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Massive Western Aid for the USSR?

It came as no surprise that the world economic summit in Houston did not arrive at a definitive decision on a massive, joint financial aid programme for the Soviet Union. Though clothed in economic arguments, America's and Japan's rejection of Soviet requests in this regard was primarily politically motivated. Understandably, the Americans are not prepared to grant billions in loans to Moscow at least until the USSR makes deeper cuts in its military spending and stops providing Cuba, Afghanistan and Angola with military aid; and the Japanese are not ready to make economic concessions to the Soviet Union as long as it refuses to even talk about ceding the Kurile Islands to Japan. The Germans, in contrast, want to express their appreciation of Moscow's political cooperation in the matter of the unification of the two Germanies. That is why they argued in Houston for a favourable response to Gorbachev's request for aid and obtained approval for further bilateral aid to the Soviet Union.

The analysis of the Soviet economy commissioned by the economic summit to ascertain the usefulness of concerted financial support for the Soviet Union by the seven will add little to what is already known. The repeatedly demanded Marshall Plan for the USSR, loans to the value of tens of billions, might mitigate the acute crisis in the Soviet Union and hence postpone the final economic bankruptcy of the Kremlin – which could mean Gorbachev's political demise – for a certain time, but under the present conditions, it would not be able to make a lasting contribution to curing the ailing Soviet economy. On the contrary, today's problems would simply reappear in a worse form.

The, much overestimated, success of the Marshall Plan for Europe was not due to the volume of the aid provided, which was comparatively modest: Europe as a whole received some US\$ 13 billion, around US\$ 40-45 billion measured by today's purchasing power. The Federal Republic of Germany, whose famous economic miracle was supposed to be the fruit of the Marshall Plan, was allotted some 11 % of the total amount – in all just about 6% of its GNP of the year 1950 – spread over four years. This is in no way to detract from the material and psychological contribution this aid made to the German economic miracle. Far more important than the volume of aid, though, most of which incidentally was not repayable, was the existence of an economic environment in which this aid could be effective, namely a market economy with a sound currency. It was not for nothing that the European Recovery Programme (ERP) loans were tied to conditions, such as freezing credit for unprofitable enterprises and terminating the issue of fiduciary notes. Also, the post-war German economy had state-of-the-art technology and an impressive reservoir of entrepreneurially inclined individuals as well as a broad base of well qualified skilled workers, not to mention the hard working attitude of the population, who were prepared to accept the free-enterprise system with its social differences and were ready to make sacrifices.

All this is lacking in the Soviet Union. Not only is there no market economy, there is evidently an absence of resolve to introduce such a system. The goal of the reform policy remains the adoption of individual market economy components or institutions that are viewed as such in order to raise market efficiency without relinquishing state control over the economy and without accepting the unavoidable side-effects of a free-enterprise system, such as unemployment, inequities in distribution, social hardship, "unfair" prices, bankruptcies etc.

Since 1986, the incoherent reforms have engendered a hybrid economic system in which state control, which continues to function only in part, sets wrong parameters for the incipient islands of free enterprise and in which the chaotic co-existence of rudimentary administrative bureaucracy and market fragments, rent-seeking and speculation has obviously brought about an even worse misallocation of resources than that prevailing previously in the centrally planned economy. On top of this, instead of improving, the monetary and currency system has progressively degenerated. In this desolate situation, no amount of foreign exchange lending could make an effective contribution to the economic recovery of this huge empire.

As the communiqué issued by the world economic summit clearly conveyed, the seven heads of state and government assembled in Houston were well aware of this fact, which is why they are requiring "more radical reform" of Moscow. Nonetheless, they are making things too easy for themselves with the formula "first reforms, then aid"! What Gorbachev needs is help *for* reform and this help must go well beyond mere financial assistance. The Soviet Union cannot perform the Herculean task of ridding itself of its Stalinist economic system and introducing the market economy on its own, especially considering the leadership's own lack of genuine will to do so and its seeming inability to adequately perceive the magnitude of the challenge, compared to which that of cleansing the Augean stables appears to be child's play.

After the study on the Soviet economy commissioned by the G7 has been completed, therefore, a new world economic summit should be convened with the participation of the Soviet Union. The goal of these seven plus one talks should be to negotiate a treaty with the Soviet Union along the lines of the state treaty between the two Germanies, in which the Soviet Union should commit itself to taking clearly specified, practical steps towards introducing a market economy within a set timetable and G7 should pledge extensive help for the transition process. A comprehensive programme to cushion the social impacts and safeguard the economy against adverse external influences during the period of transition in the USSR should be contractually agreed on. Beyond extremely generous aid and loans, a programme of this sort would have to comprise a whole bundle of measures in the sphere of so-called technical assistance, from the education of broad sections of the population on the way a social market economy operates, to training assistance at all levels of the hierarchy, to help in setting up a two-tier banking system, to schooling and advising economic policymakers. In addition, the Soviet Union should join GATT, the IMF and the World Bank as soon as possible so as to become attractive for Western direct investment after the prompt implementation of a monetary reform and the introduction of a fully convertible rouble.

The precondition for all this is of course that the Soviet Union dispense outright with all its ideological ballast and opt once and for all for the market economy. Until it does, its moribund economy will continue to deteriorate and Western aid will simply prolong its slow death. Deployed for the purpose of creating a social buffer and securing the external economy during a swift transition of the Soviet Union to a market system, combined with its full integration into the world economy, though, even aid running to hundreds of billions, which need not even be fully repayable, would not be excessive. To avert a further economic – and in its repercussions, political – disintegration of the Soviet Union is a momentous challenge, which is worth taking up. Billions disbursed in this way would make a greater contribution to securing peace than twice or even three times as much spent on military purposes and – with a view to the huge potential Soviet market – they would in the long run be economically profitable for the West, too.

Dieter Lösch