

# ECONOMIC REFORM: A GREAT BUBBLE OR A FAINT CHANCE TO SURVIVE?

*Larisa Piyasheva*

## Directions of Economic Thinking

In the monolithic ranks of our economists, three directions of economic thinking—though not yet schools of economics—have taken shape. The first is the currently unpopular conservative bloc of traditional *Marxists* who defend our socialist achievements and want stabilization within the framework of state ownership and a planned economy. The second is that of *market socialists*, of social democratic orientation, who are seeking all sorts of compromise combinations of free markets with our currently existing structures of property and power (they are the absolute majority today and form part of the Gorbachev team). Finally, there are *market radicals* who are calling for straightforward privatization of property and free markets. They are a tiny minority.

I consider myself to be a part of the last group. I reject all models of socialism, the Marxist-Leninist or the social democratic. My views are based on the theories of the Chicago school, and I believe that all attempts to find a “third way” are headed for a dead end. What I would recommend to our government for a transition to the market is the Erhard model of the “social market economy,” with Friedrich Hayek and Milton Friedman, or their disciples and followers, as consultants and advisers. I am absolutely and firmly convinced that our country has accumulated a large potential of unutilized creative

---

*Cato Journal*, Vol. 11, No. 2 (Fall 1991). Copyright © Cato Institute. All rights reserved.

The author is an adviser to Moscow Mayor Gavriil Popov and a Senior Researcher at the Institute of International Labour Movement. She is a frequent contributor to *Novy Mir* and *Izvestia*, and the author of *In Pursuit of Social Justice*. This paper reflects her comments on the economic reform proposals offered by Abel Aganbegyan at the Cato Institute's conference “Transition to Freedom: The New Soviet Challenge,” held in Moscow, September 10–14, 1990.

and entrepreneurial initiative, which, provided that our totalitarian/administrative mechanism is quickly dismantled and people are given their civil rights and freedoms, can bring about radical changes in our lives.

### Necessity of a Radical Market Breakthrough

Even though communist ideology is beginning to retreat quietly, it remains a potent force that holds back our economic development. Economic theory is still labeled “market capitalist apologetics” in this country. Several generations of political economists, including academicians, Ph.D.s, and junior members of the Academy of Sciences have been raised on such doctrines. And even though most Soviet and many Western socialists and social democrats do not share my convictions, I would still like to communicate one simple truth: Unless we protect the fragile plant of liberal thinking now budding in our society, it will be very difficult to change things here. That is why, at this stage, I believe that the most appropriate slogan would be: “No compromise.” If we get embroiled at this time in a lengthy process of discussions and lectures on pluralism and the equality of all forms of ownership—on the need to go through the transitional and halfway stages of leasing from the state, contracts, mixed public/private enterprises, and other forms of the “mixed economy”—we will get bogged down in verbiage for decades to come. We must make a radical market breakthrough, even if our communists and social democrats are not ready for it just yet.

When our government speaks of the impending transition to the market, what they mean is something very different from what this is taken to mean in the West. And when our official economists speak of economic liberalism, what they mean is something quite different from the liberalism of the free market with free pricing. This difference should be remembered every time one engages in debate or polemics with our scholars. With very few exceptions, most of them today are advocates of a regulated economy of the left-Keynesian type—at best. The idea of social justice, in its socialist, distributive interpretations, continues to stir their minds, prevailing over the principles of equal opportunity and freedom of private enterprise. If, five years ago, our scholars had approached their task responsibly, we would not be on the verge of economic bankruptcy today. In the five years of perestroika, not a single Western textbook of economics has been translated here. The vast majority of our undergraduate and graduate students, as well as our scholars, are not familiar even with the names of Nobel Prize-winning economists, let alone the broad

spectrum of worldwide economic thought. On the other hand, look at all the pilgrims who have traveled to the United States seeking credits and most-favored-nation trade status.

Abel Aganbegyan (1990, p. 2) argues that “perestroika inherited a very difficult situation,” in which there was a deficit in the state budget, a monetary overhang, and a dearth of consumer goods. But this is only partially true. We do, indeed, have a difficult legacy. However, perestroika itself has generated a manifold increase in the deficit, multiplied the money supply, and brought about a virtual collapse of what domestic market we had. The starting conditions of perestroika were far better than present-day conditions.

The cause of our troubles, according to Aganbegyan, is in “the dictate of the producers” and the resulting distortion in the economic structure, with the prevalence of heavy industry investments and military expenditures, and the financing of consumer goods and social expenditures relegated to the back burner.

His analysis is incorrect. If we really had a “dictate of the producers,” the resources channeled into industrial units would have been utilized effectively, and today we would have a highly developed if hypertrophied heavy industry. The real tragedy is that producers and consumers in our society are equally deprived of rights, freedoms, autonomy, and responsibility.

The same goes for the military industry. Despite our gigantic military expenditures and the fact that all of our economy is geared toward the production of weapons, even this sector does not yield us the huge profits reaped by the Western military-industrial complex. Unreasonable though this may be, there is money to be made in guns and missiles too.

The problem, then, is not in the structure of our GNP or the “dictate of the producers.” The problem lies in the underlying principles of our economic life, in the dictate of the regime that champions socialist principles and spends inconceivable amounts of money on sustaining this ideology. I am referring less to actual spending on the maintenance of the Communist party/ideological machine—with its institutes, chairs, newspapers, magazines, and academies—than to the tremendous losses the country suffers because it does not have a free-enterprise system.

## Destructiveness of Socialist Ideology

Socialist ideology has turned out to be destructive to economic well-being precisely because, for several decades, it has fought enter-

prise and rooted out all the productive groups and segments of society: industrialists, bankers, craftsmen, traders, and peasants.

The victory of socialism was in its ability to uproot virtually the entire populace, destroying and diffusing the functions of the entrepreneur among different parts of the administrative system. It also divided the functions of the market among the agencies of the state. The State Pricing Committee became responsible for setting prices, the State Supplies Committee for the allocation of resources, the State Labor Committee for the allocation of employment and the setting of salaries, the State Planning Board for the rate of economic growth, and the Ministry of Finance for the monetary cycle.

As a result, all citizens—blue-collar workers, white-collar workers, and peasants—were equally deprived of property rights, of the right to enterprise and to self-enrichment. That is the principal cause of our decline, before perestroika and to this day.

## Absence of Real Reform

The trouble is that in five years of talk about perestroika, not a single practical step toward the market has been made in this country. The monopoly structure of power and ownership remains intact. The network of ministries in charge of various branches of industry has not been eliminated. Our economic structure is still the most monopolistic in the world. Not a single enterprise has been given complete economic self-sufficiency. The State Planning Board continues to dictate its terms. The State Supplies Committee continues to dispose of resources. There is still no wholesale market for raw and industrial materials, machinery, or means of production. The revenues of industrial enterprises are still taken into the government budget and centrally redistributed. Nor is there a law on bankruptcies. And thousands of factories, collective farms, and state farms remain afloat on government grants and subsidies, draining the country of its lifeblood.

In five years of perestroika, not a single practical step has been made to solve the problem of making the ruble convertible and normalizing our currency. Enterprises have been given no genuine opportunities for independent access to international markets. The cooperative experiment, for all intents and purposes, has failed: President Gorbachev has not found the courage to defend trading and mediating cooperatives from the conservative assault. What, then, do we have today?

Following in the footsteps of Mikhail Gorbachev and Leonid Abalkin, Aganbegyan and others essentially advocate the reanimation

of socialism, giving it “a second wind.” But it is precisely these “democratic socialist” precepts that have brought us to utter collapse. Having promised economic freedom and autonomy to people, the government’s experts began to work on strategies designed to prolong the agony of the administrative command system for at least another five years and to avoid giving people property or freedom. Having permitted cooperatives and self-employment, the experts began at once to look for ways to strangle their creations with taxes, sanctions, and restrictions. And having permitted land leasing, government’s experts made leaseholders completely dependent on the local monopolistic landlords—the collective farm and state farm chairmen who have done all they could to prevent the development of a private sector in agriculture. As for trading and mediating cooperatives, they were simply crushed by the party-Mafia-trade nomenklatura.

The highest manifestation of economic wisdom in the privatization plan was the authorization of leasing with the option of buying out the property from the state over 15 years. There is no need to prove that, if leasing in agriculture was strangled by the collective farm aristocracy, leasing/buyout in industry was a stillborn invention from the beginning.

### Strategies of Transition to the Market

Abel Aganbegyan (1990) sees the transition to market pricing as a step-by-step reduction of the share of centrally fixed prices, with an expanding share of market prices. Structural perestroika is seen as a well-planned, gradual replacement of an obsolete fleet of cars with new ones—not through the mechanism of bankruptcy and the release of labor and capital, but by gradual replacement of the product line.

The transition to the market is seen as a succession of reforms spaced through time. First is the reform raising the prices calculated and fixed by the Council of Ministers and overhauling the pricing structure. Then, at the next stage, is the reform to balance the money supply with the supply of material goods and commodities. Then we find the establishment of the market infrastructure, the switch to multi-channel, commercial trading in consumer goods, and so on. The process of transition to the market is seen as a gradual increase in the proportion of goods supplied to the market, with a gradual reduction in high-demand goods that will be distributed centrally.

In five years, money and commodity markets are to develop fully, after which a convertible currency market is to be created, giving

enterprises, organizations, and individuals the right to trade rubles for foreign currencies.

If such a strategy of transition is adopted, then I have no choice but to advise those who intend to give us credits to wait for five years, until the very day when individuals and enterprises are given the right to freely exchange rubles for hard currencies. I would also recommend that credits be extended only for very specific objectives, to the private sector, and certainly not through government or pseudo-social institutions. The first condition applies only to Aganbegyan's strategy of transition to the market; the second, to any option that is adopted.

The program prepared by the Ryzhkov cabinet is not, strictly speaking, a market program. It deals with an impending, administratively imposed price hike. As for the 500-Day Program, it is, unlike all the programs presented earlier, a market-based program. However, it needs major improvements when it comes to the strategic plan of transition to the market.

## The Road to Serfdom

Thus, the initial incorrect diagnosis of the problem, the inclusion of socialist planners defending the interests of the state in the work on the government's transition plan, and plain economic illiteracy have combined to generate the devastating economic processes we are witnessing today. Aganbegyan's strategy of "perestroika and acceleration"; Abalkin's program of "emergency measures"; the new government program that would raise all retail prices 40 percent, compensating two-thirds of it with additional payments and taking one-third of the excess money, with 86 percent of prices remaining centrally fixed and restricted and only 14 percent made free—all these programs taken together are a deliberate inflationary strategy that is taking us straight down the road to a "Great Depression." It is a road to a "black market" and "shadow business" economy, a road to a new totalitarian-Mafia serfdom.

## References

- Aganbegyan, Abel G. "Restructuring the Soviet Economy: Partial Reform versus Fundamental Change." Paper presented at the Cato Institute's conference "Transition to Freedom: The New Soviet Challenge," Moscow, September 10–14, 1990.
- Piyasheva, Larisa. *In Pursuit of Social Justice*. Translated from the Russian by Vitaly Baskakov and Igor Kochubey. Moscow: Progress Publishers, 1991.