inmates of these camps at different periods at from 10 to 15 million. At the time of the death of their designer, Stalin, it is believed that as many as 12 million people were in them, or no less than one-fifth of all people engaged in material production.

The history of World War II was also constantly rewritten, to say nothing about the Ribbentrop-Molotov pact, a discussion of which has only recently become possible. The decisive role in the victory over Nazism was reserved for "Stalin's ten blows", while Stalin himself was proclaimed "the greatest commander of all times and peoples". Characteristically, militarized thinking seeks military glory as the ultimate glory. At first, Trotsky's military

achievements in the Civil War were blown out of proportion, then they were stolen by Stalin, whose role as a military leader was pushed aside during Khrushchev's thaw in order to completely exaggerate the role the latter played in World War II (Khrushchev was a part of the command of a few fronts, among them the Stalingrad one). This trend looked especially ridiculous when applied to Brezhnev, who during the war was simply one of the thousands of "commissars" with a colonel's rank, yet later on he received all of the country's highest military awards—four stars of the Hero of the Soviet Union and the Order of Victory, as birthday presents.

At the same time, the history books had no room for general information about the losses sustained by the Soviet people during the war (the figure mentioned initially was 6-7 million, later Khrushchev "raised" it to 20 million, but specialists now say that it was in fact higher; on the number of Soviet soldiers who were taken prisoner (this was several million people; those of them who managed to survive the Nazi camps, incidentally, were later persecuted at home); on the number of people who died in the siege of Leningrad. Naturally, this kind of history, which was being rewritten time and again, rejected documents from the past even if they had been earlier published in the country officially. An old map, for instance, showed the autonomous republic of the Volga Germans, an old copy of *Pravda* might have a speech by Bukharin or a picture of Ribbentrop together with Molotov, a literary journal might contain stories by Solzhenitsyn and a reference book, an article about Sakharov. Even an old edition of Lenin's works was full of commentaries mentioning lots of people who later became "undesirable". Finally, there was the list of authors who in one way or another came into conflict with the system and whose works were consequently kept from the public or were "trimmed" by censors, at the top of which were such names as Karl Marx (*Revelation of the Diplomatic History of the 18th Century*), Lenin (*Letter to the Congress*), and Maxim Gorky, Vladimir Mayakovsky and Mikhail Sholokhov, who were later "beautified". Even Stalin and, later, Khrushchev and Brezhnev, refrained from having some of their old speeches republished because they so obviously contradicted newer ones.

After the 20th CPSU Congress in 1956 when Stalin's cult was exposed and the gates of the camps were opened (Khrushchev's main achievement, as opposed to undeserved ones ascribed to him by flatterers), the doors of special archives also started

opening. Among the published documents were the last works by Lenin, which taken together are referred to as his testament, and a large number of previously banned books. In addition, the political rehabilitation of some major figures in Soviet history began. The information on the current situation in the country, including the economic situation, became more realistic.

Suffice it to say that already in his first speech as head of the Party at the September 1953 plenary meeting of the CPSU Central Committee, Khrushchev disclosed some shocking facts about the true state of Soviet agriculture. This speech was not only delivered, it was also published. In fact, this was when the policy of glasnost, which is typical of today's perestroika, began. But this process was not consistently carried out and was full of contradictions, which is quite understandable given that practically the whole leadership was made up of people who not only "rose" under Stalin, but who were linked with him by their participation in many deeds that they later preferred to forget. Incidentally, Khrushchev was also one of them, which makes his courage all the more worthy. The struggle in the leadership was tough. A few attempts were made to limit Khrushchev's power or even depose him. The last of them, in 1964, was successful.

Since the democratization of society was just beginning, the real purposes behind the change of leadership were not made clear to the people. Besides, by that time Khrushchev's popularity had considerably declined, because of a series of economic blunders and risky foreign economic actions. Against a background of lavish flattery, which poured forth in particular from his future "overthrowers", Khrushchev's removal from the political arena was viewed by the majority of people with indifference and by some with relief, especially since Brezhnev and his team, in which Mikhail Suslov, its main ideologist, was playing an increasingly important role, were introducing "re-Stalinization" gradually and softly.

But, of course, the Soviet Union's history again became Orwellian. Yet it was impossible to turn the country's development in this direction irreversibly. The times had changed and so had the people. The "generation of the 20th Congress", to which Mikhail Gorbachev belongs, was both numerous, educated and persistent. The administrative-command system, with no new recipes to offer, was becoming obsolete. Furthermore, it had just about used up its credit of trust (which had always belonged to the revolution, but was skillfully usurped by the bureaucrats) and exhausted the resources of its development. It was no accident

that in those years a popular pun was making the rounds on the newly-coined term to describe the system that had taken shape in the country: instead of "real socialism" (which replaced the clumsy expression "developed socialism"), people were saying "unreal socialism".

"TWO ON PAPER, THREE IN MIND"

It is most unfortunate that the period of stagnation lasted for so long. What factors helped it "to drag on until it broke", to use the expression of Pavel Bunich, a corresponding member of the USSR Academy of Sciences? There were many. A rather significant one was that the rich natural resources made it possible to squander timber, furs, gold, oil and so on, while hiding behind slogans about the "development of the productive forces of the Eastern regions". Another reason was that the administrative-command system had been given an impetus by Khrushchev's "thaw", the time when hopes were stirred and material incentives were used to a certain degree; the system claimed that this was its achievement, although it had in fact allowed the liberalization only grudgingly. The third reason was that the people were tired of the seemingly unending administrative reorganizations, which rather than improving things, only complicated and aggravated the situation. So instead, the promise of stability gave birth to stagnation. Yet another factor was undoubtedly the undeveloped nature of democratic institutions and, moreover, doubts as regards their efficiency. There was also a further reason which should be mentioned: the skilful use of propaganda to keep alive the stereotypes formed in the public's consciousness during the reign of the administrative-command system and constantly cultivated by that system.

The special vitality of those stereotypes is explained by the fact that they were divided into two levels. The first or upper level was formed on the basis of official statements which often consisted of slogans and lacked a basis in fact. An onlooker would find it hard to understand why society responded to what were obviously illogical and made-up arguments. The problem was that the first level of stereotypes was always accompanied by the second, lower or semi-legal level, which modified the made-up character of the first one. The arguments used on the second level could not be announced publicly, because they would discredit the official line. For this reason, they were proliferated on

a sort of confidential basis, sometimes even taking the form of rumours.

For example, the military budget, which officially was a little bit over 20 billion roubles a year, was unofficially said to be a few times more than that, made necessary by the fact that the USSR had to achieve parity with the United States, which was spending hundreds of billions of dollars on the arms race. The first realistic figure of Soviet military spending was mentioned by Mikhail Gorbachev in 1988 at the United Nations. Another example of the second level of arguments was that the country's difficulties were being caused by the fact that the USSR was feeding and helping everybody, so that little was left for ourselves.

Yet at the same time the theses on the country's steady and fast economic growth and on the fact that "real incomes are getting higher every year" had to be supported. According to the official statistics, the production of consumer goods in 1984 exceeded the level of 1917 by 91 times, and even the output of agriculture, which is chronically lagging behind, grew 5.1 times over the same period. (As Anatoli Strelany, a journalist who writes on economic issues, pointed out sarcastically: "There are four reasons causing the backwardness of our agriculture: a bad spring, a hard summer, a low-harvest autumn and a harsh winter.") How was it possible after that to, say, hide from the people that the living standard in the USSR was lower than in most developed Western countries and in some socialist countries, such as the GDR and Czechoslovakia?

In a time of broader contacts and with the accessibility of Western radio programmes, films and books to hide this was no longer possible. Of course, praising achievements "there" was not encouraged. We preferred to buy black-and-white copies of old movies so as not to "tease" Soviet viewers and jammed radio broadcasts. Yet all these were just half-measures. The high living standard in the United States was said to be because it had not had world wars on its territory; in Sweden and Switzerland, because they were never at war; in West Germany, because it was being supported by the US so as to create a favourable contrast to the GDR; in the GDR, because it was being supported by us for the same purpose; and in France and Italy, because they have a wonderful climate. But then we came against the difficult case of Finland, which has a harsh climate, few resources (except for forests, and of that much less than the USSR), took part in wars and, on top of that, was a part of the Russian Empire up until the 1917 Revolution. So it was decided that Finland had done so well

because of "prohibition" there, especially since everybody knew here how much the growth of alcoholism was damaging the country. But the main unofficial argument for Finland's success was that "Finns always worked hard, while we do only when we're forced to". This argument simultaneously served to justify the necessity for the administrative-command system in the economy.

These kinds of "arguments", which at the same time are based on great-power pride ("we have plenty of everything and we are taking care of everyone") and are nationally self-demeaning ("we can work hard only when we are forced to") and designed for ill-informed audiences having no facts with which to make comparisons, are a grave heritage of Stalinism and should not be underestimated. Stalin was also successful in using the Harun al-Rashid model in his interests, especially when he needed to separate himself from his most unpopular actions.

This was the case during the destructive period of collectivization when the "leader" criticized the local authorities for "taking things too far" and "violating the voluntary principle" in his article *Dizzy From Success*. The same thing happened after the mass political repressions of 1937 when Stalin removed Nikolai Yezhov, the head of the punitive agency, and had a cosmetic rehabilitation campaign. And he did it again when he needed to blame somebody instead of himself for the grave defeats inflicted on the Soviet Union in the initial stage of the Great Patriotic War. There are still some of Stalin's followers, though they are not numerous, who continue to believe that Stalin did not know anything, that he had been deceived. Although Brezhnev failed to win such devoted supporters, he also made wide use of the pattern of a boss from whom the truth has been hidden.

But the boss was not being deceived, he was himself deceiving others. Hiding the truth was justified by the "enemy image": the enemy could not be allowed to know our strategic plans and our weak points. Yet a good deal of the information which was classified was the kind which in other countries was quite available to the public in the USSR in the 1920s as well. Statistics were not published on crime and infant mortality, the existence of prostitution and the drug problem was denied, as was the fact that there were homeless and unemployed, falsely optimistic data on the ecological situation was published and there was no way to know what the poverty level was nor by how much prices had grown. The underlying reason for this, of course, was that this information was not "favourable"; especially because the same

parameters were being used by the Soviet media to criticize the other side.

Yet the most hypocritical trick used in this "strategy of secrecy" was the hushing up of certain facts which were not hidden from people in other countries, i.e., the "enemies" were allowed to know what the Soviet people were not. For example, for a few years in a row statistical publications had no figures on the grain crops, to say nothing of the amount and cost of grain imports and oil exports, while the figures on the production and sale of alcohol were hidden in other graphs, etc.

HOW WE WERE "CATCHING UP" WITH AMERICA

But our national pride had to be flattered in some way. This is how a popular song put it: "But we are making missiles and have spanned the Yenisei River, and our ballet is the greatest in the world." The same sentiments were supported by the old slogan "To catch up and leave behind". One can easily guess that the issue in question is the Soviet Union's place in the world system of economic coordinates.

At the peak of its development, prerevolutionary Russia was fifth in the world in overall industrial output. In terms of the per capita output of basic consumer goods, Russia was even further behind the leading Western states. The task formulated by Lenin was to eliminate this gap by using the advantages of socialism so as to raise the living standard and cultural level of the people.

Later, however, this task was modified, which at first glance seemed quite logical. In the middle of the 1920s the idea of trying to "outwit" the traditional development of industrialization appeared. Instead of starting at the beginning and waiting decades for industrialization to evolve from the simplest production of consumer goods based largely on the produce of the agrarian sector to increasingly "heavy" branches through a gradual accumulation of capital necessary for big investments, it was decided to start at the end and put off the production of consumer goods and the development of the agrarian sector until later. It was hoped that in this way the distance could be covered in a much shorter period than it had taken the most developed countries to do.

In fact it was the ideology of the "great leap forward", with all the ensuing complications. The people were told to "tighten their

belts" for the time being while the production of steel and the extraction of coal and oil were stepped up and giant machine-building plants were built, including those for the production of arms. "First we shall get as strong as they are and then we shall get as rich as they are" was the final formula on economic competition with the leading Western countries.

In the 1930s the USSR was "catching up" with Germany and in the 1950s, with the USA. Yet the world was changing and so were the main parameters of its social and economic development, while the parameters of the race remained the same. The latter could not have been otherwise, for heavy industry, which had been blown out of proportion and created at the expense of other economic sectors, was getting increasingly insatiable.

The country was more and more turning into a "society of miners", as was aptly put by the Moscow economist Boris Pinsker, which was extracting iron ore in order to make steel which would be used to make equipment for digging more ore. The whole society was working in this vicious circle, in which there was no room for the development of consumer goods industries. The Gulliver of the heavy industry was taking everything away from the Lilliputian of light industry. Meanwhile, the computer revolution, the rapid development of information science and the services sphere, as well as the boom of tourism and the entertainment industry, i.e., everything that cannot be measured in tons or cubic metres, but which can be enormously profitable, was happening somewhere else, not in the USSR. Naturally, this was also true of many other developments.

But what other achievements, aside from military and strategic parity, did the USSR score in its competition with the world's leading economic power? Let us look at two items published in the jubilee statistical collection *70 Years of the Soviet Economy*. The first one indicates the place occupied by the USSR in the world in terms of industrial and agricultural production. It shows that in 1986 the USSR was second only to the USA in overall industrial output, came first in the extraction of oil (with gas condensate), gas and iron ore, in the production of cast iron and steel, cement and timber, tractors and prefabricated reinforced concrete structures, the export of timber and the production of mineral fertilizers, and, finally, in the production of woolen fabrics, footwear, potatoes, sunflower seeds, eggs and sugar. To this one could also add that the USSR had long bypassed other countries in the number of research workers (25 percent of scientists in the world live in the USSR), doctors (one-third of the

world's total number), and that for a long time the USSR was the leading country in terms of the circulation of books and other printed matter, and in the amount of housing construction.

Bearing in mind that the size of the USA's and USSR's population is comparable, it would seem that this list should have been convincing, especially since in other parameters listed in another table the gap between the USSR and its rival was even greater. For example, the USSR produced 1.4 times more oil with gas condensate, 5 times more iron ore, 1.6 times more mineral fertilizers, 2.1 times more steel, 4.6 times more tractors, 3 times more butter and 5 times more woolen fabrics.

The same statistical publication showed that the correlation of global parameters was also changing in favour of the USSR, although not as rapidly as it wished. For instance, in 1970 Soviet industrial production amounted to 75 percent of the USA's and in the 1980s, over 80 percent. This figure has not grown since then, although US production has increased. The USSR's agricultural production amounted to 85 percent of the US figure in 1970 (no further information was published for the same reason), and labour productivity in industry was 53 percent of the US level in 1970 and over 55 percent in 1980.

The purpose behind those figures was obvious: to show that the "race" with the US was not going badly, that the gap could be bridged in the not-so-distant future. This latter idea was supported by information in other tables showing that the USSR's rates of economic development were higher and implying that some day "we shall live no worse and maybe even better". Why better? Because we would retain the advantages which we already had, such as free medical care, inexpensive housing and transport, no unemployment and much greater financial equality among the various categories of the population. Finally, we did not have such bad pollution or such a high crime rate as "they did".

But let's take a closer look at these official Soviet statistics of yesterday. With the exception of the last paragraph, almost everything in them are based on truthful data, and even in the last paragraph some things are true. Yet, in spite of the truthfulness of most of the listed information, these, as was pointed out by Vasili Selyunin, a Soviet journalist and an old-time critic of the state statistical agency, were *cunning figures*. They did not give an accurate picture of the USSR's place in the world system of economic coordinates nor how the country actually stood up in comparison to the United States.

So what was the truth? The process of narrowing the gap separating the USSR from the leading capitalist countries in many major parametres of efficiency of social production and level of social, economic, scientific and technological development came to a virtual halt starting in the latter half of the 1970s. By the mid-1980s a situation developed which was fraught with the danger of perpetually lagging behind. Purely quantitative indices continued to advocate "growth for growth's sake", a strategy that for the last 10 to 15 years had been, to put it mildly, rather short-sighted, for that period was characterized by structural economic changes in the most developed countries, which had switched over to resource-saving development. Over those years the consumption of energy, oil, steel and various kinds of raw materials per unit of national income in the US and Japan dropped by 30-40 percent. Yet in the "topsy-turvy" world of traditional comparisons even this positive fact was given a distorted explanation. As of the mid-1970s, the economic and scientific and technological development of the USSR began going counter to the world trends.

It goes without saying that these statistics raised some questions even then. Why, for instance, was the USSR, which had twice the amount of arable land as the US, produced 50 percent more mineral fertilizers and four times as many tractors and combines, importing grain from the US and not the other way round? Or what was the advantage of producing twice as much steel and twice as many metal-cutting machine tools? Usually these questions remained unanswered.

Finally, the official statistics of the stagnation period were especially careful to hide information dealing directly with the individual and the quality of life, such as the growth of real incomes, the content of the "consumer basket", the average size of apartments, etc. The reason for this is obvious: the information was "unfavourable" and "upsetting". Yet these "cunning figures" had another wicked trait: eventually they began to deceive their own architects. This factor had to be faced later by the reformers who initiated *perestroika*.

But before saying good-bye to the stagnation period, let us take a look at an interesting fact, namely, that Brezhnev also started his term as the leader with reforms.

WHY DID THE 1965 REFORM STOP SHORT?

This question can be answered in almost one sentence: because the administrative-command system and the market mech-

anism are incompatible and antagonistic. Historically, the administrative-command system managed to associate itself with socialism while the market and commodity-money relations were rejected as a feature of capitalism.

This was during Stalin's rule. In order to understand how this happened we must go back to an earlier period of Soviet history, i.e., the so-called War Communism, which coincided with the Civil War and foreign intervention.

At that time, when there was a fierce struggle for power, economic laws were ignored. Money practically ceased to exist, food was confiscated from the peasants by force and the rest of the population had to be content with meagre rations. All industrial production, whose output had fallen by more than five times, was governed by a swollen, yet unqualified, centrally located apparatus.

This system, which was a forced measure brought on by the war and which functioned with the help of coercion, could not survive under normal peaceful conditions, though this took some time to realize. It required outstanding courage on Lenin's part, who had to overcome strong resistance from his own party in order to switch the country over to the New Economic Policy (NEP) and the construction of socialism as "a system of civilized cooperators". NEP was a time of dynamic yet contradictory development, when the economy was in motion and there was a noticeable growth of the people's living standard. The country received a stable convertible currency called *chervonets* (10 roubles), the cooperative sector started to develop, the market of consumer goods began functioning normally and a planned approach to industrial development took place.

Unfortunately, shortly after Lenin's death in 1924, a group headed by Stalin gained the upper hand in the party. It was oriented towards War Communism practices, relying on methods of coercion. This was the road of maximum tribulations and sacrifices, of the total plunder of the peasants, of "belt-tightening" for workers and intellectuals, and mass repressions. And accompanying it all was low production efficiency.

The existence of a serious economic theory in those years was out of the question. The most prominent specialists were either in the camps or had to hide their views, for Stalin was regarded as the main authority in economic theory (as in all other spheres) and he had rejected commodity-money relations. That was a time when an irrational model of relations between the bodies of state management and economic science took shape, the result being

that scientists could only praise the actions of the authorities, at best only being able to phrase their accolades in special terms.

Ignoring economic science played a negative role during Khrushchev's reforms of 1953-1957, though things then started off rather well. Great measures were taken to stimulate the agrarian sector, organizational and structural changes were undertaken in industry by considerably cutting down the management pyramid, the national economy was somewhat decentralized, housing construction was begun on a mass scale, pensions were raised, and the production of consumer goods was increased. Yet all these measures were undertaken within the same economic model of Stalin's, which, as it turned out, was destined to long outlive its architect. Khrushchev's version, however, did "mollify" this system (primarily as regards the stopping of the mass repressions, which were also used as a "stimulus" in production discipline).

Yet the attempt to correct the faults of the administrative-command system with the help of the same administrative methods could not but fail. Khrushchev's "time-tested" slogan "To catch up and leave behind!" (in this case, the USA, in the production of meat and milk) had let him down. Another factor was that the campaign for the forced planting of corn in the whole country discredited itself and caused an unfair dislike among farmers towards this efficient crop. In 1962-1964, despite further organizational changes, new crisis phenomena appeared. This was manifested, for instance, in a sharp price rise on meat and dairy products and the necessity to start importing grain. Once again the shops were shaken by shortages and social programmes were disrupted.

It was in those conditions that the economic reform of 1965 was announced, an attempt to switch from command methods to the economic system of management accompanied by market mechanisms. Incidentally, stories appeared at that time in the West as to who was the "author" and "father" of the reform. According to one, it was an economist from Kharkov named Liberman. Birman, his colleague from Moscow, and Tereshchenko, a specialist in management organization who came back to the USSR from the United States, were ascribed authorship in other versions. While they were honest and active proponents of the reform, they were no more than that. The issue is not so much that the reform was designed by many people, which nowadays is only natural, but rather that its draft was rather eclectic. The administrative-command system used some of

the recipes given by specialists, but at its own discretion relying on the same Stalinist model.

The reform appeared largely thanks to the efforts of the economic science that had been revived during the years of Khrushchev's "thaw". In fact, the reform was mapped out under Khrushchev, who either did not want to or could not listen to the reasoning of such prominent scientists as, for instance, Academician Vasili Nemchinov, the head of the Academy of Sciences' Economics Department.

Jumping ahead for a moment, I would like to mention that at the June 1987 plenary meeting of the CPSU Central Committee, at which the concept of the present economic reform was formulated, Mikhail Gorbachev cited an article by Academician Nemchinov on cost accounting written in 1964 to show that its ideas were not at all obsolete. So much time for changes was lost.

When Khrushchev was deposed in October 1964, the reform was announced by his successors, Brezhnev and Kosygin. The notion of profit was rehabilitated, the amount of obligatory parametres was reduced and plans were made to start wholesale trade of the means of production. But, overall, the package of recommendations from experts was not carried out and the reform was reduced to half-measures and compromises. It could not have been otherwise, for the politicians who were allowing the reform were at the same time starting the "quiet" rehabilitation of Stalin and Stalinist ways. They simply rejected the notion of "market socialism". A certain negative role was also played by the branch ministries, which had been restored by the new premier, Kosygin. The ministries managed to quickly suppress the reviving enterprises with their diktat. The number of ministries was constantly growing and by the end of stagnation reached the fantastic figure of almost one hundred.

Yet, in spite of its limited character, the reform "gave the economy a dose of new blood", as was put by Pavel Bunich, and to an extent helped to revive it. The results of the 8th five-year plan were the best of all the previous plans as well as the ones coming after it. The reform demonstrated the advantages of economic management methods. It seems as if everyone should have realized the necessity of continuing it. But this required a further democratization of society's life and this was something the ruling apparatus could not accept, for it would have weakened its power. It was decided to stop at what had already been achieved, and because of the natural incompatibility of

various aspects of a market economy and of authoritarian management (given the trend in support of this authoritarianism) the latter successfully strangled the reform.

The subsequent history irreversibly led to economic stagnation. True, in 1979 there was another attempt to go back to some of the ideas of 1965, but it was much more timid and was stopped short by various bans even as it was being elaborated. Even the expression "economic reform" was unwelcome and was substituted with "economic improvement". As for the concept of a "socialist market", it was totally taboo.

1985-1989: "AMBER LIGHT"

HALF PERESTROIKA, HALF FIVE-YEAR PLAN?

Before April 1985 few people except specialists knew the names of Gavriil Popov, Nikolai Shmelyov, Pavel Bunich, Otto Lācis, Leonid Abalkin, etc. Academicians Abel Aganbegyan and Tatyana Zaslavskaya were better known to the general public. Their magazine *EKO* published in Novosibirsk was popular, and not just among engineers and economists, nor just in Siberia. Its popularity perhaps stemmed from the fact that it published, in addition to in-depth scholarly articles, psychological tests, novels by Arthur Hailey and chapters from Dale Carnegie's *How to Win Friends and Influence People*. That these scholars were until recently facing the angry reaction of local party bosses because of their too "liberal" ideas and their letters to the central agencies telling about their fears concerning the perspectives of the social and economic development of not just Siberia, but the whole country, was known only by their colleagues.

This is what Professor Popov later said about that time: "In the past we spent a lot of time writing to various agencies. We spent many hours at fancy offices waiting to see various officials. We wrote report after report and drafted numerous projects. For too long we hoped that somebody up high would finally understand us and start to put some of our ideas into practice."

It was also Popov who came up with an unusual simile to explain why the stubborn "proponents of a market economy" continued to dream about reforms despite the numerous difficulties they faced and the temptation to live in peace without such tribulations. "There were a few attempts to join the administrative-command system and exist within it," he says. "You know, one of Ionesco's heroes wants to become a rhinoceros. He keeps trying but he just can't do it. Then he says: 'I am dying, I can't be a rhino, because I am a man'."

Naturally, the activity of these scholars was not limited to

writing reports. Otto Lācis was making a serious study of the genesis of Stalin's economic system without any hope that it would ever be published (only perestroika made this possible). Leonid Abalkin was giving lectures to party officials. Tatyana Zaslavskaya was "pulling" Soviet sociology and was training young sociologists. Abel Aganbegyan worked out models simulating the future development of Siberia. Gavriil Popov wrote about democratic reforms in 19th-century Russia that were connected with the word "glasnost" (the modern term goes back a century). Nikolai Shmelyov was studying market mechanisms in the US.

Perestroika has become a time of triumph for all these scholars, for they have become authors of best-selling books and been elected People's Deputies of the USSR. In 1989 Leonid Abalkin was made a Deputy Chairman of the USSR Council of Ministers responsible for the problems of the economic reform. Pavel Bunich was offered the post of Finance Minister, but refused.

Back in mid-1985, however, no one could have imagined what the future held in store for these scholars. The fundamental changes in the highest party leadership were only just beginning and the 27th Congress of the CPSU and the 19th Party Conference, which gave an impetus to the radical economic and political reforms, had not yet been held. The reformers themselves were not then as radically-minded, thus their economic articles, reviews and commentaries of 1985, which primarily stressed the need to strengthen discipline and instill order, were in fact a reflection of their points of view.

The society was dominated by cheerful sentiments and it seemed as if all the changes would be easy to make. At that time the whole tragic depth and scale of the economic and social problems were not yet realized (Chernobyl and the painful inter-ethnic conflicts were still ahead). Finally, the practice of classifying information about the true state of affairs introduced by the administrative-command system boomeranged. With glasnost, the mass media was able to make this information public. Some, however, could not take this "shock therapy".

Suffice it to mention a heritage of the stagnation period that for years had been carefully hidden: the chronic budget deficit, which reached 120 billion roubles by early 1990. Or take the hundreds of thousands of unemployed in Central Asia who were receiving no benefits, because it was claimed that there had not been any unemployment in the USSR since the 1930s. It also

became known that the USSR was not "the world's most educated country with the biggest readership", that it was far from being in the first ten countries in terms of the living standard, and, finally, that over 40 million people in the USSR, or one out of seven, were living below the poverty line.

It is a part of people's nature to react emotionally to negative information whether it refers to the past or the present. Learning the sad truth, however, though a painful process, was a necessary one. Perestroika had to take this responsibility upon itself, too.

Perestroika and glasnost not only showed the truth, but also revealed the variety of opinions within the society, and the pluralism of positions that had long been hidden under the cover of "unanimity", including on economic issues.

For a number of reasons 1989 was a watershed year as regards the restructuring of the economy. During it, it finally became clear that the half-way reform that initially was being pushed was not yielding any results: all branches of material production had switched to self-financing, but were still being hamstrung by the bureaucracy. The process of reform was facing the danger of being reversed the way it was back in 1965. This time, however, any backward movement would have had much more serious consequences, for the economy was already on the verge of a crisis and it was obvious that an extraordinary programme of financial improvement was desperately needed. It also became clear that no tangible improvements and, ultimately, no success for perestroika would be achieved if the question of ownership was not settled constitutionally. A relevant law was drafted and finally adopted. During 1989 the economic independence of the Union republics and large regions of the country began to be put into practice. The problems of the cooperative movement grew worse. At long last, perestroika penetrated the sphere of foreign economic activity, raising the problem of how the USSR was to fit into the world economic community and how to switch to a convertible rouble.

But before going any further into all these issues which came to the fore in 1989 and their possible solutions, I would like to relate some first-hand expert opinions that were expressed in late 1988 - early 1989, for I believe they will give a sense of the present discussion and at the same time help assess the course of social thinking over the four preceding years of perestroika.

"We are the richest country in the world in terms of resources, yet we live poorly," says Otto Lācis, D. Sc. (Economics). "We cannot even afford to pay teachers and doctors enough so that

the most talented students would be striving to get into teachers' colleges and medical schools and so that people in these professions would feel responsibility for their work. Yet children and health are the two most precious things one has. Everything else, such as waiting lists for housing and queues for almost all goods, are almost not worth mentioning in comparison. There is a shortage of even the simplest medicines. A foreigner who happens to wander into a Soviet shop must leave wondering how Soviet people manage to keep themselves clean and go out on the streets wearing clean clothes.

"Things have even gone so far as to engender doubts as regards the efficiency of our social system. Before, this young socialist country with a backward economy and poor people managed to scare capitalism with the force of its example and made it copy the state regulation of the economy, which first appeared in the Soviet Union, and social guarantees for the working people. Today, when we are much more experienced and much richer than we used to be, some capitalist countries, like, for instance, Japan and Sweden, have surpassed us in both these areas.

"Some will say we don't work hard enough. This may be true. But after all, the Soviet Union is the world's largest oil producer, yet there is a shortage of fuel. There is also a shortage of steel, even though we produce more than the USA, West Germany, Great Britain and France taken together. The USSR also chops down the largest amounts of timber, but no other country has such problems with paper as it does. In spite of all the problems in agriculture, the USSR grows more wheat than any other country, but also imports the most.

"Imagine a housewife who goes shopping and buys everything she theoretically needs without asking herself why or how much it costs. If she is from a working family, she will not be able to make ends meet. It was revealed in 1988 that the country's "housewife", the USSR Ministry of Finance, had long been unable to "make it to pay day".

"How is the budget deficit covered? How can one pay for everything, if expenses outstrip revenues? From the mid-1970s to the early 1980s the petrodollars made it easier to hide the economic stagnation, but a few years ago oil exporters were left high and dry, for oil prices dropped. No help can be expected from oil exports any more. Theoretically, it is possible to get foreign loans, but in a few years they will have to be paid back and then today's source of revenues will become a source of

additional expenses. Then there is a source which the Minister of Finance guardedly calls "excessive emission", or the printing of new money.

"Yet excessive emission means inflation, which has two side effects: price increases and longer queues. The USSR is experiencing both, but price rises are being suppressed by the administrative setting of prices on the principal goods. Hence, the primary manifestation of inflation today is empty counters and the deterioration of retail trade. Among the goods that are disappearing from shops are those whose shipments to the retail trade network have increased, such as, for instance, TV sets. This happens because there is too much money in circulation.

"These processes have been going on and been written about for decades. But why did they speed up, rather than slow down, with the beginning of the economic reform? In my opinion, this was caused by the inconsistent and slow nature of the reform.

"... It seems that new objectives cannot be achieved with old means. The functioning of the industrial branch ministries as bodies designed to receive and spend state resources while not being governed by cost-accounting principles is in irreconcilable conflict with the requirements of the system of full cost accounting in force at enterprises. It is time to take away the centralized planning functions from the ministries and hand them over to voluntary associations of enterprises, which in turn will be accountable to their labour collectives."

Nikolai Shmelyov, D.Sc. (Economics), has this to say: "I never think of myself as a social innovator, on the contrary, I'm more of a social conservative.

"In my opinion, the social innovations we are now proud of are on the level of the invention of the bicycle. We are discovering by touch, with our eyes shut, what the world has known for centuries. It knows it much better than we do and will continue to do so. What kind of discovery is the cooperative movement or small-sized banks? These are organic elements of a normal market economy, itself a normal thing. The organic instruments and attributes inherent in a market economy develop from a primitive to a highly-advanced state along with the evolution of the market economy itself. If one were to go deeper into the matter, one can trace, for instance, exchange rates and the stock exchange even in ancient Rome. There are no class aspects in these instruments. They are simply the economic technology and socially completely neutral means inherent in any highly-developed market economy based on a division of labour. We tried to break all these

instruments in our rush and then thought better of it. For some seven or eight years we were using these means very effectively... Unfortunately, we forgot all that. Or, to be more precise, we were ruthlessly and cruelly forced to forget this knowledge. We not only have no idea of a stock exchange, we do not even know the first thing about corporate property. For us this is still very advanced technology. We continue to make mistakes on a primary-school level. Such a level of competence is unfortunately sometimes typical of decisions being made on the highest level."

Says Yuri Chernichenko, a writer: "I would hope that to feed the country is a direct and elementary task. What is hunger? Hunger is an inseparable part of the collective and state-farm system imposed in 1929-1931. The genotype of this system had both hunger and fear implanted in it.

"It is also elementary that the lack of productive forces cannot be blamed for the fact that the collective-farm system, of which I have been part for 35 years, is unable to feed the country's 300 million people. On the contrary, during this time the system, though able to consume some 700 billion roubles of capital investments, was simply technologically, technically, mentally and morally oriented towards the presence of hunger. Its landmark is hunger, not abundance.

"The fear was implanted by the horrible and organized famine of 1932-1933, which took away millions of lives and, consequently, the master's attitude to the land. One can express the losses brought about by this system in material terms—Kazakhstan was left without any cattle and the Ukraine lost millions of cows—or talk about how the land lost its fertility. These gigantic losses will long be felt by our descendants.

"...Now we are trying to reintroduce independent farming, but it is encountering protest. The protest comes from a legion, that is, the 3 million managers employed in the Soviet agro-industrial complex. No other country is able to support such a number of overseers, controllers and guards. Let us be realistic: there will be no progress without a true reform of the collective- and state-farm system. I see the way out in making the collective farm and the state farm, either of which is managed by one chairman, into cooperative enterprises."

This is what Pavel Bunich, a corresponding member of the USSR Academy of Sciences, thinks: "Perestroika has affected three main areas. The first one where the greatest success has been achieved, is foreign policy; the second, with its ups and

downs, is glasnost; and the third where there has been the least progress is the economy. Why is that?

"For 60 years we have been effectively forcing people to forget such things as enterprise and initiative. People have forgotten what the market is. Meanwhile, what is now being proposed for our economy is in no way the 'discovery of America' for socialism. A market economy has been tried in a few socialist countries, and rather successfully.

"Our country has not only contributed to world civilization the negative experience of administrative-command socialism, but also the positive example of the beginning of true socialism, which includes the market. Incidentally, 'correct' socialism is by definition always market socialism. By using the term 'market socialism' we in a way admit the existence of non-market socialism, an incorrect form of socialism.

"In many capitalist countries, like France, Sweden and even the United States, centralism is successfully combined with the market. This suits us as well. Yet our difference from capitalism is not that we have more of the 'plan' and less of the 'market'. Socialism differs from capitalism in that the former gets rid of everything that distorts it in a capitalist way. In my opinion, the market does not disfigure socialism, but improves it. That is why the market should not be got rid of. It is exploitation that must be eliminated as much as possible.

"NEP was the first and very successful experience with the market in a socialist country. An unprecedented miracle happened in four years.

"The second experience was Yugoslavia at the initial stage of its development. Some time ago this country was considered a 'God-forsaken place' in Europe, but now Yugoslavian goods are renowned for their high quality. Unfortunately, there were reverse developments later on there, which, however, should not be blamed on the market mechanism. Today the market there is dominated by the command mechanism...

"The third example is the 'economic miracle' of China. I recently visited it when the country was marking the 10th anniversary of the reform. I also was there five years ago. The living standard has grown by 2.4 times despite the important fact that China is relatively poor in natural resources. There is 10 times less per capita arable land than in the USSR. The special economic zones have become oases of flourishing activity, built up with 50-storey skyscrapers of unique architecture. Now, however, China is facing a number of major problems, among them inflation.

Another is that the democratic reform is seriously lagging behind. Finally, there is the social tension. China has long-standing traditions of levelling, bred by a distorted idea of socialism. The USSR also has such traditions. In other countries they are less pronounced. If, say, an American is making little money he is primarily displeased with himself and tries to make more instead of envying other people. The Russian trait is to envy others...

"...During the time given to us by history, we must do much more than can be achieved under normal development, since time is a negative quantity for us. We are behind by as much as we can be. We must move up to a new quality, so that we can be proud not only of our social system, but also of its economic parameters. It is in a way inevitable that this task has to be accomplished, if not by us, then by others, if not today, then tomorrow, possibly with the help of means that are much worse than those now at our command. God forbid that this development should go in a way different from that of an intellectual revolution."

We have seen that Soviet economists do not lack a critical approach. Just read the speeches of government and party leaders from the same period and you will see that they were no less so. To this should be added the radical statements that are being voiced literally in the streets (this country has not seen such a wave of public demonstrations since perhaps the 1917 Revolution, which should not be confused with the "organized" rallies held between then and now) and in the press, which while climbing up the stairs of glasnost has become a truly open tribune of exchange of opinions. The socialist "foundations" have not collapsed as a result of the society looking at itself with open eyes. Naturally, society has developed a legitimate interest in qualified expert opinions during this process. It was lucky that such honest experts were available.

Still, in my opinion, it is even more important that economic science has itself gone through a revolution against dogmatic thinking. This science remained one of the last ones (along with sociology) to continue to classify even the most natural processes according to whether they were "Marxist" or "non-Marxist" along "class" lines.

This is no exaggeration: there were attempts to create "a class-based physics", and only the necessity to design a non-class-based atom bomb forced the then current ideological hierarchs to abstain from a witch-hunt in physics. Cybernetics was less fortunate, it was not even divided, but was rejected altogether as a "bourgeois pseudo-science". The results of the USSR's lagging

behind in this sphere are well known. However, those seeking ideological purity did not stop there, they continued cursing synergetics and then accused the theory of catastrophes of having a "pretentious name". At the same time, the slogan "To Turn Moscow into a Model Communist City" did not seem pretentious to them and lived till the beginning of perestroika.

Finally, perestroika has given economics back its initial concepts and rid it of the necessity to invent euphemisms. Economics was at last able to study what it was supposed to—market relations, instead of "responding positively" to any government decisions as it used to. It would be interesting now to look at the presently accepted idea that "humanity has not yet invented anything better than the market" from the point of view of 1985, for back then this phrase sounded heretical and could hardly be published.

Incidentally, this liberalization did not happen overnight; the stereotypes did not disappear without a struggle. Here is a good example. In November 1986 *Moscow News* published an article by a colleague of mine, Lev Voskresensky, entitled "On the Way to the Socialist Market". It was a pioneering piece in the mass media, for it spoke of the idea of the market in a positive way. The author immediately became the target of attacks from several publications, whose echo still sounded in 1987.

And what about the polemics with foreign economists? It continued, but acquired a more business-like nature. Ideas can be successfully competed with only with the help of other ideas, but for this one needs to have his own ideas and to know those of others. Incidentally, an interesting metamorphosis took place: whereas before a critical look at the economic situation in the Soviet Union was only coming from abroad, now the "average" Western economist or Sovietologist (this name is no longer being used derogatively in the USSR) is more likely to give a positive estimate of how perestroika is going on than his Soviet colleagues. Fortunately, this does not prompt the suspicion here as before that "if you are being praised abroad, you better think if you are right or not".

Here is an example of an "outsider's view", which is also the name of a regular column in *Kommunist*, the theoretical journal of the CPSU Central Committee, to support what I have just said. It carried an interview with Wassily Leontief, a prominent US economist and a Nobel Prize winner. His opinion is especially interesting, since when working out his methods of economic analysis, for which he earned his worldwide reputation, he relied

on the practical experience of economic planning accumulated by the USSR in the 1920s. Furthermore, Wassily Leontief was among those who were directly involved in the emergence of the Japanese "economic miracle", which is today being looked at by the USSR with so much interest.

Wassily Leontief said: "... The management of the economic life of a big country can be compared with sailing a ship. First of all, you need wind to blow in your sails and push the boat forward. This wind is incentive. Then you need state management at the helm, which, by using the force of the wind, would delicately steer the boat in the desired direction. The US economy has a weak helm. If there is a strong wind blowing, we may be carried to the rocks of a crisis. In the USSR today it is the other way around: there is no wind and the sail is dead. Even if you direct the helm, without the wind you cannot steer at all. A good captain can steer the vessel in a direction opposite to that of the wind. This is a correct economic policy, because society is interested not only in profit, but also in having a high cultural level, good living conditions and providing assistance to those who cannot make enough money.

"It is essential to have incentives and initiative and a balanced system of prices so as to guarantee good pay for good work, although there are difficulties on this road as well. When you mechanize and automate your industry many people will lose their jobs. What to do with them is the problem that the society and the state will have to answer. It may be that these people will have to be subsidized, i.e., paid unemployment benefits, yet this is much better than artificially keeping prices at a low level.

"Another problem is that in the process of switching from the present prices to justified ones there is no way to escape some social chaos. This task is synonymous to going down a high mountain, where one cannot do without brakes and must at least approximately calculate that which can be calculated. For instance, the rough correlation between the prices of coal, electricity and wheat should first be figured out, and only after that should the economy be carefully switched to a new system of prices. A big portion of resources should be set aside in order to help those who find themselves at a disadvantage as a result of a price rise, and low-income categories should be given tax reductions or subsidies.

"It is also important to remember that the price reform and perestroika in general will not yield immediate results. The problem is that the people may not at first support the new prices if

they do not see tangible results right away, and that many people will lose their jobs. This especially pertains to those now filling managerial positions. These people are not going to like that. Those "below" will also be afraid of losing their jobs and social security. I think that if the state watches this process carefully, it will be able to carry it out step by step and avoid having some individuals facing hardships. This, however, cannot be done in two years. This task will be easier in agriculture than in industry.

"This whole process must be controlled by the planning bodies, since the capital investments and their efficiency depend not only on today's or tomorrow's situation. The decisions on capital investments must be based on a knowledge of the overall economic situation, an ability to look into the future and make forecasts for the distant perspective. This cannot be done by separate engineers. For instance, in these forecasts one cannot proceed on the basis of today's price of electricity, since in twenty years there will be an oil shortage and oil prices will go up. The world will have to produce more nuclear energy. One must also bear in mind demographic tendencies, the situation on the world market, etc.

"... The same is true as regards scientific and technological progress. It is very important that this be the responsibility of the government, as it is in Japan. Of all the capitalist countries from which something can be learned, I would choose Japan, not the United States. Japan's government plays a big role in the country's economic life. It has achieved a much higher degree of economic analysis on a government level than the US. My methods, incidentally, are used in Japan more than they are in the United States.

"Even if your economic reform is completely successful, this will never lead to the introduction of capitalism in the USSR. This is simply impossible. However, it can maximally rationalize your economy. Naturally, you will have not only losers as a result, but also some successful, well-off people. But you have always had them. In this field, too, the state can play a restraining role.

"I think that in the long run you will remain a socially just system. Yet here a lot will depend on the leadership, on enthusiasm and on intellectuals. I believe that the Soviet leadership is trying to win the support of intellectuals, who have always played a major role both in the old and the new Russia. Intellectuals are able to explain everything to the people and to help them understand. There will be difficulties, so some re-

sources must be set aside to provide assistance to those who are in need. Some people always suffer in times of big changes; this is the price we have to pay for progress. But if the economy develops, such people will eventually find their place in it. I am completely convinced that you will never introduce pure capitalism. That would be silly. But you must improve your technology of economic management, which is still very low."

PRICES: THE MOST TANGLED "KNOT"

Quite naturally, not all the ideas expressed by Wassily Leontief in his interview are shared by his Soviet colleagues, though such controversial issues are the subject of debate among them. They all agree, however, that the issue of prices is the most complicated one facing the economic reform. In fact, perestroika stumbled over it right at the beginning and has so far been unable to solve it, although at first it seemed that a price reform would be one of the first steps.

Moreover, this issue became the "bomb" with which the bureaucracy tried to undermine and discredit the economic reform. This is how it was done.

Those who have spoken at public debates in Leningrad know that in that city speakers are always asked tricky questions, though the latter are very politely put. For example, Nikolai Shmelyov, an author from Moscow who is best known for his articles criticizing the economy of the stagnation period and urging very radical changes, was asked whether it was true that he had been Khrushchev's son-in-law. Shmelyov admitted that it was true, choosing to ignore the insinuation that he owed his doctorate in economics and his professorship to his once privileged position (incidentally, the rapid careers made by some sons-in-law of state leaders are notorious). Shmelyov then said that he divorced in 1962, two years before Khrushchev was removed from power in 1964. I would like to add that Shmelyov received his degrees much later, and his literary works remained unpublished until perestroika, for they did not fit into the neo-Stalinist wave of the late 1970s, and his "background" was far from being helpful.

The morning after the literary journal *Novy Mir* came out with his article "Credits and Debits" Nikolai Shmelyov woke up a celebrity. Copies of the journal were read and passed around until they were literally falling apart. People made Xerox copies of the

article and passed those around as well. It could be that it was this article that put a number of ideas into circulation among the broad public that used to be the subject of discreet discussions only among specialists, i.e., the full development of market relations, cuts in the plan, the need to reduce the output of many kinds of products, the issue of shares, possible bankruptcy of state enterprises, free prices, and unemployment, what made his opponents particularly angry.

Today these and even more radical proposals are being widely discussed. Nikolai Shmelyov and his colleagues have found themselves in the position of experts, or, if you will, enlighteners. That is why he is invited to take part in various round-table discussions almost every day. Shmelyov does not try to dodge even the most controversial questions and sometimes even provokes people with the scathing definitions he uses. For instance, he has defined the price system in the country as the "kingdom of distorting mirrors" which kill common sense and economic expediency. Quite naturally, Shmelyov was an ardent advocate of carrying out a radical reform of all prices as quickly as possible, to bring them into line with true market denominators regardless of the possible complications.

Well, the trickiest question Shmelyov was asked in Leningrad was one put to him by a correspondent from the TV programme "The Fifth Wheel": did he think that there should be a reform of prices of consumer goods as of the next year, 1989?

Shmelyov, a recent advocate of the speediest reform, said resolutely "No." Why was that?

The simplest answer is that he had taken into consideration the sentiments of the broad public. And indeed people were somewhat panicked by the prospect of a reform, for it was generally thought that it would mean abrupt increases in prices of many foodstuffs and consumer goods, particularly those subsidized by the state (meat, sausages, butter, children's goods, etc.), with only token compensation given in exchange. This largely stemmed from the fact that people had already witnessed similar "reforms".

It was not long ago that prices went up on bread products, which are subsidized by the state, the explanation being that this would broaden their variety, but in fact their quality went down. Cooperative shops, which receive no state subsidies, understandably started selling meat products at much higher prices than the state ones. Yet at the same time prices of canned meat packed by state enterprises doubled as well, though the former

prices stayed in effect for privileged categories of the population. In other words, subsidies began to be used selectively, and the prices of many other goods kept climbing semilegally. Consumers, whose pay remained unchanged, naturally wondered what would happen when price increases were legalized. They refused to accept the explanation that it was all a consequence of self-financing.

It was perhaps these complications which were initially predicted by Shmelyov and other convinced advocates of commodity-money relations that caused an about-face in the point of view on this subject.

Such an evolution of views would seem natural to everybody except perhaps the architects of forced distribution, who praised this in lengthy monographs and who are still fighting the disease of "consumerism", which occurs against the background of an acute shortage of goods. Fortunately, both economists and the leadership, which may or may not (the latter is much worse) listen to their recommendations, are able to reconsider hastily-made decisions without fear of losing face.

Everybody remembers how the campaign against the consumption of alcohol "went too far", the result being that sales of alcoholic drinks plummeted, but their consumption did not. Starting in 1986, the beginning of the present five-year plan period, the state budget began losing dozens of billions of roubles from alcohol sales, this money going instead to moonshiners. Then there was another unexpected development: in many regions of the country it became necessary to ration sugar. Then there is the example of the attempt to introduce a "strangling" tax on cooperatives. Fortunately, in both these cases common sense took the upper hand, and the situation is now being normalized, although there is always a possibility of some new problems emerging, for as long as the administrative-command system of economic management is alive it will keep putting obstacles in the way of the reform.

How should decision-makers act when authoritative experts are not in agreement on what is the best course and when adopted measures may not yield quick improvements or easily visible indications that the crisis is abating?

During the work of the 19th Party Conference in the summer of 1988 there was a real duel of opinions between two delegates who addressed the gathering—Academicians Leonid Abalkin and Georgi Arbatov. In a way, it can be described as an argument between an optimist and a pessimist as regards the assessment

of how the economic restructuring had been going. The other delegates were more inclined to support Arbatov, who stressed the positive achievements, while the more critical Abalkin was himself rather roughly criticized for his views. Yet in September *Izvestia* carried a big article by Academician Arbatov which in fact developed Abalkin's ideas even further. Arbatov levelled criticism at the 12th five-year plan, the monopolism in the state sector of the economy and ended by urging that administrative and political pressure be stepped up in order to crush the old system by force.

Quite possibly, a big role in the radicalization of the Academician's views as a sincere advocate of perestroika was played by the situation around prices and therefore around the issue of the Soviet people's standard of living. "This problem is on everybody's mind, at least in connection with the discussion on prices going on in the media," Arbatov said. "I think that some of our economists are now fearfully watching the monster which they themselves helped to create. Once it got into the bureaucrats' offices, the proposed reform of price formation was quickly transformed into suggestions to raise prices in addition to the price increases already going on spontaneously."

"To even include the idea that perestroika will demand fresh sacrifices in the discussions on price formation seems wrong. I am not saying that the system of price formation does not require a radical reform... Yet price changes must not lower the people's living standard, but should happen in the framework of its general improvement."

I think that Academician Arbatov exaggerated when he said that the economists who supported the reform had created the "monster" of the bureaucratic idea of an across-the-board price increase. The bureaucrats did very well on their own, as they always do. The postulate about the "necessary, but final sacrifice", for instance, was repeatedly used by Stalin. Arbatov was right, however, as regards the main thing: perestroika cannot demand such sacrifices, which in fact run counter to its essence.

Yet, why is it impossible to immediately implement the tempting idea to introduce substantiated prices on all goods and higher prices on those goods in great demand? It would seem that it should be an easy enough step to do manually what the market mechanism does spontaneously and then allow it to regulate itself. But this simple measure would immediately undergo bureaucratic distortions, according to which the population would have to pay for the reform.

In fact, the state price agency already tried to prepare the population psychologically for this version of the reform, making reference to the "economists' opinion". People were angry that the draft of the reform had not been published, for they had already accumulated a good deal of negative experience from "military ruses", when prices rose to the accompaniment of speeches on safeguarding social justice, the compensatory reduction and balance of supply and demand and, of course, "the final sacrifice".

This is why the prominent Soviet economists who support a radical reform of the entire system of economic relations and price formation unanimously spoke against reducing this reform to a simple price rise. Moreover, they warned that such a step would be dangerous for the destiny of perestroika. This thought was succinctly put by Professor Anatoli Deryabin, head of a department at the USSR Academy of Sciences' Economics Institute, who said: "I think if this outrageous rise of wholesale prices by 170 billion roubles takes place, and of retail prices, by 110 billion roubles, the economy will be completely destroyed. There may be enough of everything for a while, but this paradise will not last long. The shortages will come back and they will be so bad that everything will have to be rationed, even matches. I believe that a sense of self-preservation will not let us embark on this road. Most experts realize that along it we will not just encounter disillusionment, but that we will also be in for a real shock."

Thus it can be seen that the issue of prices is by no means a simple one. Does this mean that while an overall price reform is necessary and even unavoidable, it is also dangerous? Yes, but only if it is carried out in a bureaucratic style, for it is an old trick of the bureaucracy to substitute a narrower task for the general task of introducing a new economic mechanism, in other words, to reconsider prices while keeping the old economic system intact. This would only aggravate the faults of the administrative-command system (which it could restrain with great difficulties by means of strictly regimented prices in state retail trade) with the help of imitating the market; the end result would be the complete discrediting of the market. It was not by chance that at the same time the formerly silent supporters of the old ways started speaking out. They claimed that the price rise was another idea of the advocates of commodity-money relations and that they were pushing the country towards the abyss of market chaos. This could be stopped, they said, only by going back to the old ways of "iron discipline" and "Stalin's price decreases"

(which, incidentally, followed unprecedented price increases which for some reason these people never mention).

The discussion finally ended in a government decision passed after consultation with experts. It was decided not to change state retail prices, particularly those on food (according to the old official statistics, the share of an average family budget spent on food was some 35 percent, while the estimates of independent experts put the figure at 50-60 percent), for the next 2 or 3 years. It could be that this term will be extended until the general financial situation in the country is improved. This pertains in the first place to the huge budget deficit, which is causing uncontrolled inflation. This inflation is taking a specific form here typical of "unreal socialism": the most basic low-priced goods, such as detergents and tea, have disappeared from the shelves. The shortages of these goods, which used to be widely available, got so bad that they began being rationed.

So since the time was not right for it, the price reform was postponed. Yet at the same time, the reform could have been carried out before the outbreak of inflation if other necessary changes in the economic mechanism had not been dragged out. All this necessitated the government decision to "bury" the bureaucratic project of price increases.

Given the critical nature of the situation, price increases would have reduced everything that had been achieved by democratization to naught and would have very much complicated the realization of the party's course of economic and social changes.

The problem of prices was settled, at least for a while, but soon it became clear that it was not the only one.

"THE PAPER TIGER" IS READY TO JUMP

On May 7, 1989, the *Moscow News* weekly published an address signed by a group of Moscow economists and journalists who specialize in economic issues. It read:

"Today the country is gripped in the vice of an inflation crisis. The decision to again accelerate industrial growth passed in 1985 was erroneous. Yet this mistake is aggravated many times over by the fact that industrial growth is being financed by unbacked paper money.

"We have issued so much paper money that if the countries of Western Europe were to agree to accept the rouble at the official

rate we could have bought all of their goods. The GDR and Czechoslovakia have recently forbidden Soviet tourists to take out consumer goods.

"Now a similar rule has been introduced in Lithuania and Estonia prohibiting to mail foodstuffs and consumer goods outside the republic. Only those who are residents of the cities of Pärnu, Tartu and Tallinn are allowed to buy commodities that are in short supply, in other words, few things are available in retail shops.

"Thus the present financial policy is aggravating not only the social relations in the country, but interethnic ones as well, which could have even more serious consequences. An erroneous financial policy in Russia has many times caused great cataclysms in this century.

"During World War I, inflation in the form of accelerated increases in prices of consumer goods made the grain trade unprofitable. As a result, food supplies to the cities were disrupted, which played an important role in making Petrograd's population rise against the tsarist regime in February 1917. The Provisional Government which came to power continued to print money and aggravate inflation, and this in turn contributed to its own fall.

"The financial policy of the first Soviet government was aimed at abandoning the monetary system for natural exchange. This only accelerated inflation, which in a few months completely destroyed trade. This was followed by *prodrazvyorstka*, or the requisitioning of grain by force, and the Civil War.

"The first years of NEP noticeably improved the financial system, but in 1925 the so-called 'acceleration policy' set off what we now also are familiar with, i.e., the inflationary financing of the economy. The result of that policy was the destruction of the trade ties between the town and the countryside, a halt, then a decrease in the growth of agricultural production, rationing and, finally, a new *prodrazvyorstka* and a war against the peasants.

"An incompetent financial policy is the yeast which helped the system of Stalinist terror to rise.

"What is ahead of us if the present financial and economic policy continues?

"In the first place, a total rationing system. Already today trade is disintegrating before our eyes. Then, inevitably as a natural phenomenon, limitations and bans on the freedom of movement, changing jobs, cooperatives and self-employment, which we know of from the past. A new system of forced labour is not out

of the question. The elimination of economic incentives will make the authorities resort to coercion. Enterprises and cooperatives have already lost most of the rights granted to them by the Laws on the State Enterprise and Cooperatives. Growing attacks on glasnost are not at all accidental...

"Many people today, as well as many agencies, are concerned about the financial situation in the country. Yet can we entrust the solution of this problem to these agencies? Will this be a guarantee against the incompetence of their specialists and paralyzing compromises with the opponents of economic democracy?

"...We have a number of measures to suggest that could be made the basis of a detailed anti-inflation programme. We hope those who share our concern will support us. We propose:

"To abolish all present forms of credit, which are in fact gratuitous and are not paid back, and which are used to flood the economy with unbacked paper money. Instead credit should be put on a commercial, returnable and competitive basis. Interest rates should be regulated by supply and demand.

"To limit emission of banknotes by a figure that strictly corresponds to the real growth of the national income (some 2-3 percent a year).

"To gradually phase out administrative control over prices. To set up a mechanism for automatic annual increases of salaries, wages, pensions, allowances and student grants in proportion to the price rise on consumer goods.

"To begin to introduce, along with liberating the mechanism of market price formation, a freely convertible rouble (similar to the monetary reform of 1922-1924).

"In order to prevent the influx of new money from causing an economic depression, it is necessary to unleash those factors which would bring about a growth of production efficiency. In the first place, this means creating legal conditions for the equal development of various forms of property in the agrarian sector and turning most industrial enterprises into a corporate form of property. It also means that sectoral ministries and agencies must be dissolved.

"In the present situation, the activity of the State Planning Committee and the USSR Ministry of Finance is presenting a larger than ever threat to the policy of radical reform begun by Mikhail Gorbachev."

The address was signed by *Soltan Dzarasov, Anatoli Zlobin, Gennadi Lisichkin, Boris Pinsker, Larisa Piyasheva, Vasili Selyunin, Anatoli Strelany, Lev Timofeyev and Grigori Khanin*.

The question naturally arises whether the authors were exaggerating the seriousness of the situation, especially since not long before that the central statistical agency had registered an improvement of the economic situation in the country, albeit a small one, and noted, for instance, that the social orientation of the country's economy had started to change.

But the authors of the address were telling the truth, though actually they were not the first ones to do so. That was done by Mikhail Gorbachev, who also announced a "discovered heritage" of the stagnation period—the constant and constantly hidden state budget deficit. In 1989 it reached 120 billion roubles a year (overall annual budget expenditures are 500 billion roubles). Such a big budget deficit is a greater danger in the Soviet Union than in countries with a traditional market economy, for in the USSR the overwhelming part of the economy belongs to the state and a greater part of the national income is accumulated in the state budget.

This was a strong blow against perestroika. The growth of the state budget deficit could partially be ascribed to various objective circumstances, such as a fall in oil prices on the world market, the great expenses entailed as a result of the accident at the Chernobyl nuclear power plant and the destructive earthquake in Armenia in December 1988, and other disasters. But it became clear that these factors had simply aggravated the old disease, i.e., the expense-oriented nature of the administrative-command system as regards the economy, when any claims of the ministries for new investments from the state budget could be easily covered by printing more money.

It is thanks to the reformers that the country's government united with scholars who had been critical of government policies in a bid to improve the country's financial situation. The drafts of two extraordinary programmes were put forward almost simultaneously, one was announced by Chairman of the USSR Council of Ministers Nikolai Ryzhkov, and the other, by Director of the USSR Academy of Sciences' Economics Institute Leonid Abalkin. The two programmes coincided in many areas. It was no accident that shortly after, in the summer of 1989, Nikolai Ryzhkov proposed to the USSR Supreme Soviet that Leonid Abalkin's election as his deputy on questions of the economic reform be approved. The legislators obliged. New people also came to work at other ministries, such as the Ministry of Finance.

The most fundamental conclusion made by the country's leadership was not to go back on the idea of a radical economic

reform, but, on the contrary, to push it forward as quickly as possible. In this sense, those who hoped that financial difficulties would again force the country into the grip of the Stalinist pattern of economic management were foiled.

However, they did still have one more "secret" trump card: the shadow economy.

THE SHADOW ECONOMY UNVEILED

Bright light makes shadows stand out. This is true about the phenomenon which since the advent of glasnost has stopped being only the theme of crime stories here and an attribute of "Western life". This phenomenon is the shadow economy. The sensational cases, which even involved some of Brezhnev's closest associates, contributed to a whole mythology that makes Italian TV serials about the mafia into children's bedtime stories in comparison. The society came to realize that a new and grave disease had appeared in it and the question of how to cure it followed.

Most of the synonyms used to describe this phenomenon (a shadow, secret, black-market, hidden, underground, parallel, secondary or illegal economy) have a negative connotation. All of the definitions convey the secret and hidden character of this economy, together with the fact that it is accompanied by violations of the law, and not just minor ones, along with a deterioration of the moral climate in society. The desire to cure this disease by surgical methods is understandable, but before any treatment can be administered, there must be a diagnosis.

Until recently the official statistics ignored the existence of the shadow economy in the USSR. It was only in 1989 that the USSR State Committee on Statistics began giving information to the press on this issue, which, while not providing a complete picture, give an idea of the scale of this phenomenon. For instance, it was disclosed that the drivers of state-owned motor vehicles and employees of filling stations (all of which are owned by the state) annually make over 2 billion roubles by speculating with petrol. The price paid by the population to the people in the free state public health network runs into 8 billion roubles.

As for the shadow economy's overall annual turnover, independent experts put it at an estimated 100-150 billion roubles.

That this figure was quoted in an issue of the *Pravitelstvenny Vestnik* (Government Bulletin) attests to its reliability. An assessment of the "size" of the shadow economy can be made by comparing its turnover with the amount of cash circulating in the country (since the shadow economy almost exclusively operates with cash).

The USSR's population receives some 330 billion roubles a year in salaries and wages, which constitutes the greater part of legal incomes, plus another 70 billion in pensions, allowances and grants. Then there are also the savings of the population, which are readily available for use in the consumer market; these total approximately 350 billion roubles (of which 307 billion is deposited in branches of the USSR Savings Bank). This means that some 20 percent of the population's money is circulating through the channels of the shadow economy.

What are the components of the turnover in the shadow economy? The widespread stereotyped ideas among the population stem from the fact that the whole shadow economy sector is made up of stolen money provided by organized economic crime. According to this logic, the shadow economy businessmen are involved in stealing goods produced by the state or bought abroad, selling them on the black market and paying off corrupt officials (mainly of the legal and law-enforcement system). As a result, according to this stereotype, there is a shortage of goods in state shops, which causes endless queues and social tension. From this come the measures that should be used to correct the situation: increased control over the distribution of goods and tougher punishment for economic crimes. The advocates of this approach usually support the introduction of rationing as well.

But this approach has no prospects. It in fact suits the businessmen involved in organized economic crime and their corrupt accomplices from administrative bodies, because it distracts attention from the main factor determining their control over the black market: the shortage of goods.

Otherwise, how is it to be explained that the goods being sold on the black market cost much more than legally-sold ones even though they are stolen and that customers are ready to pay the amounts being asked for them. For instance, a recent survey showed that over 50 percent of the population pay extra for fashionable clothes and footwear and that some 50 percent do not consider speculation in goods that are in short supply or the selling of them by people in retail trade at state prices to their "friends" a crime. Moreover, despite having such a favourable

market situation, the thieves themselves also greatly strive to destroy or damage commodities and material values in the state sector instead of appropriating them.

No, it is precisely the constant shortage of consumer goods and services that creates the main niche for the shadow economy. For instance, the unsatisfied demand for goods and services is now officially estimated at 60-80 billion roubles a year. This figure is comparable with the size of the shadow economy's turnover which, economists say, is beyond the bounds of the "real" organized crime. The true proportion of the share of the shadow economy is different from the ideas given readers from reports about criminal cases.

For example, during a recent open discussion on the shadow economy held by the State Bank of the USSR and the USSR Ministry for Internal Affairs the following statistics were revealed: the criminal world accounts for at best 5 percent of the shadow economy's turnover. To determine the share of the punishable economic crime committed within the realm of the shadow economy is much more difficult, but even this is not its main component, for it is thought to comprise only something under one-third. The rest is made up by the sale of goods and services in short supply.

This is clearly illustrated by the services offered by the shadow economy. According to the Institute of Economic Research of the USSR State Planning Committee, this sector's turnover is 14-16 billion roubles a year. Of this sum, criminally punishable expenses, such as bribes connected with the distribution of housing, cheap holiday vouchers to prestigious resorts, bribes to get into colleges and universities, illegal privately-done surgical operations, even getting a "good" place at a cemetery, etc., only account for some 4 billion roubles. The rest is paid for filling the vacuum of state services (house and car repairs, private tutoring, transport services, subletting apartments, etc.). The services offered by the shadow economy are usually of a better quality than the similar ones offered by the state.

The same thing happens on the black market: people pay extra for higher-quality goods than those generally available in the shops. Take, for instance, imported footwear (paradoxically, the USSR produces more footwear than any other country in the world) or electronics brought from abroad by people who travel. In other words, the high black market prices and thus the unjustified payment "on top" are primarily caused by the fact that the market economy exploits its monopoly, or, to put it simply,

takes advantage of the fact that it is a seller's market. This is in addition to various "privileged" forms of distribution within the state system itself which is carefully copied by the shadow economy, the only difference being that hard, cold cash takes the place of an official privileged position.

At the same time, participation in the shadow economy gives many people a chance to be enterprising and to earn good money for it. Work discipline is not usually an issue in the shadow economy. For example, at one illegal enterprise the fine for missing a day's work, with or without a good reason, was 200 roubles, which is almost as much as the official average monthly pay. The enterprise was making ordinary bricks and never had any problems with a shortage of workers. From this point of view, the suggestion by Wassily Leontief, whose views I quoted earlier, that we look for people to help bring about the effective recovery of the official economy in the shadow economy is not without some sense.

Thus the shadow economy, like a barometer, quickly reacts to all market fluctuations. For this reason, in order to alleviate the negative phenomena connected with this sphere, experts recommend giving up the traditional tactics of bans and instead developing a serious attitude to alternative producers and encouraging competition among them. In fact, this competition must be ensured by the radical economic reform of the state sector. But before the reform can really start working, additional urgent measures are required, such as legalizing that part of the shadow economy whose activity fills the shortages in the legal economy, developing joint ventures oriented towards the domestic market and, finally, buying abroad those goods that are especially in great demand on the black market, particularly now that the situation on the consumer market is so tense.

1989 AND ON: "GREEN LIGHT" TO THE REFORM

THE ECONOMIC REFORM AS REFLECTED BY THE FIRST CONGRESS OF PEOPLE'S DEPUTIES

Komsomolskaya Pravda, a paper for young people published in Moscow and distributed nationwide, has a tradition of asking various people to comment for their New Year's edition on what they think the upcoming year holds in store. The poet Andrei Voznesensky's forecast for 1989 included mention of the "special and symbolic significance, which has yet to be understood", of the 12-year zodiacal cycle in the history of the country. Just look at our history in this century: 1905 was marked by the first Russian revolution; the October Revolution followed in 1917; then there was 1929, the year of the "great turn" accompanied by the tragedy of collectivization and the formation of Stalin's dictatorship against the background of a world economic crisis; another 12 years brings us to 1941, when Nazi Germany attacked the USSR; 1953 was marked by the end of Stalin's era and the explosion of a hydrogen bomb; in 1965 Khrushchev's "thaw" ended and the reign of Brezhnev began; and, finally, we come to 1989.

This theory is not new: Voznesensky reminded his readers about the wonderful Russian innovative poet, Velimir Khlebnikov, a mathematician by profession who spent his life searching for numerical regularities in the destinies of mankind (Khlebnikov called his work *The Boards of Fate*). It has been only recently, over 50 years later, that Khlebnikov's works started to enjoy wide popularity. Earlier he was considered an "abstruse" poet, a view largely caused by various legends that surrounded him even during his lifetime and his reputation for being an eccentric, which particularly made people dismiss his predictions despite some rather striking coincidences.

In 1913, for example, when the 300th anniversary was celebrated of the Romanov dynasty, which, it seemed, had reached the climax of its might as the rulers of the Russian Empire, Khlebnikov

put out a few copies of a small book in the provincial town of Kherson and in it predicted the collapse of the empire in 1917. Some may say that the coming revolution was in the air, but this was in no way obvious to everyone.

Some of Khlebnikov's other predictions also came true, such as, for instance, the collapse of the world colonial system in the 1960s, although he himself, having died in 1922, did not live to see it.

It is hard to explain these coincidences, for now it has become fashionable to see hidden meaning in the vague predictions of Nostradamus or find reference to the Chernobyl tragedy in the Biblical phrase about the "wormwood-star" ("chernobyl" means wormwood in Ukrainian). Yet Khlebnikov was not in general mystically-minded and he viewed the theory of relativity, which he appreciated before many other scholars, as something more significant than the astrological position of the planets. Khlebnikov, incidentally, expressed himself quite clearly; his work was more along the lines of social prognostics, a respected discipline.

After all, Konstantin Tsiolkovsky, the forerunner of the modern space science, and Alexander Chizhevsky, another Soviet scientist close to him in spirit who discovered a strict temporal connection between the outbreaks of solar activity and many processes on the Earth, such as the alternations of good and bad harvests, the world's greatest pandemics, increases in the birth rate and the growth of some biological species. Skeptics were not convinced even by the outbreak of the viral flu which he predicted. A contemporary Soviet scientist, Lev Gumilyov, has put forward a hypothesis on the connection between the factor of space and the life of ethnic groups from the time they are born till the time of their rise and decline, waiting two decades for it to be published.

Finally, 1989 was mentioned in the frightening forecasts by two Swedish scientists, Vindelius und Taker, who predicted that it would mark the start of a true natural apocalypse, with more frequent and destructive hurricanes, earthquakes, volcano eruptions and climatic anomalies. Other scientists agreed with them, and it seems that nature in fact has started to confirm their forecasts.

Naturally, a forecast may not come true, but if even the slightest chance exists of its happening, the prediction should not be ignored and efforts should be taken to prevent the disaster. Experience has taught humanity time and again that this is the

only correct approach. This is especially true in our epoch, when man himself has a powerful impact on ecology (or, to use the expression of Vladimir Vernadsky, the founder of the science of the biosphere, man "has become a geological force"). Take, for instance, the "ozone holes" or "acid rain". Let scientists argue, for out of polemics truth is born.

Political forecasts are simultaneously both simpler and more complicated. In the first place, there is never a lack of them. Secondly, they are made by so many different sorts of people, often including those who are in no position to make such forecasts, that it is simply impossible to take them all into consideration. Nonetheless, many of them come true. Maybe it is just a matter of the law of averages, for with so many guesses being made, one of them is bound to be right. And those who guess wrong are quickly forgotten...

Many people agree that the speed of the changes taking place in the USSR has exceeded even the most optimistic expectations of the most attentive of observers, some of whom are directly participating in perestroika. And this is true even though they were not just waiting passively for it, but were actively contributing to it.

On the other hand, there were many unexpected developments. The reformers must be credited for not being frightened by these changes and for not switching on "red light" of an emergency slowdown, instead deciding to continue forward.

There were many political developments in the USSR in 1989. Out of them, there can be no denying that the First Congress of People's Deputies held in May and June marked a real turning point. The election of the deputies, held according to the stipulations of the new law, in itself had given an impetus to glasnost and the development of alternative programmes. This was true not only as regards the territorial and national-territorial election districts formed respectively on the basis of the size of population and representational quotas from national formations, but also about public organizations having a permanent quota of seats, such as the Writers' Union and the Academy of Sciences.

The work of the Congress itself, which was broadcast live on TV nationwide, created an atmosphere of a rally in which the whole country was taking part. And, of course, there were also certain complications typical of rally-like democracy. The Congress was followed by a clearcut breakthrough as regards various pre-perestroika taboos. For instance, the unspoken ban against discussing the positions of the highest echelons of power,

including the newly-elected President of the USSR Supreme Soviet, Mikhail Gorbachev, and Nikolai Ryzhkov, who was re-appointed as the Chairman of the USSR Council of Ministers, ceased to exist. Though some direct attacks of a personal nature were made at the Congress (which testified to a low level of democratic culture more than anything else), a good deal of constructive polemics was conducted there.

Here, for instance, is what Nikolai Shmelyov, D.Sc. (Econ.), a Deputy elected from the USSR Academy of Sciences, said in his speech at the Congress: "I will start by saying that as an economist I am not much concerned about the long-term prospects of our development. I believe that as a nation and a country we will not commit suicide and, once we have tried all possible and impossible ways of economic organization, we shall inevitably embark on the same road that Lenin discovered in the 1920s and outlined in general during the last two years of his life. In fact, during the 70 years of our history we have had only 7 or 8 years of a really efficient economy, and we have no alternative but to come back to this road. However, this takes time. In the West it takes 8-10 years to turn a bankrupt and dying company into a competitive one. Naturally, repairing such a huge economic structure as the Soviet economy will take a lot more time.

"I am, however, very much concerned about our short-term prospects in the next 2-3 years. I must express my worry here that if we do not stop the inflation, the destruction of the consumer market and the gigantic budget deficit, all of which are snowballing, we may be facing an economic collapse in the next 2-3 years.

"What will be in store for us then? The scenario of the further development of events in such cases was written 200 years ago, during the French revolution. It has been repeated in history many times since in exactly the same way. We shall have total rationing, a sharp devaluation of the rouble, the anarchy of the black market and the shadow economy, the destruction of the consumer market and a forced, I repeat, forced temporary return to strict administrative-command economic discipline.

"After hearing Nikolai Ryzhkov's speech, I was once again convinced that the country's government and leadership realize this danger. I wonder, however, if they understand the degree of this danger. The Council of Ministers has drafted measures for the improvement of the market and the reduction of the budget deficit, which, in my opinion, are insufficient and too drawn-out.

"...Besides, whether we want it or not, a major historical process has begun in the world irrespective of the concrete conditions in this country. We have the highest degree of exploitation of the labour force of all the industrialized states. The share of salaries in the gross national product in the USSR is 37-38 percent, whereas in the industrialized world it is 70 and more percent. Our working class has a moral right to increase its share of the gross national product and is starting to solve this problem with all the means available to it. This must be remembered in the future, and this is a process that cannot be stopped. (It seems that Shmelyov was predicting the wave of economic strikes that followed not long after that.—*Author's note*.)

"...Finally, there is the latest mistake, which I cannot justify with any reasonable arguments. Last year our budget deficit was approximately 50-60 billion roubles, while this year it has leaped to over 100 billion. Our capital investments went up accordingly. Where did this money come from? This means that the government was planning all along to cover its expenses with the help of the money press, since there was no other source to pay for the growth of capital investments. It was a deliberate step towards inflation.

"Of course, I do not envy Nikolai Ryzhkov's position, for he is pressured by our ministers, who are not very competent and who are dreaming of receiving the golden stars of Hero of Socialist Labour, which make them, as they say, plunge forward. Do we have a central power or not, after all?

"I will try to explain to you a programme which to me seems realistic. But I must warn you that many people may not like it and it probably will not be given the government's support..."

"...Experts say that we have some 150 billion roubles of surplus money in the country. In order to exchange it for goods, we need some 15 billion US dollars' worth of one-time imports of consumer goods, plus an artificial, I stress, an artificial import worth 5 or 6 billion dollars a year for the next 2-3 years while the economy is in a state of imbalance and there is a danger of economic collapse so that a balance of goods can be maintained. Where is this money to come from? Yesterday we heard a very serious statement by Mr. Ryzhkov, who said that the country does not have such money. But I dare say that this sum could be found.

"First. Will our government ever decide to seriously offer to pay hard currency to the chairmen of collective farms for the grain and meat they sell to the state on top of the average level and also

give them the right to spend this hard currency as they want? (This statement was loudly applauded by the other deputies.—*Author's note*.) Incidentally, our people are modest. They are not asking to be paid 200 dollars for a ton of wheat, they would be happy with 75. This is the first source for a colossal amount of hard currency. Here is the second one: every year we purchase 10 billion dollars' worth of uninstalled machines and equipment. Perhaps we should stop importing equipment for all our giant projects for the next 5 or 10 years?

"...Then there are loans. Nikolai Ryzhkov says that he does not want to leave any debts to his grandchildren. I can understand this, but there is something a bit provincial in this attitude. All countries in the world are now borrowing with one hand and lending with the other.

"Finally, if we are thinking of balancing the market, we must bring ourselves to sell the land or at least lease it permanently to anyone who wants it. This is a tremendous way to extract money. We must not just talk about it, but actually sell apartments, trucks, tractors, i.e., everything that we have in stock. Let the state sell everything it can sell in order to balance the market. After all, there are such things as corporate property, shares and state loans for 30 years at high interest rates. This would also take out of circulation a big part of the unstable money owned by the population.

"There is something else I would like to stress: the money we get from the increased imports of consumer goods must be destroyed and taken out of circulation... We must realize that the country is ruined, that in the next 10 years we cannot afford any 'communist projects of the century' and that the only projects we can afford are those having a quick impact on the consumer market.

"Nikolai Ryzhkov is promising to do away with the budget deficit by the mid-1990s. I think that this time can and should be brought nearer... If radical measures were introduced for the next year, we could get rid of or substantially reduce the budget deficit in 1991."

If taken out of context, these excerpts from Nikolai Shmelyov's speech, in which he argued against some aspects of the programme report presented by the head of the government (Shmelyov's remarks were even being called the "co-report" by people at the Congress), perhaps give the impression that the government programme he criticized was urging the preservation of the *status quo*, if not the actually reintroduction of the

administrative-command system. This was not the case, as can be seen from this brief extract from Nikolai Ryzhkov's report:

"...I would like to definitely stress my inclination towards the use of genuine economic management methods. I have already mentioned that in the course of the radical reform we will be increasingly approaching the formation of a new pattern of the socialist system of management.

"Presently there is a major discussion going on in academic circles and in the press as to what the main principles of this economic pattern should be. The government's position is based on recognition of the role of the socialist market and competition in our economy. However, I am convinced that this market will develop successfully within the new system of management and serve for the good of man only if we create an effective economic mechanism of its regulation which would provide reliable guarantees protecting citizens' interests against market anarchy."

If such ideas had been expressed three years before by Nikolai Shmelyov, I would not have been surprised, but I would never have then believed that they could be part of a government programme. Since then opinions have become more radical and today criticism of government measures by economists advocating market mechanisms is a bit like arguments between like-minded opponents. The fact that a Deputy can call for all sorts of measures as opposed to the government, which must be able to fulfill the promises it makes, is another matter.

Let us recall Shmelyov's straightforward question: "Do we have a central power or not, after all?" This doubt began to be increasingly voiced by the public. Here are some typical "reflections after the Congress". Mark Zakharov, a People's Deputy of the USSR and a well-known stage director, said: "They say that Mikhail Gorbachev's prestige had diminished slightly by the end of the Congress session. I would not be in such a hurry to bet on this. We are unfortunately living in the difficult situation of a transition period. We do not yet have a law-governed state. The situation in the country depends on a whole range of factors that are still beyond my comprehension in spite of my curiosity. I would like to remind myself and others that there are lots of people who are interested in destabilizing the situation. It seems quite likely that not all the information is available to us on this issue. I would also like to remind myself and others: Mikhail Gorbachev started perestroika in a situation that was theoretically hopeless. I am of course saying this not as a politician, but as a director who deals with drama, i.e., conflict situations. Despite the

tremendous desire for changes and the potential support from almost all strata of the population, to begin introducing revolutionary changes and dismantling the administrative-command system in the spring of 1985 when right next to him was the team made up of Grishin, Romanov, Kunayev, Solomentsev, Aliyev (Zakharov lists the members of Brezhnev's Politburo.—*Author's note.*) was an act of extreme complexity and rare personal courage. Certainly, there were also other people around, but there was also the old CPSU Central Committee, which has only recently started changing..."

Igor Klyamkin, a political scientist, was even more outspoken on the issue of "the reformer and power": "There are problems which all reformers have to solve, all of them. If we have come to the conclusion that we, too, must switch to commodity production and the market relations in the economy and democracy in politics then we must get rid of another one of our sweet illusions which holds that we are the first country to have embarked on the road of reform and that we can ignore the experience accumulated by the world in this field.

"This experience shows that the domestic market and democracy have never developed simultaneously and that the transition to a market economy has always been carried out by strong authoritarian regimes rather than democratic ones. In the past it was accomplished by royal absolutism in England, France and other Western countries, then this work was continued by various Napoleons, who became prominent during revolutions, and presently the same is being done by the military in Latin America. Even the short-lived attempt to develop market relations in the Soviet Union bears this out: after the switch to NEP Lenin was more concerned about strengthening the unity of the Party and the state apparatus than democratization.

"But no matter how tough these various authoritarian regimes were, they were essentially different from Stalin's totalitarian regime. The main difference was that they did not interfere directly in the economic life, but instead contributed, to a greater or lesser degree, to its liberation from state *diktat*, created legal regulators over economic relations and provided legal guarantees as regards individual property.

". . You will ask: then why do we raise both issues—the economic reform and democratization—at the same time? My answer is this: perhaps because, given the monopoly of state ownership, democracy has no economic basis, while in order to

change the economic foundations there has to be a power strong enough to carry it out. Shouldn't the reformer try to get this power?

"...It is generally believed that a person who is at the top of the power pyramid in the USSR has complete power in the country. This was only true under Stalin. Khrushchev, who formed the basis of the present system of "collective leadership", clearly demonstrated with his own political career that the times when the leader had absolute power were over. Brezhnev, who held all key positions in the Party and the state, had unlimited power to preserve the then current *status quo*. However, he had no power, not even limited power, to seriously change anything, even if he had wanted to. He could not make one step contrary to the interests of the strata which we generally and imprecisely call 'the apparatus'.

"Yet the time came when the more farsighted representatives of this stratum realized that for the sake of preserving the 'apparatus' itself society had to change. There appeared a demand, as always happens in such cases, for energetic people who could head the reforms. However, as soon as these people are promoted to key positions the usual complications start... In other words, it becomes clear that the reformer does not have the power to carry out the reform and that he can only get this power by bypassing the apparatus from, for instance, a congress of people's representatives. In the meantime, the candidate reformer, even if he is very radically minded, is forced to limit himself to half-measures, manoeuvre so as to win over to his side the broadest possible public circles with the help of insignificant concessions, give promises without any hope of fulfilling them and eventually lose popularity and prestige. Now we know all this from our own experience, for we have been watching this for the past few years."

Finally, here is the opinion of Vasili Selyunin, a journalist who is one of the most resolute supporters of economic perestroika along the lines of developing a market economy. Even such well-known economists as Abel Aganbegyan, Otto Lácis, Pavel Bunich and Nikolai Shmelyov look quite "moderate" in comparison to him. It is indicative that whole ministries, the state statistical agency and, before perestroika, the State Planning Committee were fighting against him.

"The reformers understand the country's weak points very well," Vasili Selyunin observes, "but they still don't have the nerve to follow through with the reform. We have had four years

of fine talk about the reform... Now we are at a new stage of perestroika. We kept talking about whether it is reversible or not or how to make it irreversible. While we were talking it already started going in reverse... Look at Leonid Abalkin's latest report to the government, in which he referred to 51 reports he wrote before. He was answered: we know of your proposals, but you are suggesting one thing, Popov another and Aganbegyan is saying still something else; you should present joint proposals. But what is the role of the government? To sign 'approved'? It's good to have options to choose from, not a disadvantage. But finally just one solution has to be decided on. The experience of all countries that have actually carried out reforms, not just talked about them, shows that they must be headed by one person. Just one, like Deng Xiaoping in China, Ota Šik under Dubček or Rezső Nyers in Hungary. Each of them was responsible for the progress of the reform and determined where it was not working the way it was supposed to. Now we have four official centres of the reform! When will they finally come to an agreement? We can keep circulating papers in between these four centres, discuss them, listen to criticism and decide nothing for years. I would place just one person at the head of the reforms. I know this person, Gavriil Popov. His programme is the best."

Thus in 1989 ardent supporters of economic restructuring on a democratic basis, i.e., the basis of a market, suddenly became nostalgic for a "strong centre" and even a "strong leader" who would eventually switch on the "green light" for the reform.. Is this a paradox perhaps, or a zigzag of perestroika?

However, let us not jump to conclusions, but instead say more logically that perestroika has come to a new stage which is characterized by a further polarization of views

ABALKIN'S "GOLDEN MEAN"

"In my opinion, there are three possibilities," Pavel Bunich, a Corresponding Member of the USSR Academy of Sciences and a well-known expert on the subject, said in answer to the question about the prospects for a period up to the year 2010 at a round-table discussion organized by the editorial board of the *Ogonyok* weekly. "The first one is a return of Stalinism. This is a terrible possibility, but unfortunately it cannot be ruled out. The second is the replacement of an absolute monarchy with an educated one. I wouldn't call it the best way out, yet many people think that it has

the most chances to succeed. The third possibility is complete perestroika. If we stop at the first two, which I have to say are very much alike, we shall always be the system about which it was said at the dawn of Soviet power that socialism means control. Well, then all it would be is control. But unfortunately there will be nothing to control... Somebody said that we are having a slow perestroika. There is no such thing as slow perestroika and there never will be! It is much better to have an immediate perestroika and the more profound the better."

So, all that we have to do is overcome the resistance of the "apparatchiks" and immediately introduce a complete economic reform, discarding any tempting compromises, especially since increasingly broad circles of the population support more radical changes, as is proved by the growing activeness of the various popular fronts in support of perestroika. Maybe there needs to be a "brain centre" to coordinate all these efforts. What should it be like?

Relying, for instance, on the studies of reforms in other socialist countries, Marina Pavlova-Silvanskaya, an economist, warned: "Those people who are resisting the new which is entering our life with perestroika are not doing it only because their minds have been brainwashed with dogmas or because of their conservative frame of mind or out of feelings of envy... I understand the inner resistance these people feel and partially even share it. In order to voluntarily agree to some self-limitation and especially to some significant material compromises, one has to trust the person who is going to perform the painful operation on the economy. Sympathy for the 'surgeon' or even proof of his personal honesty are not enough. One has to be completely sure of his professional qualifications, which guarantee that the operation will be successful, that it will not have to be performed over and over again, that it will be as painless as possible and that everyone will more or less share the hardships it will entail. A politician who is used to making quick decisions can never master economic neurosurgery. A scalpel held by such hands can easily cut the economy's throat, there is no doubt about it."

Let us recall Vasili Selyunin's statement that he would appoint Gavriil Popov to head the economic reform in the USSR. Gavriil Popov, a professor at Moscow University, has recently been made the head editor of the magazine *Voprosy Ekonomiki* (Economic Issues) published by the Economics Institute of the USSR Academy of Sciences. He spoke about his programme both during the election campaign and, having been elected, at the

Congress of People's Deputies. Here are some excerpts from his election platform:

"Socialist property must have owners. Leasing should become a common practice, along with joint-stock companies, cooperatives and individually owned enterprises. Cooperatives and lease-holders must be protected from the constant attempts undertaken by the centre to turn them from dangerous competitors into life-buoys for the bureaucratic production organizations.

"The land must belong to those who till it. Family or individual private farming on the basis of long-term leases should be developed. Only those collective and state farms which are profitable should be allowed to continue.

"Profits should be determined by one's work and all limitations on the size of incomes removed. The only regular remaining regulator should be a progressive tax.

"Prices must be regulated by the market. Most prices should be the result of the development of the market, not the efforts of the price-setting agencies. Anti-monopoly legislation must be drafted in order to prevent prices from climbing. The rouble should be made convertible for enterprises and the population alike.

"State retail prices must be kept stable. The state should continue the practice of state orders only to ensure the supply of essential items which should be sold at stable prices. State prices of meat and dairy products should not be increased.

"The state is printing money and therefore should be responsible for it. All fixed state payments to the people should be correlated with the price index for the previous year.

"Pensioners should be able to live normally. The price index as of 1960 should be calculated and used as the basis for determining all pensions in the country. After that, pensions should be correlated with the price index every year.

"Higher efficiency must not be achieved at the expense of the people. The state should pay all those who have been laid off their former salaries for a year. Job placement is the responsibility of the state.

"Bringing up children is the main job in society. Women with children under 10 should be paid a monthly salary by the state.

"For perestroika to be dynamic, workers must be truly free. The dependence created by free housing, which pins a person to one place, must be liquidated. All state-owned apartments should be sold to their tenants. Those who have worked for 25 years or more should be given their apartments for free, while others

should be able to buy them at prices which get lower the longer one has been working.

"Young families should be guaranteed a solid economic foundation. They should be granted an interest-free loan for buying a plot of land and building a house when the first child is born."

And here is some of what he had to say at the Congress: "I would like to speak about the model of perestroika. In order to map out some extraordinary programmes we must know exactly what we are striving for. If you don't know where you want to sail, no wind, as they say, is fair.

"...The government thinks that all parameters should be worked out here, in the centre. They think we need some fifty new laws, but I think fifty is not enough, we need more like a hundred. If our Supreme Soviet works day and night discussing draft laws, perhaps these one hundred laws concerning perestroika will be ready in some 5 years.

"The representatives of the Baltic republics think the republics should be given a greater part of the economy to manage and then each republic will determine which economic model to put into practice. One republic will rely on collective farms, another one on individual farmsteads, etc.

"I believe that the way to follow is to have the centre issue a few fundamental acts outlining the economic mechanism and determining the basic features of the economic systems in all republics. Still, the task of drawing up most legislation should be handed over to the republics.

"...The second problem presented by the economic model of perestroika is that of changing the property relations and their content... Speaking in Marxist terms, we must bring production relations and property relations in tune with the productive forces.

"In our administrative-command system we have, in the first place, all spheres of life being usurped by the state and, secondly, complete centralization. Both of these factors were acts of violence against the objective economy.

"...The experience of developed capitalist countries shows that the state sector in industrialized states accounts for some 30 to 40 percent of the economy. I believe that, bearing in mind our traditions and social interests, it would suffice to leave 50 percent of the economy in the hands of the state. The other half should be handed over to cooperatives and the private sector.

"Within the framework of state property, too, there must be a decentralization. Probably two-fifths of this property should be

owned by the local Soviets, two-fifths, by the republics and one-fifth, by the centre, by the whole Union.

"...In order to make our work efficient, which it is not now, we have to change our society. We cannot give our electors material benefits, but it is our duty to create a system in our society under which one's well-being will depend on one's work."

I would like to point out right away that some of Gavril Popov's ideas do not coincide with the opinions of other advocates of an immediate reform, i.e., a forced one. Professor Shmelyov, for instance, thinks that the USSR should not make the rouble completely convertible until the second half of the 1990s. Academician Vladimir Tikhonov suggests that initially upper and lower price limits should be set, instead of allowing them completely free play. Professor Anatoli Deryabin insists that all state-owned housing should be given free, not sold to the population. Otto Läcis, a Doctor of Economics, is categorically opposed to legalizing any kind of unemployment, but sees no serious reason for putting off the introduction of balanced food prices (together with compensation), etc.

In general, none of these scholars are trying to invent anything new. On the contrary, everything they are suggesting is within the realm of common sense and the rules of a normal, healthy economy. Besides, many of these proposals have already been or are being realized in other socialist countries. What is most important is that they are supported and wanted by the majority of the population.

Moreover, some of the proposals being made by Gavril Popov and his colleagues started to be implemented in the Soviet economy already during the first months after the Congress of People's Deputies. In Latvia, one of the Baltic republics, the authorities started to give the land over to the farmers with the right to inherit it. Another Baltic republic, Estonia, passed a law on the foundations of republican economic self-government in June 1989. Finally, the Supreme Soviet passed legislation on putting the economies of the Baltic republics and Byelorussia on the regional cost-accounting basis from January 1, 1990.

Then, why was Academician Abalkin made the head of the State Commission on the Economic Reform set up in 1989 rather than Professor Popov? In the first place, Abalkin was Popov's superior until recently (before his government position he was the Director of the Economics Institute of the USSR Academy of Sciences) and their opinions largely coincide. Secondly, Leonid Abalkin's programme (which was in fact a group effort) was more

detailed, although it contained some compromises. But real policy, including an economic one, is never free of compromises.

This was clearly demonstrated by subsequent developments. At their Second Congress in December 1989, the People's Deputies of the USSR concentrated on the discussion of a government programme for economic recovery, specific stages of economic reform and guidelines for drafting a new five-year development plan. By and large, the Congress was an "economic" one, even though it discussed major political issues as well.

The government report, which was presented by Prime Minister Nikolai Ryzhkov, came under harsh criticism from both "left" and "right". Some attacked the cabinet for making concessions to the administrative-command system as they pushed their demand for an immediate change-over to a full-blown market economy. Others accused it of "sliding back towards capitalism". Incidentally, shortly before the Congress, pickets could be seen in downtown Moscow carrying "Down with Abalkinization!" posters. Furthermore, the programme itself emerged during endless debates at the Supreme Soviet, at mass rallies and at meetings of strike committees. A variety of proposals were voiced, many of them rather controversial. Nikolai Ryzhkov mentioned a few in his report:

- the introduction of private ownership, including that of land;
- large-scale denationalization, including the selling-off of small and medium-sized enterprises;
- the immediate introduction of a rationing system;
- the implementation of regressive monetary reform;
- the freezing of bank loans in the years 1990-1991 and the imposition of a rule that would prevent people from drawing more than 25-50 roubles a month from their savings accounts;
- the introduction of a six-day working week;
- the declaration of a state of emergency in certain regions and economic sectors;
- the shortening of the period of annual paid leave to two weeks in the next three years; etc.

There were even more extreme demands, albeit outside the mainstream of the general debate, such as those for a full return to Stalinism and for the sale of the country's gold reserves, a part of her territory or minerals as yet unextracted.

As for the government, it was compelled (or perhaps one should say it managed) to limit its options to three (a fourth one

which called for restraint or complete abandonment of reform was deemed unacceptable in principle).

The first option was actually the same as that pursued during the first stage of perestroika: to continue the slow, piecemeal improvements in the economic mechanism. But this was exactly what the country had been doing for almost five years, and with little to show for it at that, with the result that the public was beginning to lose confidence in its effectiveness.

The second option called for the maximum acceleration of economic reform by introducing a full-scale market economy as early as 1990 or 1991. As it was being discussed, Ryzhkov went so far as to describe it as "tempting", but it was rejected as being fraught with major economic and social pitfalls, such as galloping inflation, economic recession, mass unemployment and social conflicts.

This being the case, it's not hard to guess that the choice fell on the option that represented the "golden mean": reform was to be promoted, but under strong regulatory pressure from the centre. To be specific, the first three years, from 1990 through 1992, were to act as a kind of quarantine period during which purely administrative measures would be combined with economic methods, including emergency ones, first and foremost, in order to cope with the budget deficit. These, however, do not require the introduction of a general system of rationing, but rather favour the fastest possible laying of foundations for the convertibility of the rouble possibly by introducing a parallel monetary unit, as was done in the 1920s.

The Second Congress of People's Deputies adopted this particular option despite considerable opposition. The present government plan is so much more radical than its predecessors that its passage would have been unthinkable a mere 12 to 18 months ago. When the results of the voting came through, Leonid Abalkin, the draft's chief sponsor, confessed that in the event of its rejection the entire cabinet had been prepared to resign. So, after all, the "compromise" solution was not that much of a compromise for those who put it forward.

WHAT WILL THINGS BE LIKE IN THE YEAR 2010?

In conclusion, I would like to give one more quote. Six months before he was appointed head of the State Commission

on the Economic Reform, Academician Abalkin took part in an international discussion in Luxemburg devoted to perestroika in the USSR. One of the questions he was asked was what he thought things would be like in the USSR in 2010.

"By 2010," he replied, "I believe we shall have a qualitatively new economic structure. We hope to reduce grain imports. I hope that we can also change the structure of our exports. We shall rely on exporting the manufactured and semi-manufactured goods instead of raw materials. In order to do this, we must radically renew the machine-building complex and make its products competitive on the world market. We shall have a well-developed consumer economy, a completely different infrastructure and services. By approximately 2005, we will have transferred some 15-16 million people from the production sphere to the services sphere. By that time we are hoping to solve our financial problems and have a convertible rouble. We shall have a socialist market. The share of cooperatives in industry will reach 10-15 percent; in trade, around 50 percent; and in some spheres, up to 100 percent. There will be a developed balanced market of consumer goods and means of production.

"I also hope that this society will be socially and culturally renewed.

"If this does not happen by 2010, then our generation will have failed in its historic duty to future generations. We must do it, we have no other way out.

"Perhaps, I have drawn an overly optimistic picture. Our development will not be smooth. There may be zigzags, inevitable difficulties and even conflicts. The 25th anniversary of the April (1985) Plenary Meeting of the CPSU Central Committee will be in 2010. When we sum up the results then, we will say: we have done a lot, but this is not enough. It is like us to strive for more and better and to be constantly dissatisfied with ourselves."

The reason why I have cited Abalkin at such length is, in the first place, because this particular quote gives a clear idea of the goals and parameters of the radical economic reform going on in the USSR. Secondly, it shows the starting point of the reform, since today none of those things mentioned by Leonid Abalkin have been achieved by the USSR, including the production of enough grain or competitive technical goods, or having convertible currency and a full-scale consumer market. The USSR must have all these things and perestroika is the only guarantee that some day it will.



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