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The Perestroika Dilemma

In Washington recently, Boris Jelzin surprised everyone by making a prophecy of doom that Gorbachev's days were numbered: unless he managed to come up with tangible successes in his economic reorganization programme, he would be swept away by the enraged masses. This took many by surprise, because till now the enemies of Gorbachev and his policies have been thought to be the nomenclature, who fear the loss of their privileges. And now the grassroots are supposed to be posing an even greater threat? Or is Jelzin perhaps hoping for a revolution from below against a too hesitant Gorbachev, who does not dare to confront the party and administrative bureaucracy and push through his reforms with the necessary radicalism?

Perestroika can founder as a result of conservative forces suddenly retrieving power and restoring a Stalinist political and economic system, but it can also fail simply by stopping half-way. If in the medium and long term, the Soviet system is not made permanently more efficient, Gorbachev must rate as a failure, even if he survives politically.

Whether Gorbachev is likely to be removed from power or not is a matter for political experts, particularly as his *glasnost* policy is perhaps more important in this respect than the success or failure of the economic *perestroika*. The prospects of success for a restructuring of the Soviet economy is, however, the province of the economist. In the light of experience with attempts to reform socialist systems and the deductions of the theory of economic systems over the last few decades, *perestroika* is far more likely to fail than to succeed, irrespective of any political upheaval.

This pessimistic forecast is based foremost on the observation that the Soviet policy of reorganizing the economy lacks both a clearly defined goal for the economic reform and sound concepts on the ways and means of achieving it. There is of course no confusion as to what *perestroika* should achieve! In the mid-term, the goal is to overcome the so-called stagnation phase, to speed up growth, step up productivity, raise the standard of living, etc. The long-term objective – after the failure of the “degenerate” Stalinist model of socialism – is the creation of the “true” socialist society. However, since the “capitalist” system is under no circumstances to be copied, and at the same time the new system is to be as efficient as the market economy, it is unclear exactly what the reformed system is supposed to look like and how it is to function. As a result, there are no clear plans for practical programmes and no schedules for their implementation; nor have the problems likely to arise in the course of the reform been identified.

This grave lack of conceptual planning in *perestroika* is reflected in all the statements made by the politicians and economists responsible for reform. A case in point is the paper delivered by Abel G. Aganbegyan, one of the intellectual originators of *perestroika*, at the 9th World Congress of the International Economic Association on 28th August this year in Athens: what kind of economic system the *perestroika* reformists are striving for and when it is to be fully operational are left virtually unanswered. It is said, on the one hand, that the Soviet Union is

entering a transitional period "from an administrative system of management to a mechanism emphasizing economic methods of management", that convertibility of the rouble is aimed for and that membership of GATT and the IMF is desired. On the other hand, though, the high priority allotted to economic planning in socialism is stressed and the term socialist market economy punctiliously avoided. As to the reform strategy, Aganbegyan draws a distinction between an evolutionary and a revolutionary path, evidently giving precedence to the former. The reforms he lists for the coming years are, however, on closer examination nothing but a collection of largely conventional, uncoordinated, interventionist measures, some of which have already been tried without notable success: more residential construction, restructuring of investments in favour of the consumer goods sector, lower defence spending, curtailing government deficits, higher minimum pensions, cuts in government contracts, improved management training, etc. Genuine reform initiatives are not in prospect in the near future; the reform of price formation and the price system, which had already been postponed once, is now not to be effected for some three years, and first steps towards the introduction of convertibility obviously not until even later.

Perestroika is stagnating even before it has properly begun. All that has happened is that the scope for private and entrepreneurial initiative has been slightly enlarged and a start made in dismantling the bureaucratic structures of the economy, but the latter has achieved only very modest success. The general economic conditions for business have remained more or less unaltered. Government contracts have replaced the previous planned targets and the absence of a price reform is blocking the implementation of hard budget restraints for enterprises, thus rendering market mechanisms ineffectual as a means of allocating resources.

Under the present disequilibrium between monetary demand and the supply of consumer goods, price decontrol would no doubt trigger a powerful inflationary upsurge. If this is to be averted, it will be difficult to avoid a currency reform. Real reform policy can only begin afterwards: the creation of a money and credit system that allows the expansion of the money supply to be kept in line with the expansion of production, and the forging of instruments for stabilization policy, competition policy and above all social policy.

Were all this possible to achieve in a very short time, overhauling the crippled Soviet economy would still entail painful adjustment processes. In the course of the reform, the economic situation of large sections of the Soviet population would inevitably deteriorate over a longer period of time, but the mass of the people in the USSR are apparently not prepared to make any sacrifices. They want better living conditions now, and the leadership is well aware of this and therefore obviously believe that they cannot afford to demand sacrifices, particularly as they themselves have fostered the illusion that *perestroika* would bring about a kind of economic miracle and have neglected to promote acceptance for the market economy system amongst the Soviet citizens on a large enough scale.

The result is that the overwhelming mass of the Soviet population does not grasp how an efficient economy works. They distrust any private initiative; reward for effort and achievement is anathema to their levellist mentality. Individual entrepreneurial success is socially reviled, pay according to results only tolerated reluctantly within narrow margins. They are by no means averse to Western prosperity, but they do not want the concomitant social insecurity and differentiation nor the kind of dynamic society it necessarily entails. This would not change even if Gorbachev were overthrown, because *perestroika* will not be able to "deliver the goods" in the short term.

Even were he to succeed Gorbachev, Jelzin would be doomed to failure unless the general population of the Soviet Union realized that Western prosperity can only be achieved with the Western system of economy, i.e. with the same merciless system which forces businesses on pain of extinction to behave economically and innovatively, which continually sets workers free as part of structural adjustment to growth, which continually "morally wears out" the means of production and individual qualification, entrusts the allocation of resources to the market and does not endeavour to achieve social goals counter to that market.

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