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Is Perestroika Failing?

On Tuesday, 25 September, Professor of Economics Padma Desai discussed the current state and future of perestroika. Desai outlined the "500 Days" plan to save the Soviet economy and assessed the plan and its prospects for success.

We must consider perestroika as a system addressing aspects of the Soviet Union's problems, said Desai, and rather than call it a failure or a success, ask whether it is successfully addressing issues at a given moment. In that sense, "one cannot say decisively that it has not succeeded."

Most important is to discern whether the long term process of perestroika is "on track." Ups and downs are normal. If we concentrate too hard on one aspect over a short period, we lose sight of the project as a whole.

The goals of the ambitious economic plan are not well-defined, although it is clear that there is to be a major overhaul of the Soviet economy. This transition will engender severe economic problems, whatever the program chosen. Desai, holding up a copy of the journal *International Economy*, noted that it included at least ten plans to solve the problems of the Soviet economy, one of them her own.

The Two Plans

Desai had both praise and criticism for the two plans currently under consideration, one authored by a group led by economist Stanislav Shatalin and the other engineered by Prime Minister Nikolai Ryzhkov and economist Leonid Abalkin. Both exhibit problems; they waffle on some critical issues but contain copious detail on seemingly unimportant ones.

The Shatalin plan, although an "extremely refreshing document," is in some ways "amateurish." The Ryzhkov-Abalkin plan is "more workmanlike and technical" -- "done by people in the business of implementing plans."

The Shatalin plan, broad, ambitious, and strongly documented, makes a clean ideological break from past policies. Its major themes are decentralization and privatization. Republics, as sovereign states, will sign a treaty of union and

then will delegate power to the union, rather than receiving power from the center. Such issues as defense, national security, and territorial integrity of the union and republics will be delegated by the states to the central government. The central authorities will also set macropolicy to prevent "up and down economic activity" such as mass unemployment. Taxes to facilitate these functions will be collected by the republics, and either a percentage of GNP or a fraction of the per capita GNP will be given to the union.

According to the plan's framers, "mankind has not managed to create anything more efficient than a market system," -- by Soviet standards a radical statement indeed. The command system is to be replaced by free economic enterprise. Most property is to be privatized. This is the plan's "most refreshing element", said Desai, and in many ways its most radical innovation. All government bodies will relinquish direct engagement in the business of farms and factories, and businesses will compete under open market conditions. Individuals will be responsible for their own welfare, a form of enlightened self-interest new to the Soviet Union. The plan is an extreme reaction to the abuses that occurred under central planning: "close state surveillance, parasitic smugness, wage levelling, apathy and mismanagement."

The Ryzhkov-Abalkin plan's primary weakness is its failure to make such a sharp break. Despite some good economics, it is politically "irrelevant." It tries to make central planning more efficient -- but the people are in no mood to accept anything that remotely resembles the past failures of their government and its centrally planned and centrally ruined economy.

The 500 Days

The Shatalin plan is divided into four stages: 100 days—150—150—100. The rigid time limit does not permit much innovation, but it does set a rational and relatively short time frame.

The goals of the first 100 days are price stabilization,



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privatization, and price reform. A tremendous amount of cash will flood into the system. Inflation will result, and it is imperative that this be controlled. Unemployment will also accompany rising prices and falling production. Stabilization is critical. The budget deficit will be reduced drastically: foreign aid will be cut by 70%, defense and KGB budgets by 10%; all projects costing more than 100 million rubles will be forbidden. Economically draining unfinished construction work will be stopped, and most subsidies to enterprise will end. The selling off of small state enterprises will "soak up" cash from the private sector and reduce the money supply, to what extent is unclear. The sale of land between private parties will be legalized. A private banking system and a separate state bank similar to the United States' Federal Reserve System will be created. Each republic will have a similar system. A uniform ruble exchange rate is also a goal, but this will be problematic if the ruble is to be accepted as a hard currency; the rate has not been set. Price and wage indexing will protect consumers from runaway inflation and workers from lost income.

The second phase will concentrate on price flexibility and privatization. Price deregulation will begin, but the state, as the primary negotiators of contracts with industry, will exercise influence over prices. All existing commitments between republics concerning industrial orders must by law be fulfilled. But outside of state contracts people will be able to negotiate freely for all goods. Wholesale trade is to be developed. The state price committee's central pricing decisions will be cancelled, with exceptions made for basic raw materials and staple consumer products. A taxation schedule for enterprise will be set up.

In the third stage, unemployment will increase. State control will be removed from 80% of all prices; basic raw materials and basic consumer goods will remain exempt. Privatization will gain speed. The hope is that the growth of small business will soak up most of the unemployment

resulting from the closing of factories, while housing sales mop up some excess demand.

The final stage will be the beginning of economic upswing. Almost all economic activity will be privately conducted. Residence permits will no longer be required, allowing greater flexibility in the housing market. If all goes well, recovery should now begin.

The plan's most severe shortcoming is in agricultural reform, which ought to lie at the heart of economic reform, but is not being tackled seriously. Subsidies will be continued only in a small number of cases, and the remainder of all agricultural products, 70-80%, will be handled by private farmers and wholesalers. It is unclear whether a firm enough foundation exists to support a large number of smaller farmers and the lack of serious agricultural reforms could pave the way for disaster.

Prospects

Shatalin's is a populist plan and in many ways unrealistic and unduly optimistic. It will result in massive unemployment and severe inflation, but does include security measures guaranteeing basic necessities and a decent living standard for all. It sees a world full of entrepreneurial spirit, free competition and technological innovation. Its framers, carried away by this vision, seem to believe that this ideal world will emerge on the 500th day.

Thus, the prospects for long term success are dubious. While there is no doubt as to the need for reform, it is unclear whether or not the restructuring of the economy will be successful. The plans under consideration are ambitious and positive, but they offer no guarantee of anything except turmoil and change.

— Reported by Joshua Larson

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