

Soviets need a unified Free Economy

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The swiftness of the collapse of Soviet Communism did not allow democratic forces time to study various routes to economic reform or develop exercise to carry them out. Virtually all leading politicians in the Soviets republics have their own vision of the system to be built – a tower of Babel of economic reform.

A year ago when I was a part of a team that drafted a 500-day plan for rapid economic reform, we reckoned on the continued existence of a central government to carry out changes in Soviet institutions and in areas like taxation and private property rights. The government no longer exists, and the challenge now is for the republics to move together toward reform.

In what direction should they go? Today, three competing programs are being discussed in Moscow. Two would leave economic changes in the hands of individual republics, thereby slowing reform. But the third, advocated by the economist Grigory Yavlinsky and offered as a formal agreement yesterday, recommends the preservation of a strong economic union including an integrated banking system and single currency. Mr. Yavlinsky and Yevgeny Yasin, who helped to craft the plan, are correct in warning of economic collapse if their four-to-six week timetables is ignored.

The former East block particularly Hungary, provides a model. In just a few years, Hungary has created a legal framework for a market, loosened the government control of prices and privatized its retail trade and service industry. Whatever arrangement is struck among the Soviet republics, several reforms, carried out simultaneously, are essentials.

*Stabilization of internal trade.* Concerned about food shortages this winter, republics and regional authorities have edged toward protectionist policies restricting the export of goods to other parts of the country. These leaders' new independence gives a freer hand to do this.

But the republics are interdependent: Russia, for example, shops nearly 20 percent of its goods to other republics. Moreover, the Baltic states export about half of their total output to Soviet republics. Politicians tempted to put up trade barriers to protect local living standards will only hinder industrial production.

*Currency and banking.* A relatively strong and stable currency is a prerequisite for starting a market, but the ruble is next to worthless and there is now no equivalent of the U.S. federal Reserve to revive it. Indeed, a dozen uncoordinated central banks – all particularly dependent on their home governments – could emerge in the republics. These banks could use the same Soviet currency in the near future but have the different policies on prices, wages and budgets – a monetarist’s nightmare. The republic must quickly coordinate monetary policy through a central authority in which the various republics are effectively represented.

*Privatization.* Everyone agrees this is the linchpin of the reform, but the new republic leaders are puzzled about how to privatize the large heavy industries. Who’s going to invest in nuclear submarine plant?

Then there’s a fear factor. Western economists are urging large-scale privatization in all sectors of economy, but the new leadership fears complete collapse if it turns over the means of production to untested entrepreneurs. It has no choice, however. I’ve had countless conversations with bureaucrats who want to privatize their companies but keep their control over the property. The problem is that these bureaucrats may also retain their command-economy style of decision-making.

The West could not rescue the Soviet Union even if it wanted to. The most immediate step should be to prepare for emergency help this winter. Regions like northern Russia and Siberia, which grow little food, would be badly affected by an interrupted food supply. Western investors would be smart to create an investment pool for food storage and processing and its related equipment. Encouraging privatization of these industries would eventually reduce the need for emergency aid.

No leader has yet had the courage to tell the peoples of the Soviet Union of the obvious: that the transition to a market economy will entail much hardship. Western

living standards will not be achieved overnight. The creation of a middle class that can stabilize social and political life will take time. After a lifetime's worth of a central controlled economy, there are no alternatives to hard work, modesty and patience.