MOSCOW
Blues

Gorbachev may have won the political debate, but the Soviet economy continues to lurch from crisis to crisis. Alec Nove is the foremost western expert on the problems of the socialist economies. His Economics of Feasible Socialism predicted much of the present malaise. Here he is interviewed by the ABC's Tom Morton.

Alec Nove is emeritus professor of economics at the University of Glasgow. He is the author of numerous books on the socialist countries, including The Soviet Economic System, Was Stalin Really Necessary?, The Economic History of the USSR and Political Economy of Soviet Socialism. His Economics of Feasible Socialism, first published in 1983, became the definitive critique of state-planned socialism, and was widely read by reformers in Eastern Europe. Many of its then contentious points are now the commonsense of the new governments in the Soviet bloc. He was interviewed by Tom Morton in Glasgow.

After three years of perestroika, the Soviet economy is actually in a worse state than it was at the outset. Growth is down, consumer goods are even more difficult to find, and there's a record budget deficit. How have things come to this pass?

There are several elements to this. Firstly, the economy was in crisis before the whole reform process began - which was of course why it began. Secondly, the attempt to reform it, which necessarily meant changing the habits of work and affecting the interests of millions of people in various groups of society from top to bottom, is an extremely difficult process. And while they're trying to do it the old system is in process of disintegration.

On top of that, there is tremendous opposition to the reforms - and not only opposition from bureaucrats, as there always is with bureaucrats. Many ordinary people are worried by it, too. They don't want price rises, and they want to retain job security. The old system didn't pay them well but at least it paid them regularly, and it didn't seem to matter very much if they worked hard or not. Finally, among those who are anxious to carry out the reform there's a whole wide range of opinions as to what the reform should actually be. They're still arguing about it.

Contributing to the crisis is the woefully unsound financial policy of the past, which involved running a gigantic budget deficit the existence of which they simply denied. That was only admitted less than a year ago. This has led to an increasing disparity between supply and demand. This, in turn, has resulted in hoarding, thus making the shortages worse and, finally and disastrously, it has meant a collapse of confidence in the rouble.

Now people are losing patience, the shops are emptier than they were, and the strikes and violence in various national republics add to the confusion. The result is, I
think, that everybody from Gorbachev down would agree that the present crisis is worsening.

One irony is that, while the reforms have given people greater freedom, what they have chosen to do is barter. As one Soviet economist put it, the rouble has ceased to be a currency: it has become a lottery ticket. And lack of confidence in the currency means that you try to barter - barter deals with other firms in the Soviet Union and barter deals abroad, thereby disrupting supply links. On top of that came the coal strikes of last year, cutbacks in nuclear power generation after Chernobyl, and difficulties with maintaining oil output which could all combine to threaten an energy crisis. There's also trouble on the railways, and, in the Soviet Union, the railways are an absolutely vital link in the home power supply system. Gorbachev is visibly alarmed and said so when he proposed a temporary ban on strikes late last year.

How appropriate are the reform measures that Gorbachev has taken so far?

It's very difficult to be realistic about this because some of the measures being taken are perfectly desirable in their own right and would work if the situation were not as critical as it is. Suppose you give greater powers to the Estonians or the Latvians to determine their own economic policy. They're sensible people and in normal circumstances this would be an excellent measure. But with the rouble in the state it's in they'll try to do barter deals with the Swedes, the Finns, anybody who can provide them with the kind of goods they want.

But the key lies in the budget. In the short run they must balance the budget and stop printing money. They've got a whole program of economy measures, some of them extremely sensible. A cutback in defence expenditure goes hand-in-hand with the shift of the quite modern and well-equipped defence industries into the production of consumer goods, and also to the production of much-needed equipment for agriculture. They've revised the rather foolish policy of cutting back the output of vodka, which only served to reduce budget revenue and caused people to turn to various forms of illegal hooch. They're buying more consumer goods in the West, despite the fact that it causes them to get further into debt. And there's a number of measures to increase revenue and to cut back expenditure on gigantic and ambitious investment projects. All the things they're doing to try to remedy the situation, in other words, are perfectly sensible as far as they go. The real question is whether the situation has not already deteriorated so far that these measures, desirable though they are, will prove insufficient.

For years they had a huge budget deficit of about 20-25 billion roubles (or about $A50 billion) and lied about it. Then, under Gorbachev, instead of turning to sound finance they only made things worse. Sometimes it wasn't their fault: for example, the Chernobyl disaster or the Armenian earthquake. Again, teachers and doctors were miserably underpaid, the health service was in a mess, education had been underfunded, the housing crisis had grown very serious, and all kinds of public services and welfare were in a mess. So there were additional expendi-

"How did they manage to do this?" I asked various Soviet economists. The answer I got was that they're not accustomed to take finance seriously. They learned the hard way that this is a tragic mistake. Under the old system, money did not matter all that much. Enterprises were ordered to produce and to deliver, the customers were designated and if the prices happened to be those which caused a loss, the state simply subsidised the enterprise. Now they urgently need a complete revision of their price system. This is difficult because it means increasing the prices of a number of basic foodstuffs, for example, which are now subsidised. This means revising the whole financial system under which enterprises work. They've shied away from it and from the plan for 1990 it is quite evident that they're putting the price reform off until 1991.
But, of course, much deeper than this, the entire system is not responsive to consumer demand. In the past they didn’t bother too much about the quality of goods because priority was given to heavy industry. They now say publicly that under Brezhnev the attempt to catch up with the US in the defence field took an awful lot of resources away from the consumer. Many of the consumer goods industries are woefully under-equipped, and the equipment is obsolete. The entire distribution network has been underfunded, and the people in it are underpaid, which explains a lot of the corrosion which grew dramatically in this area.

How successful have been the kinds of micro-economic reforms which Gorbachev introduced - the development of small-scale co-operatives and so on?

Here again there is an extremely contradictory picture. On the one hand the reform measures relating to co-operatives read extremely well. The decree on co-operatives really is intended to encourage the creation of co-operatives which will genuinely compete with each other and with the state in the provision of all kinds of services and goods which have been sadly neglected. All this is excellent but, at a time of acute shortage, it has produced a sense of revulsion in the general public. People have been accused of speculation and profiteering, and some restrictive measures have been taken against co-operatives - not just because a number of bureaucrats don’t like them, but also because of indignant pressure from below.

In agriculture they are trying to encourage family leaseholds: a family can lease some land, acquire some animals and conduct operations as a family farm. But again this can be very unpopular. One Soviet cartoon showed a number of peasants singing and dancing. A passer-by asks why they are so happy. Reply: the leaseholder’s pig has died. Under the present conditions of shortage anybody allowed freely to sell something can make an awful lot of money and neighbours understandably become jealous.

But the situation varies greatly in different parts of the country. For example, in the Baltic republics rural traditions are quite different. So they are in Georgia or Armenia. So they may well be in Central Asia where the old peasant spirit hasn’t been eliminated. In Russia itself, the tragedy is one of what I call depeasantisation. The peasants, as a social group with love for the land, have been eliminated by 50 or 60 years of anti-peasant policies. Now Moscow wants to revive them but they’re using artificial respiration on what, in many areas, has become a corpse.

You said before you thought the kinds of measures that have been introduced so far wouldn’t go far enough to avert the crisis. Yet they’ve now put forward proposals that would allow for developing market relations, for denationalisation, and for some forms of private property. Do you think this new package goes far enough, or do they need to go still further?

The new measures are perfectly sound, but the pressing need is still for some sort of price reform. They need a proper currency. You can’t operate a market of any sort properly unless you have a currency on which you can rely. This applies also, for example, to the government’s measures to balance the budget. They are floating various kinds of bonds and loans, but the bonds they are floating have a 5% rate of interest while the last estimate I heard of the real inflation rate is 9%.

If you want the market to operate you must have prices which have some bearing on supply and demand, and a scarcity of money is essential so that what is most urgently wanted by people is profitable to produce. Prices now appear based on costs - usually on costs of about ten years ago, so there’s great confusion in the price system. The vast majority of prices ought, as Soviet reformers are now saying, to be the subject of free negotiation between customer and supplier. The subsidy bill to industry via phoney prices I would estimate at about 10% of the entire gross national product, and about 20% of the entire budget expenditure. It’s gigantic and it’s growing. The official price of meat has remained the same since 1962: since then people’s incomes have trebled. So of course there’s a shortage of meat. You can buy meat on the free market, but at three or four times the official price. To take another example, at the moment the cheapest bread is also the cheapest pig food. This is ridiculous. These prices have to be increased. Gorbachev spoke of it as necessary himself two years ago, but he then shied away from it because of fears of the political consequences.

That seems to be a major dilemma for all the countries in the Eastern Bloc which are trying to reform their economies at the moment. Poland shied away from price reform and Hungary seems to be doing so too. Will Gorbachev be able to face the problem?

My own feeling - which is shared by one or two of my Soviet colleagues - is that the way to tackle this matter is to have a two-tier price system: to have open rationing alongside the free market. Rationalise the rationing, so to speak, and have the minimum ration of necessities at fixed prices, and then put the rest on to free pricing. This would mean that pensioners and poorly paid people would still be able to get meat, milk and so on. I’m aware that this sort of compromise doesn’t look very economically sound. The counter argument I would give is that every other option seems to me to be worse and more dangerous.
People talk about inflation as the central problem. But it's very interesting to compare different kinds of inflation. In Hungary, for example, you can still get in the shops pretty well all you want to buy; the shops are full at prices which are rising. In Yugoslavia, the prices are rising at the ridiculous rate of 1,000% a year at the moment. But even at these prices, which rise every day, the shops are well supplied with goods. Soviet inflation is accompanied by a partially effective price control and so you have imbalances between demand and supply, both for specific items and now across the board. It's very difficult to get even quite simple things in the shops today.

So, basically people have plenty of money but they can't buy anything with it?

No, that's not quite true. There's too much money in the economy as a whole: too many managers have too much money in their bank accounts, and too many citizens have money they can't spend in their savings accounts. But millions and millions of people are woefully underpaid. Teachers when they're lucky get paid about 150 roubles a month. That's three hundred Australian dollars. There's too much money but it's extremely unevenly distributed between different groups of people. And that has political consequences now that there's so much freedom in the Soviet Union.

That is another very important point. Democratisation has gone much further in the Soviet Union than many people in the West realise. We're accustomed to think of the Soviet government as capable of anything because it's a totalitarian state. This is not the case. The government must now take public opinion into account. The consequences of taking genuinely unpopular measures can be drastic, and the problem is that they're in very great difficulties and there are no measures which can remedy the situation which are not, in fact, painful and therefore unpopular.

Your book, The Economics of Feasible Socialism, was published in 1983, before the reform process in the Soviet Union had really begun. Since then a lot of what you suggested there has actually happened. Do you feel vindicated by this? And if you were writing the book now you would write it differently?

In certain respects of course I feel vindicated. In my first chapter, I argued that when Marx wrote of socialism he was either misleading or irrelevant because in these matters he was a utopian. This is now almost the consensus view in the USSR. When I say this to intelligent Soviet colleagues nowadays, they just nod their heads. This is not because they've read my book: most of them haven't. It's because they've come to this conclusion themselves. And perhaps some had come to this conclusion before but were not able to express themselves freely because Marx, like Lenin, used to be holy writ. Now in the Soviet Union itself there are interesting articles being published discussing what part of the ideas of Marx and Engels about socialist economies have been proved to be wrong. I also had a chapter on the lessons to be drawn from the Soviet experience. I wouldn't alter it at all because the Soviet experience that I was writing about is still that from which they are trying to escape.

But when it comes to remedies I would have to take into account a number of experiences since the book was published - not only the recent experiences in the Soviet Union, but also those of Hungary where the reforms have been around for a long time and have not worked as well as was expected. There are other new problems: the further experiences of the disintegration of Yugoslavia; and the dif-

News of the Soviet Communist Party's dramatic new turn is announced to the waiting Western press.
difficulties in China, which have been substantial both economically and more recently in the political field.

Perhaps theoretically the most important question which has now arisen is this: can a market system coexist with the dominance of state property? In other words, is it necessary for the state, while retaining certain sectors, of course, to get out of owning the bulk of manufacturing and trade and distribution. A number of Soviet critics are saying that market-type reforms are inherently incompatible with state ownership. Then comes the question: what are the alternatives? Are co-operatives an alternative? Because the Yugoslav system of so-called workers’ self-management doesn’t work either. Co-operative property, employee buy-outs, employees owning shares in the property - all of these issues are now in the arena of discussion. Were I writing my book today I would pay much more attention to these issues than I did.

Linked with these is a question of the need for a capital market. I thought that people could borrow the money they wanted from the state banking system but experience in Hungary, and now in the Soviet Union, suggests that something more like a capital and financial market is also needed.

Finally, there is the question of the Western social democracies. One of the Soviet critics, speaking at a Supreme Soviet session televised to about 100 million people, actually said something like this: ‘Here we’ve been all these years talking about socialism. Meanwhile in a number of countries such as Sweden and Holland they have not been talking about socialism, but the workers in these countries have four or five times the wages of our workers, their social security is much better, and they live much better. True, these countries do not describe themselves as socialist, but they’re none the worse for that.’

So you have quite a school of Soviet and, indeed, Polish and Hungarian people who are saying that the whole concept of socialism and state ownership is wrong. And for some of them, the ideal is Sweden. In my book I said I do not think Sweden is a socialist republic. Maybe what some of these people are talking about is not a socialist but a social democratic ideal - one in which you do have capitalists and a powerful private sector, but you also have a good welfare state based upon high taxes and a strong and rather efficient state sector too.

Let’s look at what seems to be the fundamental contradiction in trying to reform the socialist economies in the way Gorbachev’s trying to do in the Soviet Union: introducing the market into a planned economy. How do you reconcile the two?

There are some who say the two cannot be reconciled. I don’t agree. You can’t say that it doesn’t work. Take, for example Hungarian wholesale and retail distribution. It’s run by a mixture of state, co-operative and private and leasehold operators who do a pretty good job. There is competition and there are realistic prices. Hungarian agriculture, which is largely co-operative, or a mixture of co-operative and private, works reasonably well.

But one must distinguish between two things when one is talking about the present situation in the Soviet Union.

One is the question of how a system would operate once it is in place. The other is the immediate difficulty of getting there or, indeed, anywhere. Somebody produced the rather nice saying that you cannot jump across the precipice in two jumps. Obviously, it is essential to have some notion of the kind of system you would like to have. But right now the most immediate problem for the Soviet Union is how to get anywhere, how to prevent the crisis which we all recognise exists today from turning into catastrophe.

What about the kinds of economic and political inequalities that are going to result from these sorts of changes? It seems that the corollary of market reforms is that there will be people who will become poorer and people who will become richer. How does a notion of socialism deal with that?

It’s certainly an important question. The first point to make is that under the traditional stalinist system there were great inequalities. But they were based very largely on rank. If you were sufficiently senior you had the necessary privileges and got things which others didn’t get. There are consequences from the replacement of privilege based on rank to privilege based on money. Those who are successful in the market make money. Those who are unsuccessful need some kind of safety net, but are going to be poorer. The question of the degree of inequality is not just a function of economic policy, but also of the level of culture in the country concerned and the level of development. Inequality in Sweden is far, far less than it is in Britain or the Soviet Union because the lowest levels of Swedish society are in fact literate people and even the basic unskilled jobs are reasonably well-paid. I had Sweden in mind when I thought of a 3:1 ratio as the kind of thing that might be acceptable in a highly developed country.

The essential point about pay is this: a labour market in which people are attracted to jobs because they are attracted by the conditions under which they work is the only possible alternative to the direction of labour. And the direction of labour is, of course, socially and politically disastrous. Now, a labor market necessarily involves inequality. That doesn’t mean that you must have the gigantic inequalities of property ownership or, indeed, of some of the almost obscenely high incomes that you get today in the West when somebody ‘earns’ a million pounds a year largely by reason of their position in a merchant bank rather than their marginal productivity - whatever that could possibly be.

That raises a basic question. In the last ten years we’ve seen in many of the most developed countries a major redistribution of wealth upwards; an expansion in the wages of the most highly paid; and a contraction in wealth and people who will become richer. How does a notion of socialism deal with that?

Of course, in a number of countries - Britain is an obvious example but Britain is not alone - there’s been a tendency to demolish part of the welfare state and to
increase inequalities. But this is not inevitable. It hasn’t happened in the Scandanavian countries to my knowledge. It’s been taken further in Britain than in West Germany. So I see no reason why the sort of reforms that I have in mind for the East European countries should drive them to extremes.

A Hungarian sociologist argued that, if you switched to the market, the amount of inequality may actually become less or, at any rate, become visible. A simple example: supposing there are very few good hospitals and good hotels and you never get into either unless you are a senior official and you have pull. Now obviously there are still, after the reforms, not enough good hotels, and some hospitals would be better than others, and those with money would be the most likely to be able to get into them. There hasn’t been a growth in inequality as such, but it has become more visible and more market and money related, rather than rank related. My own belief, and this is shared by the reformers that I know in the Soviet Union, is that this is a healthier situation.

What about socialism? Shouldn’t we simply dispose of the notion now?

That is certainly the private view of a number of my Soviet colleagues. They identify socialism with the mess that they are now in, and with the excesses and horrors of the past, about which they are now very frank. They would prefer some other word. I’m not sure myself. In my country we have a prime minister who says there is no such thing as society and is widely reported as crossing out the word ‘society’ from government documents. All that matters in her world is the pursuit of private profit by private individuals, plus charity. That’s enough at least to make me feel there is still something in the socialist ideal.

But this is a matter for argument. Marxist socialism, I think, is irrelevant and wrong. One of my motives in writing The Economics of Feasible Socialism was to say that the kind of socialism envisaged by Marx and the so-called socialism that they established in the Soviet Union are not the same, but both are unacceptable. So, either one drops the entire notion or one looks for some other model. And I tried to sketch out a possible alternative model. I then went on to say, in the introduction to the second edition, that people have a perfect right not to want something like this: that the only socialism that is tolerable is a democratic socialism. If the citizens prefer the existing situation then I’m perfectly happy to spend my remaining years listening to Mozart operas and Schubert quartets. It’s their business.

I still think that the future of socialism as a concept depends on the breakdown of the existing economic system. Unless things go seriously wrong in the West I don’t think democratic socialism has a hope of really getting anywhere in the near future. Oddly enough, that is one of Marx’s correct thoughts. He once said no system ever passes from the scene unless its potential is exhausted. He thought, of course, that the potential of capitalism was already exhausted in his time. How wrong he was. But our own economies are not in a totally healthy condition. Let us see what happens to our own societies.

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