

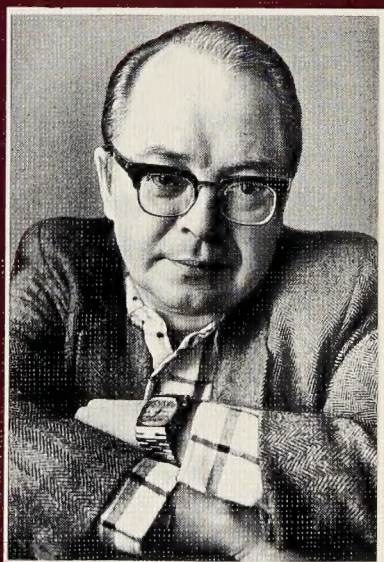
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PERESTROIKA

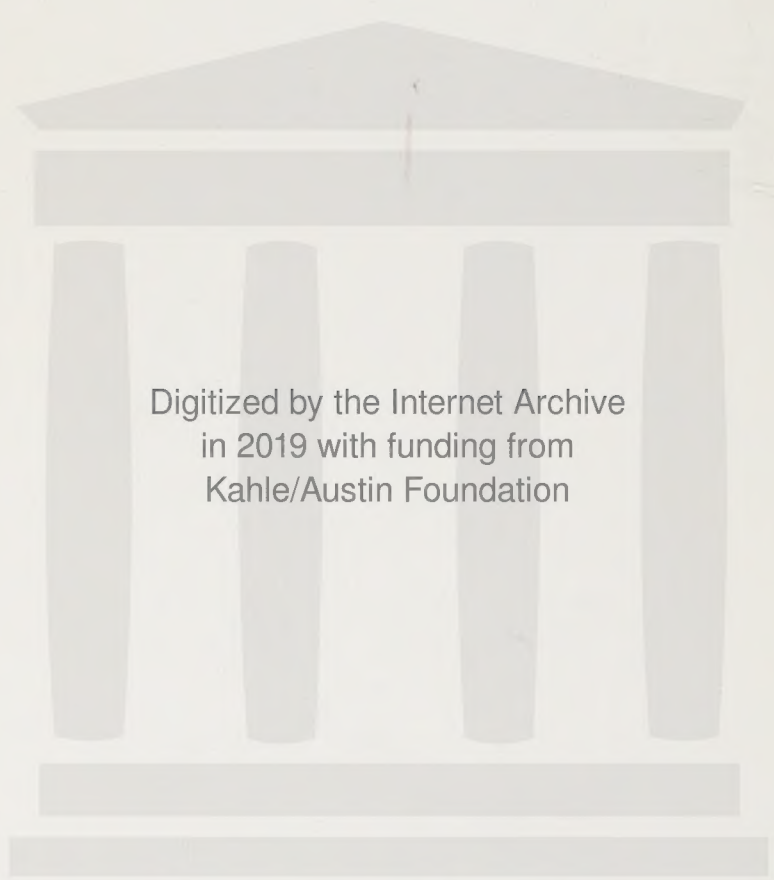
as seen by
an Economist

Nikolai SHMELYOV

IS AMONG THOSE ECONOMISTS IN THE USSR REFERRED TO AS THE "ARCHITECTS OF PERESTROIKA". HIS BOOKS ARE INSTANT BESTSELLERS AND HIS ARTICLES PRO-



VOKE DEBATE BOTH AT HOME AND AT WORK. NIKOLAI SHMELYOV ALWAYS COMES UP WITH HARD-HITTING ANALYSES OF THE COUNTRY'S ECONOMIC SITUATION. HIS SOBER ASSESSMENTS AND PARADOXICAL CONCLUSIONS ARE STUNNING ESPECIALLY IN VIEW OF THE POLICY OF HUSHING THINGS UP WHICH WAS ABANDONED NOT SO LONG AGO.



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PERESTROIKA

as seen by
an Economist

Nikolai SHMELYOV

"Perestroika provides us with quite a few reasons for being optimistic. The Party has begun to rid itself of operative economic functions. An idea has been put forward of pulling down the present ministerial system of managing the economy. The establishment of industrial associations, syndicates and concerns is gaining increasing support. A market is being created for wholesale trade in the means of production. The period of hesitation over new forms of organization of production, such as cooperatives, contracts, and leaseholding, has ended. For the first time the idea of regional cost-accounting has started to be discussed, and considerable positive changes have been observed. Concrete steps have been taken towards changing our foreign economic policy. Normal conditions have appeared for establishing joint ventures, and the convertibility of the rouble and the establishment of free economic zones have been put on the agenda. All this, however, is only a beginning. Perestroika has posed many questions connected with the renovation of the country's economic life."

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Perestroika has stirred up the country's public life, awakened its creative strength, and given people hope for a practical way out of the deadlock in which we found ourselves in the years of stagnation. The conviction that there is no alternative to perestroika is taking root, albeit not quickly enough. The number of perestroika's supporters and participants is growing. Most important social and economic problems are raised in magazine articles and letters to newspapers, at academic symposiums and workers' meetings. Economic science has become a subject of discussion not only among specialists and the more active members of our population, but also among the general public. One may hear everywhere such terms connected with perestroika as "new thinking", "the reform of the political system", "democratization of management", "the braking mechanism", "socialist ingenuity", "cost-accounting", "market", "wholesale trade", "credits", "cooperatives", "price reform", "convertible rouble", and so on. It is not hard to understand the interest in these problems, for the future of perestroika depends on how consistently and fully they are solved.

REFORM OF THE POLITICAL SYSTEM

Sometimes one hears that in working out the guidelines for the reform of the political system, the Party actually completed the elaboration of the programme for the renovation of society and the strategic plan of advance on every front.

Does this mean that everything is already clear to us, that we know exactly not only where to go, but also how to get there, and all that remains are simply details, tactical questions and inevitable, but not so important adjustments? It would be great if that really were the case. But, unfortunately, it is far from being so, and I'm afraid it will not be in the nearest future.

I am deliberately not mentioning the restructuring of our political system. This is a tremendous and separate issue, and I'm not competent enough to start a serious discussion. But a "renovation of society" is not only a matter of politics, and for me, an economist, it is even not so much a matter of politics. No matter what political changes are made, our society will remain sick if we do not succeed in restructuring the foundations on which our economic and social life rests. Here we are far from bare tactics. We have not solved the fundamental questions of the strategy of "advance on every front", they have only been outlined for the time being.

NEW THINKING

In the years of perestroika we have certainly made considerable progress (especially as regards theory) in understanding the country's real economic needs. The outline of the model of the national economy to which we are to advance is gradually becoming visible. Common sense seems, little by little, to be forcing out blind dogmatism which, I am sure, conceals in absolutely all cases the narrow, self-seeking interests of people who do not care a bit about anything or anyone—even about their own children and grandchildren—except about themselves.

If things proceed according to the present plans, by the end of the next decade directive planning in the form of state orders (taking into account the expected share of cooperatives and individual labour activity) will involve not more than 12 to 15 per cent of all the products made in the country, that is, actually as much as is needed for centralized control over defence and some other branches which are closely connected with it. The 19th Party Conference held in the summer of 1988 started to cut down the Party's operative economic functions. Combined with the abolition of the RAPO* system, for agriculture this will, in particular, mean the dismantling of two out of three storeys of the present monstrous bureaucratic pyramid which has almost crushed our countryside. Apparently we may also hope for the abolition in the near future of the present

* Russian acronym for "District Agro-Industrial Association" which controls the agro-industrial complex of a district. The higher bodies are the regional agro-industrial association, the republican committee, and the USSR State Agro-Industrial Committee.

system of ministries in charge of industries along with its principal vice—the ministries' total lack of economic responsibility with regard to the enterprises which they control. As was stressed recently in an extremely authoritative speech, we should return to the principle of the organization of production and management on the basis of corporate trusts; the future of our economy lies in voluntary sectoral and intersectoral shareholding associations which are accountable to the work collectives and do not command them.

The cooperative movement has started to take off and grow in scope, and I hope it is not eventually strangled by taxes or compulsory prices, or merely by the blind hatred and sabotage of local authorities. I also hope (and am even sure) that the leasing system in the countryside will in the end gradually overcome both the envy of neighbours corrupted by idleness and the resistance of the rural bureaucracy, which has suddenly realized that it is not needed and is doomed. There are other promising trends such as: the general realization of the need in wholesale trade in the means of production; the establishment of intersectoral associations; the first example of collective leasing of industrial enterprises and retail outlets; the first attempts to issue shares at industrial and agricultural establishments; the emergence of the first small banks, and the growing interest of industrial enterprises in moving into foreign markets.

All this is taking place against the background of the shift in the Party's policy to the social needs of society, the change of priorities in the country's economic development and in the strategy of capital investment.

BRAKING MECHANISM

What is the main reason why our economy has been twisted out of shape for decades by all who felt like it, and why so many people for such a long time have hacked the living organism of people's life with all their might? I think it will take more than one generation to find out whose fault it was—evil people, national traditions, historical fortuity, or a curse from heaven for sins that we are unaware of. But these are facts, and there is no escaping from it: at least three generations of our people have grown up with the conviction that the country's economic successes depended on the kind and wise General Secretary, on the cleverness and agility of our ministers,

on the zeal of our planners, on good decrees and resolutions, on the honesty and loyalty to their duties of our militia—in short, on anything but the real factors that determine these successes everywhere in the world except in our country: the blood-producing ability of the country's economic organism and the freedom of blood circulation in its arteries and veins.

The reason why the blood is running so sluggishly in our economic organism is that it has not rid itself of two major and closely interconnected ailments: first, the rouble does not work, since neither industrial enterprises nor people can spend it on anything they want, and, second, even this weak and inferior rouble does not let either enterprises or people earn according to the measure of honest and conscientious work. This is not only because we are being strangled by military spending, but most of all because the lack of economic rights of enterprises and the beggarly wages of the working people are the principal social condition for the flourishing of bureaucracy—this ensures a comfortable life for the bureaucrats, a semblance of useful activity, self-respect and the complete submissiveness of society. That is why absurdities which have no economic justification are possible in our country, such as the maintenance of three million "overseers" of farmers in the countryside, or the multibillion-rouble construction of the Baikal-Amur Railway which, as it has turned out, is not needed by anyone, or the ruinous and irrational activity of the Ministry of Land Improvement and Water Economy with recoupment (rather doubtful) of capital investments in 40 to 100 years, or nonsensical construction plans (in a country that lacks the necessities) for about 90 large hydropower stations, which economically are not very different from the Egyptian pyramids.

Can we use the rouble in full measure, while remaining a socialist country? Can we operate at full capacity all those objective means and methods of organization of economic life which history worked out long before us and without us, and which are used so efficiently in countries whose economic development level is higher than ours? I'm sure we can, above all because these means and methods by their nature are purely technical, socially neutral, and suitable for every society based on a deep division of labour between people.

What in this case is the role of the socialist state, or, to call a spade a spade, state bureaucracy? This role is exceptionally important and necessary: to determine the general "rules of the game" on the market, to plan the strategy of development for

the country and its individual regions, and implement projects and programmes of national importance which cannot be undertaken by individual enterprises, no matter how economically powerful they are. But here we have not invented anything new in the economy either. This existed before us and will remain after us, the same as other state functions—support for weak enterprises that are necessary for some reason, regulation by taxes of excessively high incomes that irritate society, state expenditure on pensions, education, health care, and social support for weak people who have been swept aside.

FULL-VALUE ROUBLE

First of all, the fundamental question of our economy has not been solved—what are we going to build our economic progress on in the future—on enforced measures or on what we have for decades been refusing to acknowledge, that is, on the full-value rouble, which has always been and will be the vital force of any normal and healthy economy.

I doubt whether anyone would seriously dispute that in this sense ours is a tragic heredity: the illusions of utopian socialists of the 19th century and pre-revolutionary years, the excitement and permissiveness of "War Communism",* the short sobering period in the 1920s, the horror, labour camps and unchecked arbitrary rule of Stalin's times, the deadening stupefaction of the "stagnation" period when nobody gave a damn about anything and when honest and conscientious work came to be regarded if not as something shameful, then, at any rate, as something very foolish.

Either coercion or the rouble—there has been no other choice in the economy since time immemorial. We are not the first, nor perhaps the last, to try to rely on force. The Egyptian pyramids will always remain in history not only a monument to human vanity, but also to the hundreds of thousands of human lives sacrificed for nothing. The Roman Empire perished primarily because its economic base—slave labour—rotted away.

* The economic policy of the Soviet state during the Civil War and foreign intervention of 1918-1920 which banned private trade and envisaged extraordinary measures for the appropriation of surplus farm produce from peasants.

The Pugachev rebellion* failed to bring the Russian nobility to their senses, and they finally got what they fully deserved because of their stupidity and animal egotism. Though collectivization and the Stalin camps resulted in the loss of millions of human lives, they did not give anything economically. And no attempts by our idealists (or adventurists—take your pick) to break economic laws, substitute the whip for the market, drive out of existence or distort beyond recognition the rouble, profits, competition, objective prices and market balance, rates and credit, shares and bonds, the exchange, actual currency rates and the convertibility of the rouble, and a healthy and balanced budget, as we are becoming convinced, have not brought about the desired results either.

So maybe now that this country has come to the very brink of economic catastrophe we will at last realize that our current task is not to invent something unusual, forced, artificial and therefore doomed at birth, but to assimilate what life itself has invented in the millennia of mankind's development, from Ancient Egypt to the countries and nations that are today ahead of us, to assimilate what we knew how to do way back in the 1920s, and could do no worse than anybody else, but what was rooted out from us after 1929—the beginning of that horrible nightmare from which this country only started waking up four years ago?

What do we need to make the rouble effective? A great deal. And I think that for now we may only point out some of the principal areas where we cannot do without great strategic changes if we want to have a full-value and full-strength rouble. Of course, it is impossible to forecast all the complexities and dangers that we will encounter on this road. But in real life the main thing is to get the process under way, and later on it may be adjusted and corrected on the march, so to say, as long as we do not waste time. Unfortunately, it seems that no financial genius, like Colbert** or Count Witte***, is anywhere to be seen in this country for the time being, but maybe we shall be able to substitute our collective mind for him, so to speak?

The full-value rouble is above all a market equilibrium, i.e. an equilibrium between the commodity and money, between

* The peasant war in Russia in the late 18th century led by Yemelyan Pugachev.

** Jean-Baptiste Colbert (1619-1683)—French statesman and finance minister under Louis XIV.

*** Sergei Witte (1849-1915)—Russian statesman who implemented several major economic and financial projects.

the supply of the products made in the country and the solvent demand for them. This also means a balance in the state finance, that is, total absence of state budget deficit, or the size of deficit acceptable to a society which trusts its government. Finally, this means the free convertibility of the rouble into all the other currencies of the world. We had all of this in the 1920s, but now we have none of it.

The problem of the full-value rouble and general economic equilibrium is a comprehensive problem which cannot be solved by means of sharp, albeit partial, changes in certain spheres of our national economy, and in no circumstances can it be solved at once. This process (if we are to face the truth) is a long one, and one in which the ultimate success is only possible as the sum total of partial successes and the result of a slow, but persistent advance along every front, without ignoring even the slightest trifle, if it can somehow facilitate the attainment of the ultimate goal.

MARKET

Assertions are frequently made in this country to the effect that there is no market in its pure form anywhere in the world, all the more so in industrialized countries. This is a great delusion, or, to put it bluntly, ignorance. True, the state everywhere seeks to make adjustments on the market and monopolies plan their production and compete for control over it—but precisely over the market! The entire system of government contracts in industrialized countries, all state enterprises, all the mergers, amalgamations, collusions and the struggle between monopolies, and the entire inner life of national and transnational corporations are based on full-value money, the market, competition, and not on the armchair arbitrary rule of professional bureaucrats who are convinced that economic life should proceed however and wherever they direct it. The present-day industrial society has not lost anything useful that economic history has accumulated over the centuries. For the market and the social division of labour are inseparable. And the deeper this division of labour, the wider and the more ramified the market and its tools; such as money, prices, taxes, shares, bonds, rates, credits and currency rates.

If we are not indifferent to our future and if we do not want very soon to become an economically backward state, letting the entire industrialized world pass ahead of us, then the rouble must be at the centre of things. The rouble alone must

become the yardstick of economic success. The rouble alone must be the reward for assiduous work. As for human souls, they should be taken care of by those whose duty it is: teachers, writers, propagandists, judges and priests.

We should not deceive ourselves—for the time being the blood circulation system in our economic organism is still clogged, and I think it will be quite some time before blood will freely flow through its vessels. For the time being, everywhere there is evidence of thrombosis, irregular heart-beats, and the affected liver and kidneys which cannot purify the blood from the waste products of the organism's vital activity.

There is nothing in the nature of socialist society and socialist property which contradicts the rouble, the market, and commodity-money relations. From a purely economic point of view, a self-managed, self-repaying and self-financing socialist enterprise can organize its life on the same principles as any other enterprise anywhere in the world, beginning from freedom of behaviour on the market up to the participation as a shareholder in the capital of other enterprises, a bank, an insurance company, or a foreign partner. The main thing is that the collective of a socialist enterprise should be truly independent and be its real owner, whether as its shareholder or in any other form. Let it be called any other name—the "proprietor" or the "manager", it does not matter.

But for the time being, as far as the healthy blood circulation in the country's economic organism is concerned, all this is only a beginning. We have no market—the main thing inherent in any normal economy which is developing not through coercion, but by itself. We do not have a single, integrated market where no administrative bans or arbitrary rule, barriers on the roads between regions (as in 15th century Russia), departmental obstacles, monopoly of producers, distorted prices, helplessness of the rouble, paralysis of the credit and finance system, or the passport and residence registration system would not prevent free economic blood flow, that is, the movement of commodities, capital and people. And a single integrated market (since the country's economic organism and the system of the blood vessels are inseparable) embraces (and cannot but embrace) the entire national economy: the market of the means of production, and scientific and engineering knowledge; the market of consumer goods and services; the investment market; the money and credit market; the exchange market; and finally, the labour market—yes, this kind of market as well, for it does not and

cannot exist anywhere in the world without state guarantees and without state policy of employment and support for people who are looking for jobs.

This entire single integrated market, or this entire system of organically connected markets, will be effective only when the full-value, freely convertible rouble which everybody needs serves this market and its requirements. Suffice it to recall that we already had such a rouble in the 1920s, and from the point of view of the country's economic health, this was undoubtedly the supreme achievement of the Leninist New Economic Policy. And, on the contrary, its elimination was perhaps the main economic crime of Stalin's era, a crime which reflected all the economic madness of those times.

Can we restore this rouble in our life? I do not think we should even pose this question in such a way, for we have no other choice; we should, we must restore the full-value rouble, otherwise our entire programme of perestroika and all our hopes for bringing the country out of its stupor will remain wishful thinking. Maybe our economy will survive for some time on injections, encouragement, and coercion from above. But in this case we should have no hopes for natural, self-generated and self-developing economic, scientific and technical progress.

SHORTAGES

The pivot of economic equilibrium is, of course, the level of saturation of our market with means of production and consumer goods, that is, the purely physical causes of the present shortages of everything. It may seem paradoxical to some, but I will say that if not all these physical shortages then the majority of them are a legend, a convenient cover for bureaucrats, for the long-progressing paralysis of the administrative-command system and for their helplessness.

In the sphere of the means of production there are physical shortages only in a few branches; this applies to construction materials, paper, small-batch chemical products and high-tech products. There are probably some more which have not been mentioned, but as for oil, metals, machine tools, tractors or combine harvesters, they are produced in the USSR in considerably greater quantities, by world standards, than is necessary for any reasonable needs. But in our country there is an unprecedented number of construction projects which are not supplied with anything: there are idle production facilities

and a huge idle machine-tool fleet; there is a resource-consuming economic system and a wasteful planning mechanism which is still subordinated to senseless gross output targets; the machines we make are of inferior quality and of a backward technical level; there is a problem with spare parts which cannot be explained by any arguments, and so on. So, in treating our economic ills, the importance of the purely physical shortages of the means of production is minimal.

The purely physical shortages on the consumer goods market are not as significant as it is customary to think. True, we have a shortage of cars, video recorders, personal computers and perhaps some other things which our industry has a long way to go to produce. We have enough razor blades, but only a fool would use them for shaving. There is no shortage of footwear, fabrics, clothing, tableware, or furniture, but who needs all the things that our shops and warehouses are stocked with? Strangely enough, there is no shortage of almost any kind of farm produce—there are tremendous, inconceivable losses of this produce, but that is a separate problem.

We should hope that the new structural policy of the state and the changeover of industrial enterprises to full cost-accounting will in time rid our domestic market of the omnipotence of the wasteful mechanism and will finally make enterprises, in economic terms, produce what is needed by the market, above all, by the consumer goods market. Maybe we will be able to close many channels for money coming into circulation from the salaries of those who do not give the market anything directly or indirectly.

But we need time for this, and I'm afraid we haven't got much of it. The consumer goods market must be saturated in the next two to three years, otherwise the people will give up perestroika as a lost cause, and the country will again become dormant. I think we can considerably increase the saturation of the market in the next few years, above all, the consumer goods market.

Unfortunately, we cannot set great hopes on state enterprises, for even in the ideal economic conditions they need time to start operating properly. It is hardly likely that even the 6 per cent of annual growth planned for Group B (given the unsolved problem of quality and the unwillingness of consumers to buy Soviet-made products) will soon be able to repair the imbalance on the consumer market, which for the time being is only growing. As regards the internal sources, a great deal may be expected (but only expected) from only two of them—lease contracts in the countryside, and the cooperative and self-employed sector in town.

The main step has been made with regard to leaseholding and contracts: it has been proclaimed that any family and any small production cooperative has the unconditional rights to this, the lease being established for 25 to 50 years and in some cases for perpetuity. A psychological struggle is now beginning, which is the most difficult thing. To prevent envious neighbours or unwise local authorities from strangling leaseholders and small collectives under contract the latter need the state's constant and unambiguous support, which should be extended to everything: the conditions of their supply, the sales of their products, taxation, and even the direct protection of their lives and property by law-enforcing agencies.

The future of the urban cooperative movement cannot but alarm us. The Law on Cooperatives has been adopted and it is a good law. The 19th Party Conference and the July 1988 Plenary Meeting of the CPSU Central Committee left no doubts that the Party is all in favour of cooperatives.

But hardly had the cooperative movement come round after the attempts by the Ministry of Finance to strangle it in its infancy by exorbitant taxes unprecedented in the world, when new misfortunes set in. First came the attempts to prohibit cooperatives to sell their products at higher prices than state ones, despite the fact that cooperatives buy from the state raw and other materials and equipment at prices which are from 3 to 6 times higher than those at which state enterprises buy them. These measures could only ensure that cooperatives would be selling their products at a loss...

Then came the decision of the Council of Ministers of December 29, 1988 (a New Year gift to cooperatives, so to say), which banned many types of cooperative activities without any grounds whatsoever. I cannot believe this was done unwittingly. No, the initiators of such measures are quite qualified and skilful people and they know perfectly well what they are doing. They do not even stop at violating the law. For the Law on Cooperatives has been adopted, and one of its articles says that the state's interference in the economic and other activities of cooperatives is impermissible. So, in my opinion, this decision by the Council of Ministers is simply unconstitutional. What large-scale cooperative movement in the country can we speak of, given such attitude to it?

Today no taxation, price, or prohibitive administrative measures are permissible with regard to leaseholding in the

countryside or to cooperatives in town. Over the past 60 years we have either physically beaten out or morally crushed almost everything that was daring, enterprising and inventive in our people. Almost, but fortunately not quite everything. It has turned out that there are still bold people among us (even if they are not always morally impeccable) who are ready to take the risk of business initiative and who have put their faith in the new times, albeit cautiously and with certain doubts. The state will gain a great deal when they get things moving properly. As to the prices of cooperative products, they will go down when cooperatives start to compete with one another in earnest and when state enterprises have switched over to cost-accounting and begin operating more efficiently so as not to lose the market.

But today these two sources are not enough to rapidly saturate the market with consumer goods or to make a visible improvement in the situation which could convince the "man in the street" of the need for and inevitability of the restructuring that is being launched on a large scale. We must display all our abilities, our imagination and resourcefulness in order to sharply increase the import of consumer goods. This is extremely necessary precisely for the current (and the most difficult) transition period of perestroika in order to hold out for those 4 to 5 years which we need before the new economic mechanism and the new structure of ownership in the national economy begin to yield returns. According to my estimates, in those 4 to 5 years we should increase the import of consumer goods by 5 billion dollars a year to really improve the situation on the consumer market.

IMPORTS

Where can we find the money for this, when today we can hardly make both ends meet, when it was last year we only just managed to achieve a trade balance? Anyone familiar with the country's situation in foreign trade will say that no such money exists and he will be right, but only on one condition—if everything remains the same as it is now. But what if we give it some thought, if we show imagination and move along some new roads rather than the old ones?

I'm speaking not only and not so much of the possibilities for increasing our exports, although even today we could probably make them grow noticeably if we first renounced the

present exchange rate of the rouble, which is absolutely unrealistic, and allowed all the state enterprises and all the cooperatives to export their products, either directly or through powerful intermediary associations. There are great opportunities for increasing our currency reserves for expanding imports of consumer goods if we change the present structure of our imports and use international loans.

First of all, import priorities should be changed. There is nothing more profitable to the state today than imports of consumer goods, and we should not pretend that any such imports are a violation of state interests or a forced concession to the whims of the irresponsible part of our population.

What do we mainly import today? First, grain and meat, second, industrial equipment for new construction projects (mainly in heavy industry) and, third, raw and other materials, components and spares for the operating enterprises. Obviously not much can be saved on the third group, for what is already working must go on working. But what about the first two groups, for instance, grain, on which we spend 3 to 4 billion dollars a year even without taking the freight into account? Some chairmen of collective farms have made the following suggestion. Why should the state buy grain abroad at a cost of 160 to 180 dollars per ton? Give us guarantees, they say, that all additional grain deliveries to the state over and above the level of 1988, for example, will be paid in foreign currency which will remain at our disposal, and in two to three years we will provide the state with the 30 million tons of grain that we are short of, but at a minimum cost of half the world price.

Or let us take the equipment for our new construction projects. Today over five billion currency roubles' worth of it has not been installed and is scattered all over the country. It is getting rusty and obsolete, and is being stolen, but nevertheless deliveries continue. So maybe we should stop this flow for the next 4 to 5 years?

And finally, international credits. Of course, if we go on thinking that we will for all time remain exporters of oil and gas and nothing else, that we are doomed by God himself to sit tight on our gold reserves, that we will never be able to reduce the period of capital construction in industry from 11 years to 1.5 to 2 years, as it is in world practice (although we have already reduced it to 8.5 years) and therefore we should not even think about investment loans, that export products of our enterprises will never be competitive, and lastly, that no one in the world will ever loan us money and we will remain outcasts

for the international finance system, then I'm really talking rubbish.

What shall we pay with later on? This is a question of whether or not we believe in the seriousness of our intentions, in the need for and success of our perestroika, and in the efficiency of the system of incentives being created in the country and the new economic mechanism. We should refrain from borrowing only on one condition: if we secretly hold the view that we are doomed to a dull existence, that none of our efforts will ever succeed, that never, under any circumstances will our products be able to break through to foreign markets, and that "open economy" is the way of all the world, but not ours.

PRICE REFORM

The second central problem of economic equilibrium and raising the value of the rouble is the structure and level of prices (wholesale, purchase and retail). At the same time this is also the most dangerous problem from the point of view of the country's social and political stability.

Today few people will probably deny the need for a price reform. Without the establishment of objective and rational price ratios and without the transition of the bulk of our economy to market principles of price formation, the new economic mechanism will not operate. The question, however, is what the price reform will be like in practice. Ideally, the forthcoming price reform has two goals and it must go through two stages in its implementation.

The first goal and the first stage are the equalizing of the main price ratios involving wholesale, purchase and retail prices. The second goal and the second stage are the reduction to a minimum of centralized interference in the processes of price formation and the gradual transfer of the basic price-forming functions to the market, that is, the ratio between the solvent demand and supply. At present the USSR produces about 25 million types of products, so we need as many prices. It is obvious that no central body under any circumstances can physically establish them. There is no other realistic way out, except for market price formation, given the preservation of centralized control over dozens or hundreds of the most important prices for a sufficiently long time.

16 But today the first goal and the first stage are the most

important for us. One of the gravest consequences of the administrative-command system is the arbitrary deformation of virtually all the basic price ratios in the economy. As a result, we have artificially lowered prices on raw materials, fuel, foodstuffs, transport, housing and, what is perhaps the most important thing, the cost of labour, and at the same time artificially raised prices on machinery, equipment and the entire range of industrial consumer goods. Our prices are now often three or more times higher or lower than world prices, which is the biggest obstacle to the economy's transition to intensive and balanced development.

Correspondingly, the initial stage of the price reform should ideally be aimed, first of all, at eliminating the outrageous discrepancies in prices. With reference to retail prices the general idea would be as follows: instead of the current prices of two roubles for a kilogram of meat, 50 roubles for a pair of good-quality men's shoes, 700 roubles for a colour TV set, or 8,000 roubles for a car, we should have more realistic prices which correspond to actual costs and world trends, that is, 4 to 4.5 roubles for a kilogram of meat, 24 to 27 roubles for a pair of men's shoes, 250 to 280 roubles for a colour TV set, and 4,000 roubles for a car.

The structure of the consumer demand will change as a result: the consumption of meat will drop and the demand for footwear and TV sets will grow. Pensioners and low-income groups of the population in general, for whom the price of meat is more important in everyday life than that of shoes, not to mention TV sets, may be affected unless a corresponding compensation is specially provided for them in the course of such a reform.

Second, it is necessary to eliminate state subsidies and at the same time to abolish the turnover tax as a source of budget revenue. The population's losses from the elimination of subsidies will then be almost completely compensated by the termination of the constant overpayment for goods on which the turnover tax is imposed. At present, the state subsidies to the consumer and the turnover tax going to the state budget are almost equal. Why is this transfer of money from pocket to pocket necessary? Both are absurd and economically senseless. I am only referring to the turnover tax on industrial goods and not the tax on alcoholic beverages and the import of consumer goods. When the situation is restored to normal as regards the selling of state-produced alcoholic drinks, and the import of consumer goods is considerably increased, these two legitimate

sources of state revenue alone will be enough to compensate the state for all the losses incurred as a result of the price reform, including the compensation to pensioners and other low-income groups.

Of course, this will not immediately solve the problem of the general shortages of foodstuffs. Moreover, it will no doubt initially increase the shortages on the market of industrial consumer goods, taking into account the scale of the deferred demand and the limited production capacities of our industry which manufactures both current and durable consumer goods. The queues for clothing, furniture, TV sets and cars will grow, but in this sphere the situation may be helped by a considerable increase in the import of industrial consumer goods, initially without any reduction in their prices.

All of this is the inevitable cost of improving our economy as a result of the long rule of the administrative and command system. We have to pay for any mistakes, including historical ones, and we cannot avoid this payment. At the same time, this will be an additional stimulus for the state to sharply redistribute capital investments at last in favour of consumer industries, buying several powerful plants to produce household appliances, another one or two car-making plants, and so on. Of course, the transition to normal price ratios will not be an easy one. But if the purpose of the price reform is precisely the improvement of the economy, people will undoubtedly understand this, especially if at least some signs of an improvement in the situation appear on the consumer market.

Thus, the ideal is difficult to reach, but it can be done. The current developments, however, are giving rise to apprehensions that the price reform will not only fail to achieve the necessary goals, but, on the contrary, will only complicate the situation in our national economy.

The 19th Party Conference reaffirmed the leadership's intention of carrying through the reform of retail prices in such a way that the population will not suffer. The leadership's declaration that everything the budget gains from the elimination of subsidies in prices will be returned in full to the population by the state, by way of corresponding increments in wages and pensions, is no doubt of great importance.

But even if this intention is realized, the population will probably not avoid losses. For the time being, as is known, the State Planning Committee and the State Committee for Prices are only discussing two issues: how much the prices of staple foods are to be increased, and what should be the size of the

corresponding compensation. But no one is speaking about what will happen the very next day after the prices are increased and the compensation paid.

And there is only one possible outcome: another turn in the spiral of price rises which will immediately affect all other prices. Given even the fairest compensation, the population will stand to lose as regards other prices which are not directly affected by the planned rise. Moreover, since no corresponding compensation is planned for savings bank deposits, this will immediately sharply reduce their real value.

Of course, it is difficult to judge the possible size of the losses for the population now, when the specific plans of the reform are being kept secret. But there are grounds for presuming that even with the most generous compensation the losses for each working person and pensioner will be considerable. If we take into account the inevitable new turn in the price rise spiral, as well as the depreciation of savings bank deposits, a considerable drop in the standard of living in the country will be unavoidable.

Perestroika may not endure this. To all appearances, the State Planning Committee and other agencies are continuing with their shortsighted "redistribution" policy whose essence can be expressed as follows: we will stop the holes in the budget for 3 or 4 years, and we don't care what happens afterwards.

We should not close our eyes to the fact that the majority of rank-and-file consumers are resolutely against price rises, and even talk about a possible price reform increasingly irritates them. And there are, unfortunately, grounds for such irritation. Rank-and-file consumers have so often been deceived by such reforms that they cannot instantly believe now that increases in prices of staple foods are for their own good.

Many people remember the 1947 reform, accompanied by the direct confiscation of the population's savings, the rises in the prices of meat and dairy products in 1962 which were not fully compensated by decreases in the prices of industrial goods, and frequent subsequent increases in prices and rates for various goods and services, which were sometimes not even announced. Besides, everybody knows that there is a constant "creeping inflation", i.e. actual price rises when labels are changed, which are not registered by statistics, and that the annual rate of 2 to 3 per cent paid to savings depositors does not all cover the "shrinkage" of savings caused by this *de facto* growth in the cost of living.

The public conscience is inert, and the sad experience of

past abuses affects the reputation of the government more than the present, albeit most sincere, intentions to do away with these abuses once and for all. It takes a government years and even decades to win the trust of the population, but it may be lost in a flash. And in recent years, unfortunately, there has been nothing in the economy to heighten the trust in the state's economic policy, for the queues are as long as ever, the shelves in the shops are still empty, and the standard of living is not going up.

In other words, given the existing situation, the leadership has no real chance of "winning" the "campaign" for the price reform. No matter how thoroughly a rise in retail prices is prepared, or what compensation the consumers receive, the majority of them will be dissatisfied, and the credit to the new course will seriously be undermined. "So the whole of perestroika has been reduced to price increases"—it is not hard to foresee that such an opinion will become typical and predominant after the reform of retail prices.

PRICE CONTROL

The third most important problem of economic balance and the essential condition for creating an integrated market in the country is, in my opinion, to secure some excess of supply over demand, to undermine the producers' monopoly in all spheres of production and on the market, and to develop and encourage socialist competition. We have already taken the first steps in this direction. The state orders in industry in 1989 will only be slightly more than 40 per cent of the total output. Either the complete renunciation or the reduction to the minimum of state orders (compulsory deliveries) is imminent in agriculture. No matter how things are moving, there is hope that by the first half of the 1990s, 60 to 70 per cent of the means of production in the country will already be freely sold on the wholesale market or by direct agreement between suppliers and consumers. But all of this is still not enough to undermine the undivided rule of socialist monopolies on the market, neither does it give any guarantee either against unchecked inflation as a result of producers' price hikes or against the inferior quality of their products.*

* In January 1989, the Politburo of the CPSU Central Committee discussed proposals of the USSR Council of Ministers on measures to eliminate shortcomings in the existing price formation. In particular it was planned to intensify control over the formation of socially low prices, especially on goods for children and elderly people.

Frankly, I don't like any control over market prices, but I realize that if, given the utmost monopolization of our industry, we abolish the State Committee for Prices now, and pass the whole matter of price formation into the hands of direct producers (precisely to them, since buyers everywhere in the country still have no rights), the notorious "supply crisis" of 1923 will only be repeated. The blind egotism of production collectives is a horrible thing, and without centralized control over the main prices our producers in such conditions will only boost the prices of everything. Control over prices may only be abolished when we create a "consumer market", that is, a stable and constant excess of supply over demand for all goods, when keen and healthy competition becomes standard and not an exception, and when all compete—state enterprises between themselves, the cooperative and self-employed sector with state enterprises, and cooperatives and the self-employed among themselves, and all of them together with stable and free imports, which is the norm for any "open economy", i.e., an economy that is not fenced off from the outside world by administrative barriers, a "closed" unconvertible currency, or prohibitive custom tariffs.

If we succeed in securing all this in the next decade, it will be an outstanding achievement, a genuine victory for perestroika and hence a return of our whole economy to common sense, to its self-development without any artificial inducement and force. But some major steps in this direction, it seems to me, could be taken now, without postponing them to the 1990s. Above all, I mean such measures to promote the development of the market as the drafting of the "anti-trust legislation" which would stop, if not all, then at least the rudest attempts to fully monopolize the market and abuse the consumers. I am also referring to the need to divide our more powerful associations into independent cost-accounting enterprises manufacturing the same products or providing the same services. A certain impetus should also be given to the process of the formation of intersectoral associations, that is, the freedom of capital flow from one industrial sector to another.

WHOLESALE PRICES

The reform of wholesale and purchase prices is not so simple either. Here we have considerable experience which shows that some time after rises, for example, in the purchase

prices of farm produce, production costs in agriculture grow, so it begins to bring low profits again soon afterwards and then to operate at a loss, and prices have to be raised again. The same "profitability cycle" is evident in other power engineering industries and those supplying raw materials.

The reason for such a cycle is well known. The fact is that industrial branches with a high monopolization of production and a rapidly changing range of products (machine-building, light industry, construction, etc.) have the greatest capacity for boosting prices. In this sphere the State Committee for Prices finds it most difficult to check the validity of calculations submitted by producers. There are many new products, but only one Committee for Prices. Therefore there is a "creeping inflation" in such industries, that is, the productivity of a new machine tool or some machine grows by, say, 30 per cent but its price increases several times over. Unfortunately, collective egotism and lack of integrity are no less regrettable factors of our reality than individual egotism.

On the contrary, in agriculture, in the fuel industry and other branches supplying raw materials where the basic products are not numerous and are renewed relatively slowly, control over prices "from above" is comparatively effective. These branches periodically find themselves in the low profit-yielding category, because the prices of the machinery and equipment they buy continuously grow, whereas the prices of their products remain stable for a long time.

That is why in every five-year plan period the same thing occurs: the prices of finished products and services run ahead, whereas the prices of raw materials lag behind; as a result, the raw materials industries bring low profits or even operate at a loss so that, willingly or unwillingly, prices have to be greatly raised. One does not have to be a prophet to forecast that in five to ten years after the current "levelling" of wholesale prices the same thing will happen as before—there will again be a gap between the levels of profitability in various industries, and prices will have to be "levelled" once more.

As the first stage and point of departure, a reform of wholesale prices is no doubt necessary. But it is unrealistic to expect any radical improvement until we have a socialist market for the means of production (wholesale trade), until we have done away with the present monopoly of producers, and until socialist competition has been established.

For agriculture all this means that the present high cost price of products is not only and not so much a result of the poor performance of farms as of the "price aggression" of

planning bodies and ministries in charge of industrial branches which are monopoly suppliers of equipment, machinery, fertilizers, and construction materials so greatly needed by the countryside. What successful work and what reasonable cost price can be expected of most farms, if they are forced to deliver almost all their grain at a low price and it is then returned to them in the form of mixed fodder at a price which is twice or even three times as high? What guided the relevant agencies in 1988, when they raised the prices of fertilizers 1.5 to 5 times and of very poor-quality combine harvesters—three times? And who cares that all these losses from price rises will be written off or will be covered by non-repayable credits? Charity is charity and has nothing to do with production.

Herein lie the reasons for the "vicious infinity" in the spiral of foodstuff prices. Unless we solve this problem and stop pumping money from the countryside through the mechanism of prices, we will gain nothing by merely raising purchase prices, especially since this is shouldered by the rank-and-file consumers. The state does not gain anything from this senseless pumping of money from one place to another.

Yet, I think there is an effective alternative to the plans for the reform of wholesale, purchase and retail prices.

ALTERNATIVE REFORM

I believe the alternative version should proceed from three main premises: first, the price reform is necessary and inevitable; second, it should not be a quick act, but a gradual, rather slow process starting with wholesale prices and ending with retail prices; and third, the retail price reform should be carried through only when the consumer market is being saturated and not before the signs of such saturation become visible.

A real opportunity has already emerged for the state to eliminate the bulk of state subsidies that overburden the state budget, without touching retail prices initially, for the sharp growth of state subsidies for foodstuffs (from 20 billion to over 60 billion roubles in the 1982-1987 period) was actually caused by one thing—a rise in the purchase prices effected specially for weak, low-profit farms. The absurdity of this measure was obvious: it has turned out that we pay little to those who work well and a lot to those who work inefficiently.

Evidently, the state can now stop artificially supporting

farms which run at a loss and raising the purchase prices of their produce. At present not more than 30 per cent of farms account for about 80 per cent of the total commercial agricultural output. The state should now rely on those farms that do not need artificial state support and free them from the omnipotent administrative bodies which bind them hand and foot.

Weak farms with no prospects should receive their last assistance from the state in the form of writing off their debts (a considerable part of which accrued through no fault of theirs), and as to everything else, they should be on their own. If they can, let them merge with more powerful farms, rent all their land to small cooperatives and one-family farms, or turn their land into parks and hunting grounds—the state should not worry about what they do, for the guaranteed supply of food in the country does not depend on them. And if these farms can get on their feet by themselves, without state subsidies, so much the better.

There are also direct opportunities for lowering the cost price of farm product by discontinuing inequitable exchange through the discrepancy in the prices of the produce bought by the state from farms and of mixed fodder, fertilizers, machinery, building materials, repairs, etc., sold to them. All the same, everything that the state now gains from such inequitable exchange it gives back in the form of non-repayable credits to the farms operating at a loss. The abolition of the principle of compulsory deliveries, the permission to store and process produce on the farms and sell it when required, and the transition from stockpiling to purchases of fertilizers and machinery based on the cost-accounting principle should also, no doubt, improve the economic situation on collective and state farms. The elimination of the administrative bodies in the countryside, which have become outdated and which absorb, by some estimates, from one-seventh to one-eighth of incomes from agriculture, will also be of great assistance.

There are also signs of a possibility to sharply reduce the cost price of agricultural produce through all-round development of collective and family leaseholding. On most one-family farms, for instance, the cost price of production of pork is from 70 kopecks to one rouble per kilogram and that of beef from 1.5 to 2.5 roubles, whereas the average cost price for the country is twice to four times as high. But we are only beginning to use this reserve of filling the market. Experience shows that a one-family farm often produces 5 to 10 times more than the same number of people working in traditional conditions.

It is important to stress once more that in this alternative version the restoration of the budget equilibrium, so rightly sought by the State Planning Committee and other agencies, can be partially achieved through a considerable reduction in the wholesale prices of many things that the countryside is being supplied with (for the budget this will be compensated by the simultaneous discontinuance of subsidies to farms operating at a loss); a reduction or stability of purchase prices of agricultural products; and, finally, through the stability of state retail prices of staple foods (subsidies from the budget to cover the difference between purchase and retail prices will be compensated to the state by the abolition of artificially high purchase prices for weak, badly working farms).

The acuity of the budget deficit is, of course, caused not only by subsidies for foodstuffs. But these subsidies are a major factor of an unbalanced budget, and I'm sure that its effect can be minimized without detriment to the rank-and-file consumers.

I think, a reform of wholesale prices is the most important thing for us at present. It can accomplish its main tasks—the levelling of conditions in which enterprises operate in different industries, the ensuring of a transition to stable tax relations between the state and enterprises, and the creation of conditions for the partial convertibility of the rouble—without affecting the system of retail prices for a time. But the reform of wholesale prices should not turn into a general increase in prices either; rises in the prices of fuel and raw materials should be offset by a corresponding reduction in the higher prices of machinery and equipment.

Haste is not needed in the retail price reform. Until we saturate the market with foodstuffs and industrial consumer goods at the initial stage, until we at least partly restore the budget equilibrium, and until we finally give people the opportunity to earn as much as they can, and not as much as the administrative injunction from above allows them, this step will only undermine people's trust in perestroika. Ultimately, we cannot avoid a retail price reform and changes in the ratio between the prices of foodstuffs, housing, transport and industrial consumer goods. But this can and must wait.

FINANCE

The fourth major problem which the attainment of the market equilibrium and the consolidation of the purchasing

power of the rouble depend on is the improvement and development of our financial system. Its main shortcomings are, first, the snowballing amount of money which the population has and which is not secured by goods or services; second, the underdevelopment of our credit system and the tremendous temporarily free amounts of money at the disposal of enterprises and private persons, money which finds no application; and, third, the growing deficit of the state budget which has already topped the 100-billion-rouble mark and which is covered by unhealthy and most dangerous methods—by printing more money and by covert and actually compulsory borrowing from the population through savings banks.

In other words, there is too much free money in the country and this enormous mountain of banknotes that are going down in value is growing every year. How can this danger be neutralized, how can this money be "tied up" and how can the printing press be stopped? There is only one alternative: either to confiscate what the people have or to use the rouble itself, to apply normal healthy methods for putting it to use, and to utilize natural sources of increasing budget revenues and equally natural possibilities of reducing expenditure—in other words, to do what the whole world does, but what we don't know how to do or do badly.

Of course, confiscation is possible in principle. But is anyone in our country so rich that it would not be a shame to take money away from him, either directly or through a price reform, without any compensation for the money deposited at savings banks? Is it thieves? Yes, in fact there are quite a few of them in the country. But their importance should not be exaggerated. It is hardly likely that "thieves' money" accounts for more than 10 per cent of the population's total savings. Is there any way of confiscating money from thieves by purely financial, rather than police, methods without affecting honest people in the process? I don't know of any. And what sort of faith could people have in perestroika after such an all-round confiscation?

There is more than 280 billion roubles' worth of deposits in savings banks. But I doubt if anyone knows how much money people keep at home, although experts presume that this sum hardly exceeds 50 billion. According to estimates, of the money deposited with savings banks, "hot money" (which may be withdrawn any moment, if the commodity for which this money is intended appears on the market) accounts for 60 to 70 billion, the rest being actual savings. In order to neu-

tralize "hot money" and to supply the goods this money can buy there is only one sensible way—to boost the production by the state and cooperatives of high-quality consumer goods, furniture, household appliances, various services and imports. Other purely financial methods can and should be used for neutralization, moreover, for putting "slow-moving" money to good use. Here again we do not have to invent anything, for everything was invented long ago and is successfully being used around the world.

What we need to do is to sell people not only materials for building houses and summer cottages in the countryside, but also land; not only motorcycles and cars, but also lorries, electric motors, tractors, and all other farm machines and implements; to sell to individuals and work collectives shares and bonds of industrial, agricultural, transport, commercial, and other establishments; to restore the stock exchange, that excellent invention for bringing together those who need money and those who have it—this institution has no other purpose. Many people may say it's a shame to have shares, dividends, investors. But isn't it a shame to receive our traditional 2 to 3 per cent at the savings bank? And why is an investor who lives on 2 to 3 per cent annual interest any better than one who lives on 6 to 8 per cent? What about children and grandchildren who squander the money left to them by their parents and grandparents? There is also a way out here and no need to invent anything. Inheritance tax exists all over the world, though of course it should not be so exorbitant as to make the parent prefer to squander all the money he has earned rather than leave it to his children.

Lastly, our bankers and financiers should realize some day that their main duty is not to look for those who have not yet been strangled, but to look for existing or potential money, and to use this money for the needs of the state. I'm afraid we'll gain nothing until those who are in charge of state finances realize the simple truth which is known to all but us: in order to get wool, it is not at all necessary to slaughter sheep—they should only be fed and shorn—and it is much better to have a large flock. The cooperatives and those who are self-employed should stand firmly on their feet, and taxes on their profits should be reasonable—in that case they will be a great asset. The more there are of such people and the greater their turnover, the more money in the treasury.

BUDGET

To restore the equilibrium in our budget, the most important thing, in my opinion, is not the elimination of subsidies for foodstuffs and other products for, as mentioned above, what the state spends on them, it gets back in the form of the turnover tax through artificially raised prices on industrial consumer goods. There are three extremely acute budget problems: the tax on alcohol, the tax on imports of consumer goods, and the state's excessive expenditure.

I'm convinced that we should put an end to the anti-alcohol campaign in its present form. This budgetary blood-letting (from which only moonshiners have stood to gain) has undermined the financial situation in the country even further and aggravated the imbalance on the market. Let's consider that we have paid for our mistake. The restoration of normal budget revenues from the sale of alcoholic drinks, the expansion of imports of consumer goods, and the cessation of support for farms operating at a loss through artificially raised purchase prices would bring so much to the budget that all the intentions of the State Planning Committee and the State Committee for Prices to squeeze money out of the consumer through a hasty retail price reform would be deprived of any grounds. This would be more than enough for the budget to eliminate the present deficit even without a price reform.

There is another aspect of this problem—unjustified budget expenditure. Had it been cut down or stopped altogether, this would have been more than enough to eliminate the present budget deficit. This applies to defence, international commitments, the Party and state apparatus, and economic executives, law-enforcing agencies and the penitentiary system. (There are several times more people behind bars or barbed wire in this country, than in the USA. Can it be that our people are more criminal in their nature and behaviour than the Americans?)

But this is not all. The state is trying to find money, but at the same time it unhesitatingly finances the Ministry of Land Improvement and Water Management* which entails (including wages and salaries) 16 billion roubles a year, that is, one-sixth of the present deficit. The Ministry of Power Engineering

* An agency which is constantly criticized by the media for its thoughtless and ecologically harmful squandering of tremendous state allocations.

goes on demanding money (and receiving it) for designing and constructing new hydro-electric stations. It would be interesting to know whether anyone among our top economic executives has ever come to think that the construction of the Sayan-Shushenskoye hydro-electric station started, as far as I remember, in 1962 and is still going on? How many times could the billions poured into it have been repaid and how much money could the budget have received? And it is not only a matter of this station alone. We are complaining that we have no money. There is a great deal of it; all we have to do is to finally learn how to husband it. Fortunately, we have finally decided to give up the construction of a tractor plant at Yelabuga*. We are not so hopeless after all, and, when hard pressed, we can spend money sparingly. I'd like to regard this fact as the beginning of a general improvement of the financial policy in our country.

CONVERTIBLE ROUBLE

The fifth (last, but not least) condition for the full value and effectiveness of the rouble is a realistic exchange rate and convertibility into all foreign currencies. Some people who have completely fallen into despair suggest that this step should be made now and, as the first stage, industrial enterprises should be allowed to freely buy and sell foreign currency. I still think this is unrealistic.

In order to introduce at least a partial convertibility of the rouble, that is, its convertibility for enterprises (but not for the man in the street), it is above all necessary to complete the wholesale price reform and firmly establish the wholesale trade in the means of production. Without a reform of wholesale prices this task cannot be accomplished, if only because, given the present distorted price ratios, we cannot have a more or less true-to-life rate for the rouble. As is known, its present rate was established by Stalin's arbitrary decision in 1950. He crossed out in blue pencil the calculations of specialists, according to which one dollar was equal approximately to 14 roubles at the time, and instead of "14" he wrote "4", saying something to the effect that "it is enough for them."

* The project for the construction of a tractor plant at Yelabuga in Tataria encountered strong resistance from the public for a number of economic and ecological reasons.

That blue pencil correction cost us very dearly. The fact, however, remains: although the current rate of the rouble is unrealistic, we will be able to determine it more or less correctly only after we have put our prices in order. Of course, it will not be the current 62 kopecks for a dollar, but I'm sure, it will not be the black market 7.5 roubles for a dollar either, at which roubles are today sold and bought almost officially in West Berlin, for instance. However, it can be predicted even now that the depreciated rouble will make our exports much more profitable for our exporting enterprises and imports much less profitable than today.

Another important condition—wholesale trade in the means of production—is necessary for the rouble to become "internally convertible", that is, for any Soviet enterprise or foreign partner to be able to use this rouble in our country to buy whatever they need. At present, neither one nor the other has such a possibility.

Of course, in order to have a convertible rouble at least on the state level, reserves are also needed for equalizing inevitable fluctuations in the balance of payments. We should not expect any miracle in this sphere either. Both here and in any other country these reserves can be obtained only from natural or, in other words, traditional sources: the intensification of exports, the gold reserve, manoeuvring in debts, direct foreign investments and international credits. In this respect I think it is fundamentally important that we at last begin changing our attitude to the international currency and financial system and its institutions. If we are to play, then we should play according to the rules, and we will never learn these rules if we continue standing alone in the world.

Whereas we can make the rouble convertible for enterprises in the first half of the 1990s, its full convertibility, that is, convertibility for the "man in the street", can hardly be achieved before the end of the next decade. The reason is that full convertibility of the rouble is impossible without realistic ratios in retail prices or, in other words, without a radical reform of retail prices.

CHANCE

I believe that if we are to speak about the general atmosphere in which perestroika is taking place, it has two main enemies: first, our widespread economic ignorance, and,

second, blind envy which is deeply rooted in many, if not in the majority, of us. Neither can be quickly eliminated. Either we should learn how to appraise everything soberly, or, as Pyotr Chaadayev* forecast, we are doomed to serve as an example to the whole world of how **one should not** think and act.

Far from everything is clear to us. It is not even clear, for example, what we are going to do with such a powerful force of economic progress as individualism, the striving of enterprising and energetic persons for success, including financial success? From time immemorial, the progress of history is known to have relied on two forces—collectivism and individualism. We have learnt, or rather we are learning, how to use the force of collectivism, even though its efficiency is no higher than that of Stephenson's steam engine. What about personal striving for success? Or will we keep hobbling along on one foot? And if so, how far will we get?

History has given us a unique chance to think over our life anew. As we know, Lenin also reflected upon such matters. The phenomenal success of the New Economic Policy showed that those were fruitful reflections. He found a model which enabled us in the 1920s to walk on two feet, not hobble on one. By any world gauge it was an efficient, competitive and open model, and, no less important, a socialist model.

I can imagine how furious many people will be that this question has even been raised. But what are we to do? I understand that few people are willing not only to answer this question, but even to think about it. I'm afraid, however, that we'll have to answer it, all of us.

* Pyotr Chaadayev (1794-1856) was a Russian thinker and publicist.

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PERESTROIKA as Seen by an Economist

Nikolai SHMELYOV

"I was born in Moscow in 1936. In 1958 I graduated from the Department of Economics of Moscow University and since then have worked at various economic research institutes. Since 1983 I have been the head of a department at the Institute of US and Canadian Studies of the USSR Academy of Sciences. I hold the degree of Doctor of Science (Econ.) which was conferred in 1969, and the rank of professor.

"I am known among economists primarily as the author of publications (over 100 books and articles) on problems of the world economy and international economic relations. My last book *World Economy: Trends, Changes, Contradictions* was published in 1987. The general reading public is better acquainted with my works on the Soviet

economy that have been put out in recent years. *The Economy of Perestroika*, co-written with Vladimir Popov, is to be published simultaneously in the USSR, the USA and Japan in the spring of 1989, and the collection of articles on economics *Advances and Debts* will be put out by the Moskovsky Rabochi Publishing House.

"As a student I tried to write fiction. My first story was published in 1961, but for 25 years after that none of my stories appeared in print. Only thanks to perestroika have my stories been published in *Znamya*, *Yunost*, *Oktyabr*, *Ogonyok* and other magazines. In late 1988 my first book of prose *The Show in Honour of Mister First Minister* was put out in Moscow by the Sovetsky Pisatel Publishers."



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