Eye on Washington by Nicholas F. Benton

Soviet economist begs for bailout

Abel Aganbegyan's rosy expectations are belied by the actual catastrophic state of the Soviet economy.

Abel Aganbegyan, chief economic adviser to Soviet President Mikhail Gorbachov, was in town Feb. 15 to convince the Bush administration that it should lift all trade sanctions against the Soviets, now that they have supposedly lived up to their promise to withdraw from Afghanistan.

Aganbegyan spoke to Johns Hopkins University's School of Advanced International Studies (SAIS) on the importance of Western capital investment and joint ventures in the Soviet Union for achieving the goals of Gorbachov's *perestroika*.

Aganbegyan admitted that all earlier economic planning efforts in his country were "seriously deformed." Now, he said, the Soviets have seen the error of their ways and are moving with break-neck speed to implement "radical reforms." These include the opening up of the Soviet Union on April 1 to joint ventures with Western partners, with no strings attached. That is, there is no longer a requirement of 51% Soviet control of any venture, or for any operations in the Soviet Union to be run by Soviet citizens.

Also, as of April 1, the Soviets will open up bank accounts for foreign hard currency, establishing the conditions for transition to a convertible ruble.

In March, Aganbegyan said, the Soviet Communist Party will hold a Central Committee plenum focusing on agricultural issues. Among the new reforms, he said, will be provisions to permit giant agri-business enterprises to run production in certain areas of the country.

"If all goes well, within three to four years, we will have a break-through with tangible improvements in the lives of our people," he predicted.

But this optimism was tempered with the admission of certain deep problems in the economy that will result in severe dislocations. These include a 100 billion ruble budget deficit, and the fact that over 70% of Soviet industry is currently unprofitable. He said the budget deficit includes 36 billion rubles of "the most dangerous part"—bank loans that need to be repaid. "We are very afraid of inflation," he conceded. "We are also very afraid of unemployment." Both would heighten political dissension.

The Soviet plan, he said, is to shut down unprofitable industries in a gradual fashion, using "the Swedish method" of relocating workers into new jobs.

He said that the budget deficit would be handled by gradually lifting the subsidies from certain kinds of economic activity, and allowing prices to float up toward world market levels, thereby increasing revenues coming into the government. He did not say what effect this price increase would have on the domestic population, however.

He said that the Soviets are looking toward the model of the People's Republic of China, and are also studying other economic models, even Reaganomics, he said, in order to become "a part of the world division of labor." This includes joining such global institutions as the International Monetary Fund and the World Bank at the appropriate time, he said.

But while Aganbegyan was willing to admit that the need for reform was great in his country, and that it was moving too slowly to date, his optimism about its ultimate success was not shared by a spokesman from the U.S. State Department's Arms Control and Disarmament Agency (ACDA), who spoke to the Atlantic Council a few blocks away on Feb. 13.

Lt. Col. David Tanks of ACDA spent over two hours detailing the horror story that is the current Soviet economy. He blamed most of the crisis on the Soviets' "vertical" structure of political organization, which he said stifles creativity and locks in a static, self-perpetuating bureaucracy.

Under this kind of system, he noted, "lack of feedback blinds the leadership," because those down the chain of command become accustomed to falsifying statistics and covering up bad news.

Of course, the preoccupation of the Soviets with military buildup is also a major contributor to their economic debacle, he added, noting that the statistic showing 17% of the Soviet GNP going for the military does not tell the whole story, since it is the "cream" of that GNP output which is siphoned off.

On any given day, for example, over 700,000 Soviet workers are diverted from their regular jobs to undertake special tasks under the burden to meet military quotas.

Domestically, agricultural distribution is so poor that 25-40% of all food is spoiled before it can get to the stores. There is only one retail outlet for every 23,000 people, even in the capital of Moscow.

Two-thirds of all rural housing and 35% of all secondary schools, everywhere, lack indoor plumbing. Only one-third of the most basic consumer demands of the country are being met, he reported.