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Letter to the PM from Dr Anatoliy Fedoseyev, a Soviet defector, about the economy.

SECURITY

January 1986

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SECRET

10 DOWNING STREET

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

The Prime Minister has signed the letter in the envelope enclosed to Dr Fedoseyev and I should be grateful if you could arrange for it to be delivered.

N.L. Wicks

17 February 1986

SECRET

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10 DOWNING STREET

THE PRIME MINISTER

17 February 1986

Dear Dr. Fedoseyev,

Thank you very much for the letter which you sent me on 22 January.

I have read it with great interest. It has many fascinating insights. I do not agree with everything you say, but I do accept your fundamental thesis about the need to free and increase the benevolent force of millions of owner-entrepreneurs. It is their competition and enterprise which will generate the new wealth and the new jobs.

One of the main tasks of the Conservative Government during the last six and a half years has been to introduce policies which will give practical effect to this objective of encouraging small enterprise and giving more people a bigger stake in ownership. I could give you a very long list. But just let me mention:

The tax reliefs introduced in the Finance Act 1980 which made it easier for two or more trade businesses grouped together to "demerge" and pursue their own separate ways under independent management. This scheme has worked well with, so far, 604 successful applications.

In five out of the last six Finance Acts, the Government has taken steps to encourage employee share schemes. The number of all-employee schemes has grown from less than 30 in 1979 to over 1000, benefitting around one million employees and involving shares with an initial

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value of £1 million.

The Government's privatisation programme has contibuted substantially to the widening of share ownership. Over 80 per cent of the employees in the companies involved have taken up shares in privatised companies.

The number of owner-occupied dwellings has increased by over two million since 1979 raising the percentage of owner-occupied dwellings from 55 per cent to 62 per cent. The Government's main contribution here has been the sale of over 900,000 public sector houses since 1979, 92 per cent of which have been sold to tenants.

The Business Expansion and Loan Guarantee Schemes have provided important help for smaller companies.

There is legislation now before the House of Commons giving everyone a right to a personal pension. These are individual pensions - separate from employers' schemes - where the person builds up a fund which he owns himself.

Each of these measures is helping your objective of tapping the creative potential of the millions of our fellow citizens. I recognise that there is still much more to do to establish the spirit of owner-enterprise which you advocate. But I hope that you will agree that the Conservative Government is tackling this task.

Yours sincerely

Margaret Thatcher

Dr. Anatoliy Fedoseyev

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MR WICKS

I attach a copy of a letter which I have received [redacted] from Dr Fedoseyev to the Prime Minister.

2. It would undoubtedly be very good for Dr Fedoseyev's morale if he could receive a reply signed by the Prime Minister. I attach a draft for such a reply, which could easily be turned in to a Private Secretary reply if preferred.

3. If you will let me have whatever reply is to be sent, I will forward it [redacted] for onward transmission to Dr Fedoseyev [redacted]

RTA

ROBERT ARMSTRONG

10 February 1986

Prime Minister

Dr Fedoseyev's letter is a fascinating mixture of Marxist doctrine (struggle between classes) and the economics of individualism. A draft letter is below. Dr F has some good phrases

~~I think we should answer a little more fully but~~

N.L.W.
14.2

DRAFT LETTER TO DR ANATOLIY FEDOSEYEV

Thank you very much for the letter which you sent me on 22 January, and which I have read with very great interest.

You will know that there is much in your analysis with which I would agree - notably the importance for a healthy economy and society of the greatest possible degree of private ownership and competition, and of encouraging small and medium business activity. At the same time, of course, our society must look after those who, for whatever reason - for instance, sickness or old age - are not able to support themselves.

Thank you again for taking the trouble of writing to me so fully and with such deep consideration.

Dr A Fedoseyev
PO Box 373
London
EC1 PJ

22 January 1986

Dear Prime Minister,

I dare to request your attention because findings resulting from my studies of economics and social conditions all over the world during the past twenty years, happen to be unconventional and, I think, very important for this country. I have come to the conclusion that inflation, unemployment, the rise of poverty, the bad export situation, social division, intensive "class" struggle, and even the shortage of "government" money have a common cause and are inseparable. The following is an explanation.

Any goods and services are created and produced in any country by the working people: engineers, scientists, technicians, labourers, artists, craftsmen and so on. The whole spiritual and material culture of any country is created by them. Nothing is dropped from the sky. Nothing is created by the government itself. The working people are the source of everything and they are responsible for good and bad in any country. The question is why are the working people doing so badly?

The great diversity of the working people's personal motives for obligatory work (without which no country can exist) can finally be reduced to the universal wish: higher pay, less work (obligatory) in better working conditions. If unopposed, this wish means: higher prices (inflation), more bankruptcies, fewer goods and services per capita (lower living standards and more poverty), bad competition with foreign countries, more social division between "haves" and "have-nots", more vicious fighting for every piece of common "pie", stronger and bigger unions of people and other giants intended to fight each other (more vicious "class" struggle). The country feels a great shortage of money (actually shortage (not an excess) of a good and productive labour) and simultaneously feels a great surge of very urgent needs.

Clearly, unopposed interests of working people lead to the destruction of the well-being of working people themselves and to the destruction of their country.

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Evidently, working people must be opposed, for their own sake, by some other powerful force acting in the opposite direction: to squeeze out of the working people more and better labour in not so luxurious conditions for less pay. Productive balance between those forces would lead to material and spiritual (they go hand in hand) prosperity for the working people themselves and their country. Such a balance would eliminate all those "bads" which were mentioned above.

WHAT THIS MIRACULOUS FORCE CAN BE?

1. The most powerful in the world and in history, the dictatorial governments of the USSR or China, North Korea, Vietnam or other socialist countries, fortified by extremely powerful KGBs and armies, are incapable of fulfilling the task. These countries stay in poverty because their working people do not work properly. Please, take note: in those countries there are no capitalists - everyone, including members of the Politburo, is a hired working person.

2. Elected governments of the West, as a rule, are also incapable of fulfilling this task. They depend on votes which makes the situation even worse. They tend to comply with the interests of the working people who are the majority of the electorate.

3. Can they be managers of the state property - ie can they be managers of the state enterprises in the West? No, they are also hired working people. They manage not their own property and spend not their own money. They depend on the goodwill of their subordinate working people. They use state funds to bribe their working people to create that goodwill. Like their colleagues in socialist countries they cannot exert proper opposition to working people.

4. Managers of public (shareholders') property - managers of corporations - cannot do the job either. They are also hired working people. They also manage not their own property and spend not their own money. According to the American Express Company's study in Britain, they frivolously spent in 1984, £17.4 billion for their travel, hotels, entertainment, besides extremely generous perks which they arranged for themselves. At the same time, they paid corporation tax of only £8.4 billion. Compare their spending with Britain's defence budget of £18 billion. Pleasures of corporation managers have a first and foremost importance. It is shown that they cannot be also relied upon for good accounting of public money: the study says: "few senior executives have any idea of how much goes out on these expenses". ("The Times", 17 May, 1985.) They, for the same reason as all hired managers, cannot exert proper opposition to their subordinate working people.

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5. The only powerful enough force, which is capable of necessary opposition to the self-destructive interests of working people, is the force of millions of owners - entrepreneurs.* They manage their own property and spend their own money. Their selfish interest is to squeeze out of the working people (for the working people's own benefit) more and better work in moderately good working conditions for less pay.

Actually, they have only two options: to strongly oppose the working people or to go bankrupt.

If they have strong competition between themselves which strongly moderates their own selfishness and greed, they lead working people and country to the real material and spiritual prosperity and a solution to those "bads" indicated above.

Billions of mutual interactions and mutually advantageous compromises between millions upon millions of working people and millions upon millions of owners-entrepreneurs is the only way to prosperity and social balance and stability. This is the only way to the universal spirit of co-operation and team work, instead of the present universal spirit of fight and "class" struggle.

Giant public and state coporations, giant trade unions are breeding grounds for giant unelected governments, unlawfully strongly competing with the elected one, for social imbalance, social instability, intensive "class" struggle and strife. Balance between the giants is absolutely impossible.

It is certainly time to restore the social balance and stability and prosperity, by freeing and increasing the benevolent force of millions of owners-entrepreneurs and suppressing or splitting those giants.

I sincerely believe that you, Mrs Thatcher, have a right balance between the necessity to get votes and the wish to do good for your country.

Some statements supporting the theory are below.

INFLATION

The price of any good or service consists of several items: costs of labour (including the labour of the management), taxes (including VAT, rates, tax on profit, tax on corporations and so on), the cost of materials, equipment depreciation, the cost of tools, energy, distribution and so on, and finally, some amount of profit.

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* Entrepreneurs who are also owners of the enterprise.

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The costs of labour, taxes, profit are the primary ingredients of the price. Other ingredients of price, in their turn, again consist of labours costs, tax, profit, costs of materials and so on. If we follow this line back to the beginning from yet unused natural resources, we would see that price consists finally of only three elements: sum of labour costs, sum of taxes, sum of profits and nothing else. Profit rarely exceeds, on average 10%. It means that inflation's culprits are labour costs, increased without proper increase in productivity and taxes.

So inflation is a product of social imbalance.

Demand and supply affects only the amount of profit (or loss) and is not usually very important as a factor of inflation, on a country-wide scale.

PROGRESSIVE TAXATION

Even very progressive taxation does not change differentials. When differentials are affected by taxation, strikes immediately occur and differentials are restored by force of the working people.

Even very progressive taxation does not decrease the contrast between poor and rich. The poor stay poor and the rich stay rich.

Progressive taxation, in this sense, is absolutely useless. However, it is very expensive to collect. It is a breeding ground for underground economy, for tax avoidance and for corruption. It certainly increases the number of bankruptcies. Progressive taxation is in general very detrimental to the country's economy. The only sense in progressive taxation seems to be to increase state revenue. Why "Seems"? For example, in 1974/75 Britain had 28,274,000 tax payers out of 56 million people. There were about 22 millions working people.

It means that the State Revenue Service did a good job and taxed every kind of income very thoroughly. 33,000 people with incomes of £20,000 per year and higher paid an average 66% tax on their total income - £1060 million. their total tax was approxiamtely 700 million. All others paid tax of £12,095 million on their income of £65,625 million (an average 18.7%). So tax on high income persons was only 5.8% of all tax revenue. At the same time average tax on all taxpayers was 18.4%. It means that a flat rate of 18.4% would be a complete equivalent of progressive taxation. Considering the price for the colletion of progressive taxes to be in the region of a billion, progressive taxation is not a substantial source of additonal revenue. For any person, only his after-tax income is important and the real picture of his life is determined by his after-tax income.

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To limit enormously excessive incomes (for example, from speculation in shares or property) it is better to tax 100% all excess over certain reasonable income.

Governments are always short of money. In a course of years they try to squeeze out of the population more and more taxes. Taxation becomes very extensive, very complicated and expensive to collect. Any government tends to tax rich people more and the poor people less. However, rich (like the poor) do not print money. They extract money to pay taxes from somewhere. So any tax - income tax, profit tax, legacy tax, rates, energy tax and so on - all taxes end up in prices of goods and services.

All taxes are paid not by the rich (or the poor) but by the consumer. So taxation of the rich is a myth. Taxes cannot do the redistribution of incomes. However they can suppress the will to work and the spirit of enterprise. They certainly can increase social imbalance. It is quite possible to have only two kinds of taxes: income tax and tax on certain goods and services. It is simpler, cheaper and more just. it can give the same revenue.

LAW OF SUPPLY AND DEMAND

The common way in the West (except in Switzerland) to decrease inflation is through the so-called law of supply and demand. Decrease in money available to public can, by that law, decrease the rise in prices of goods and services. It is done in an indirect way by making credit more expensive. Expensive credit creates some resistance of employers to employees demanding increased pay. Expensive credit increases the number of bankruptcies and decreases the number of new enterprises. This, in its turn, decreases the demand for labour, decreasing its costs and decreasing its part in inflation.

Rightly this policy is called a policy of austerity because it decreases the living standards of the population and especially the poor. However, increase of unemployment and poverty increases pressure for government spending. It demands to increase this or that tax or even to introduce new taxes or other means of extraction of money out of the population. This taxation side acts in the opposite direction and increase inflation. Expensive credit increases unemployment and decreases total production of goods and services in the country and also acts in opposite direction, decreasing supply and increasing inflation. Actually the policy strangles the country's economy and is inefficient because it acts in both ways: decreasing and increasing inflation.

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Inefficiency, in this sense, of expensive credit is seen also from the example of Switzerland. Switzerland has real interest rates almost three times less than Britain ("The Economist", 29 June, 1985). However, inflation there is very low and unemployment is also very low and poverty is almost nonexistent. Like drugs, the policy helps very moderately but creates very bad and strong side effects.

As in medicine, it is better to use a natural remedy, ie by freeing millions of owners-entrepreneurs from suffocation by taxation by hostile laws, by regulation of prices and wages, by too much imbalance in favour of working people and so on. Restrictions must be placed on giants and monopolies. Actualy the solution is not in austerity but in rising productivity. Indeed rising productivity is a much more efficient and persistent way to fight inflation. To raise productivity it is necessary to restore social balance.

UNEMPLOYMENT

High inflation destroys the country's economy. High unemployment destroys souls of people. Eliminate inflation and there will be no substantial after effects. However, eliminate unemployment and there will still be very lasting, terrible after effects on the psychology of people and on their behaviour. Unemployment corrupts, intensifies class struggles, weakens co-operation, increases crime and violence. It can destroy a nation.

There is a statement that high-technology and over-production will make unemployment permanent. It is an absolutely false statement. High technology is with us for centuries. It is very easy to check that unemployment does not depend on new technology but fully depends upon small and medium business activity. There is also no over-production. There is overpricing (low productivity) or production of useless, unwanted, things. Lower the price of goods and services enough (increase productivity enough) and all useful goods and services will be sold out.

The needs (material and spiritual) of any society are bottomless. They are changing in the kind but are always increasing in the scope. Unemployment is also a product of social imbalance. A socially balanced (as defined earlier) society has full employment as long as it stays balanced.

By the way, job sharing and early retirement are very dangerous practices leading to an unproductive, uncompetitive society with a great overloading of the working part of the population by its idle part. Instead there must be a partly subsidised movement of labour and partly subsidised private retraining.

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SYSTEMS OF THE COUNTRY'S MANAGEMENT

There are two fundamental systems of a country's management: system of full state management and system of automatic self-management. Socialism is, of course, full state management. In this case the whole country is actually state property. There is a single authority, a single structure and apparatus of management. Any kind of other authority and managaement should be nonexistent. In this case, the only possible way of management is, of course, full state planning with a goal to get right main economic balances, for example, balance between wages, prices and production.

Not only production and distribution are planned but actually all aspects of life are planned. The country is managed by a relatively restricted group of people. (Perfect organisation of perfect full state management (perfect socialism) means a perfectly dead society: complete suppression of creative capabilities of millions upon millions of individuals in population. It means extreme poverty, extreme oppression, extreme violence and crime.) The system of automatic self-management is based on prevailing private property and strongly competitive free market. Between these two extremes can be placed all country's management systems of all the world.

SYSTEM OF FULL STATE MANAGEMENT

This has the following important characteristics. There are no capitalists or owners-entrepreneurs. There are only working people. They, from the rank and file up to the top authority, of course, have the same universal interests of working people: higher pay and privileges, less work (obligatory) in better working conditions. So the system of full state management is a case of complete social imbalance which cannot be compensated by a force. Prices and wages are completely regulated and planned in advance. Quality and quantity of labour from working people are very low. Actually working people (including top authority) is robbing and bankrupting the country. Full state planning (years in advance) prevents millions of individuals in the population from making their own decisions and from realisation of their individual creative capabilities. Enormous creative potential of the population is not used. At the same time creative potential of managers (even if they are geniuses) cannot compensate enormous deficiency.

Full state management is very insensitive to changes in circumstances. The changes must be accumulated and reach a situation of a major disaster until there will be a constructive response. Such a long delay makes the overcoming of the disaster very difficult and even impossible. The network of millions of economic units and millions of mutual connections between them in a country's economy

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is incomprehensibly complicated to plan, especially bearing in mind unpredictability and lack of uniformity of human beings operating the network.

A group of mathematicians from Kiev calculated that to make the ideal plan for just Ukraine alone, all the population of the world must work 10 million years. This, of course, still does not take into account already mentioned human factors and conditions of nature, like, for example, weather. This inability to comprehend the whole country's economy leads to a concentration of managers' efforts on simpler, prestigious (and mostly useless - or even dangerous) projects like, for example, a project to turn back the flow of rivers or, of course, a creation of very powerful military machines. Full state management likes to build Egyptian pyramids.

AUTOMATIC SELF-MANAGEMENT

This system has the following characteristics. Social balance, social stability, spirit of co-operation and teamwork. Maximum realisation of enormous creative potential of population - resulting in a material and spiritual prosperity. With a strong enough competition, self-management system is very sensitive to changes in circumstances and readily adjusts without too much delay and fuss.

Participation of millions in the country's management (through private property and free, strongly competitive market) enormously increases the quantity of information which can be processed and speed up this processing. The risk of mistakes is minimal. Even mistakes that are made (being small and local) are hardly noticeable. Self-management acts like a computer with parallel processing which greatly increases the computer's power and speed. However, computers cannot have millions of parallel processors which self-management systems have. There are no pyramids but much more useful projects.

Unfortunately, Britain's management system is nearer to the full state management. Actually there is no competitive-enough free market. There are many monopolies and giants. Really private property is not prevailing. Creative potential of millions is being suppressed. There is too much division and class struggle and too little co-operation and teamwork. Correspondingly results are not very inspiring because the working people do not work properly.

ABOUT THE AUTHOR

I, Anatoly Fedoseyev, defected from the USSR to Britain in May 1971, at the Aviation Exhibition in France. One month before defection I was awarded the title of Hero of Socialist Labour and the Gold Star. I had a very good

career in the USSR. I was working in military research and development since 1936. My speciality was powerful electronic tubes for radars. My tubes are now operating all over the USSR. Most powerful electronic tubes, invented by me, are working now in the anti-ballistic missile defence ring around Moscow and elsewhere.

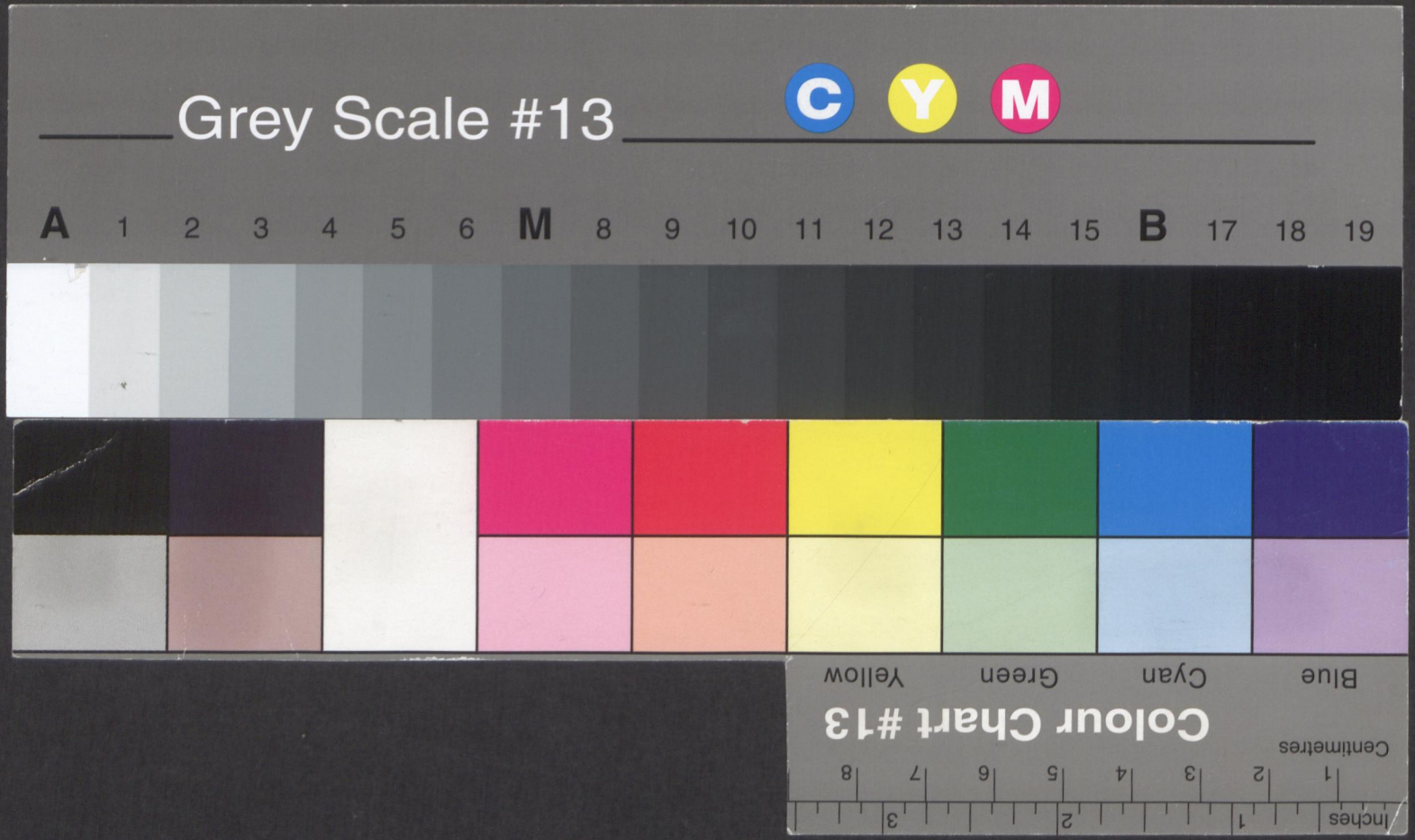
In the course of my research and development work I have received two science degrees: Candidates (1949) and Doctors (1959). I won the Lenin's prize in 1960 and its gold medal on account of my invention of superpower magnetrons. I was awarded the Order of Red Labour Banner and two Lenin's Orders. I was a member of several learned councils and served as an expert in the All Union Attestation Commission (VAK). I was also a member of a Board of Inter-ministerial Scientific Committee. In 1970 I was awarded the title of Honoured Activitist in science and technology.

The evident inefficiency of socialism was puzzling. About the mid-1960s I began to study (in parallel with my work) socialist economy and social conditions. To compare it with the other economics, I began to study economy of countries all over the world. After defecting I have travelled all over the world and complemented these studies by personal experience. Now I am a British citizen and live in London.

Yours sincerely

A Fedoseyev

A Fedoseyev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Centimeters
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