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SOVIET UNION: THE STATE OF ECONOMIC REFORM

SUMMARY

1. THE GOVERNMENT'S REFORM PROPOSALS HAVE A HARD TIME IN THE SUPREME SOVIET. THEY HAVE BEEN TOLD TO PRODUCE SOMETHING BETTER BY 1 SEPTEMBER. THIS COULD BE RYZHKOV'S LAST CHANCE. THE GOVERNMENT WILL PROBABLY HAVE TO MODIFY THEIR PROPOSALS FOR PRICE INCREASES. BUT NOT MUCH ELSE LIKELY TO CHANGE. UNCERTAINTY OVER GORBACHEV'S FUTURE ROLE AND WILLINGNESS TO PROMOTE REFORM BY USE OF PRESIDENTIAL DECREE.

2. THE GOVERNMENT'S LONG STRUGGLE TO GET ITS REFORM PROGRAMME THROUGH THE SUPREME SOVIET FINALLY REACHED ITS DENOUEMENT ON 13 AND 14 JUNE - THE LAST TWO DAYS OF THE SESSION. THE SUPREME SOVIET WILL RECONVENE ON 3 SEPTEMBER.

3. ON 13 JUNE THE DEPUTIES WERE PRESENTED WITH TWO DRAFT RESOLUTIONS. THE FIRST INSTRUCTED THE GOVERNMENT TO COME BACK WITH A MODIFIED PLAN AND TIMETABLE FOR THE MOVE TO THE MARKET BY 1 SEPTEMBER. THE SECOND ASKED FOR THE DEPUTIES' FULL SUPPORT FOR THE PROPOSED INCREASE IN BREAD PRICES.

4. AFTER SEVERAL MORE HOURS' DISCUSSION ON ECONOMIC REFORM IN WHICH LITTLE NEW WAS SAID, THE FIRST RESOLUTION WAS PASSED SURPRISINGLY EASILY AND WITHOUT SUBSTANTIAL AMENDMENT. (FULL DETAILS ARE IN MIFT.) BREAD PRICES, HOWEVER, PROVED A MUCH MORE CONTROVERSIAL AND EMOTIONAL ISSUE. DEPUTIES SEEMED PREPARED TO CONTEMPLATE THE GOVERNMENT'S WIDE RANGING PROPOSALS FOR PRICE RISES ON 1 JANUARY, BECAUSE THE GOVERNMENT HAD COMMITTED ITSELF TO SEEK A POPULAR MANDATE FOR THE PROPOSALS IN ADVANCE. BUT THEY WERE NOT PREPARED TO TAKE UPON THEMSELVES THE RESPONSIBILITY OF AGREEING AN IMMEDIATE INCREASE IN THE PRICE OF BREAD. MASLYUKOV, HEAD OF GOSPLAN, WHO WAS DEFENDING THE GOVERNMENT PROPOSAL WAS NOT IMPRESSIVE AND WAS GIVEN A VERY DIFFICULT TIME BY THE DEPUTIES. FREQUENTLY HE HAD TO BE RESCUED BY CHAIRMAN LUKYANOV. THE END FOR THE GOVERNMENT FINALLY CAME WHEN A DEPUTY RECALLED AN UNDERTAKING THAT THE SUPREME SOVIET HAD MADE LATE IN 1989 TO THE EFFECT THAT THERE WOULD BE NO INCREASE IN THE PRICE OF

STAPLE PRODUCTS DURING 1990. THE GOVERNMENT RESOLUTION WAS REPLACED WITH ANOTHER INSTRUCTING THE GOVERNMENT TO CONSULT AGAIN WITH THE REPUBLIC SUPREME SOVIET AND COME BACK WITH SOME FRESH PROPOSALS TO THE AUTUMN SUPREME SOVIET.

5. WITH THE PASSAGE OF THESE TWO RESOLUTIONS, THE REFORM TIMETABLE NOW LOOKS AS FOLLOWS:

BY 25 JUNE - SUPREME SOVIET TO HAVE AGREED UPON PRIORITIES FOR THE NEW REFORM LEGISLATION TO BE INTRODUCED TO THE AUTUMN SESSION OF THE SUPREME SOVIET.

FROM 1 JULY - THE PRESIDENT ADVISED TO ISSUE HIS OWN DECREES TO SPEED UP SOME AREAS OF THE REFORM PROCESS.

BY 1 SEPTEMBER - RESULTS OF PUBLIC DISCUSSION OF THE GOVERNMENT'S REFORM PLANS TO BE ANNOUNCED.

1 SEPTEMBER - THE GOVERNMENT TO PRESENT ITS REVISED REFORM PROGRAMME AND TIMETABLE.

SEPTEMBER/OCTOBER-GOVERNMENT TO PRESENT ITS NEXT LEGISLATIVE PACKAGE (AT LEAST 15 LAWS) TO PREPARE THE WAY FOR A MARKET SYSTEM.

SEPTEMBER/OCTOBER- NEW PROPOSALS ON BREAD.

BY 15 SEPTEMBER - GOVERNMENT TO PROVIDE PRELIMINARY DETAILS OF THEIR 1991 PLAN AND BUDGET PROPOSALS.

COMMENT

6. THE RESOLUTION ON THE REFORM PROGRAMME IS A PATCHED-UP DOCUMENT FULL OF INCONSISTENCIES AND HARD FOUGHT COMPROMISES. IT AMOUNTS TO AN INSTRUCTION TO THE GOVERNMENT TO GO AWAY AND COME BACK IN TWO AND A HALF MONTHS' TIME WITH SOMETHING BETTER. GIVEN THE HOSTILITY SHOWN BY DEPUTIES, THIS WAS THE BEST THE GOVERNMENT COULD HAVE HOPED FOR. SENSIBLY, THE DEPUTIES HAVE REFRAINED FROM REJECTING THE PLAN OUT OF HAND. THIS WOULD HAVE CAUSED AN IMMEDIATE CRISIS AND ALMOST CERTAINLY PROVOKED THE RESIGNATION OF RYZHKOV AND SOME OF HIS SENIOR COLLEAGUES.

7. THE REPUTATION OF RYZHKOV AND HIS GOVERNMENT HAVE, NEVERTHELESS, SUFFERED FURTHER SERIOUS DAMAGE. THEY CONTRIVED TO CONSTRUCT A PROGRAMME WHICH WAS CONDEMNED BY VIRTUALLY ALL INFLUENTIAL ECONOMISTS

AS BEING TOO CAUTIOUS AND BEREFT OF MARKET LOGIC AND WHICH, AT THE SAME TIME, ALARMED ALL THE CONSERVATIVE DEPUTIES BY ITS PRICE RISE PROPOSALS. RYZHKOV'S PERFORMANCE IN THE SUPREME SOVIET WAS HESITANT AND UNCONVINCING. HE LOOKED UNDER GREAT STRAIN. THE PROPOSALS HE HAS TO REINTRODUCE AT THE BEGINNING OF SEPTEMBER ARE WIDELY SEEN AS HIS LAST CHANCE. TWO HEAVYWEIGHT ECONOMISTS, AGANBEGYAN AND BOGOMOLOV, WHOM WE HAVE TALKED TO IN THE LAST FEW DAYS HAVE FORECAST THAT STRIKES OR OTHER ECONOMIC DISASTERS WILL BRING HIS FALL EVEN BEFORE SEPTEMBER. THE INDEPENDENT MINERS' UNION, MEETING IN DONETSK AT THE SAME TIME AS THE SUPREME SOVIET DISCUSSIONS ISSUED A CALL FOR THE RESIGNATION OF RYZHKOV AND HIS GOVERNMENT. THERE ARE INCREASING NUMBERS OF REPORTS THAT STEEL AND OIL WORKERS AS WELL AS COALMINERS ARE LOSING PATIENCE.

8. THE GOVERNMENT, FOR THE TIME BEING, ARE PUTTING A BRAVE FACE ON THINGS. MASLYUKOV CLAIMED AT A PRESS CONFERENCE ON 15 JUNE TO BE 'VERY SATISFIED' WITH THE SUPREME SOVIET'S DECISIONS. THE SUPREME SOVIET RESOLUTION IMPLIES THAT THE GOVERNMENT SHOULD COME UP WITH SOME NEW THINKING - PARTICULARLY ON FINANCE AND PRICING REFORM. BUT, IN PRACTICE, HAVING REJECTED SO-CALLED SHOCK THERAPY, THEY DO NOT HAVE MUCH ROOM FOR MANOEUVRE. YASIN, AN ECONOMIST WHO WORKS CLOSELY WITH ABALKIN, TOLD US THAT THE GOVERNMENT HAS NOT YET MET TO CONSIDER ITS STRATEGY. BUT HE AGREED THAT IT WAS UNLIKELY THAT THEY WOULD BE MAKING MAJOR CHANGES TO THEIR PROGRAMME. THEY WOULD, HOWEVER, ALMOST CERTAINLY HAVE TO MAKE CONCESSIONS ON BREAD PRICES AND ON THE OTHER PROPOSALS FOR PRICE RISES ON 1 JANUARY.

9. YASIN THOUGHT THAT THE GOVERNMENT'S WAY FORWARD ON THIS WOULD BE TO DEVOLVE MORE RESPONSIBILITY ONTO THE REPUBLICS. THEY COULD BE GIVEN FREEDOM, WITHIN NORMS SET BY THE CENTRAL GOVERNMENT, TO DECIDE ON THE DETAILS OF THE PRICE INCREASE/COMPENSATION MEASURES WITHIN THEIR REPUBLIC. IN TURN, THEY WOULD BE MADE RESPONSIBLE FOR SECURING A POPULAR MANDATE FOR THEIR PROPOSALS. YASIN HOPED THAT THE GOVERNMENT MIGHT ALSO USE THIS OPPORTUNITY TO SPEED UP THE REFORM TIMETABLE - IN PARTICULAR THE FREEING OF PRICES. BUT HE DID NOT SEEM OPTIMISTIC. THE RECENT DEBATE SUGGESTS THAT IT COULD BE EVEN MORE DIFFICULT TO SECURE SUPREME SOVIET AGREEMENT IF THE GOVERNMENT FURTHER RADICALISES ITS REFORM PROGRAMME.

10. ANOTHER UNKNOWN QUANTITY IS THE ROLE TO BE PLAYED BY GORBACHEV. THE SUPREME SOVIET RESOLUTION OFFERS HIM BACKING FOR PUSHING REFORM FORWARD BY DECREE IN A NUMBER OF CRUCIAL AREAS - IN PARTICULAR DEMONOPOLISATION AND THE ENCOURAGEMENT OF NEW FORMS OF PROPERTY. THIS LOOKS VERY MUCH LIKE THE INITIATIVE OF PETRAKOV, GORBACHEV'S

ECONOMIC ADVISER WHO HAS BEEN URGING GORBACHEV FOR SOME TIME TO MAKE USE OF PRESIDENTIAL DECREES TO SPEED UP REFORM. IT DREW SURPRISINGLY LITTLE DISCUSSION OR RESISTANCE IN THE SUPREME SOVIET. YASIN SAID HE THOUGHT IT WAS AN OPEN QUESTION AS TO WHETHER GORBACHEV WOULD TAKE UP HIS OFFER. IT WAS TIME HE TOOK PERSONAL RESPONSIBILITY - BUT A LOT COULD DEPEND ON HOW THE CPSU PARTY CONGRESS WENT AND HOW HE ASSESSED THE STRENGTH OF HIS POSITION AFTER THIS.

11. THE GOVERNMENT HAVE NOT COME AWAY FROM THIS DEBATE COMPLETELY EMPTY HANDED. THEY DO NOT HAVE THE SUPREME SOVIET'S ENDORSEMENT FOR MOVING TO A MARKET BASED ECONOMY. BUT DISCUSSION IN THE SUPREME SOVIET SUGGESTS THAT MOST DEPUTIES HAVE ONLY A VERY VAGUE IDEA OF WHAT IS INVOLVED IN THIS, AND THAT VERY FEW ARE PREPARED TO ENDORSE POLICIES WHICH WILL FURTHER REDUCE THE STANDARD OF LIVING OF THEIR ELECTORATE. THE GOVERNMENT THEREFORE STILL HAS A HARD ROAD AHEAD IN GETTING AGREEMENT TO A REFORM PROGRAMME - AND ABOVE ALL TO ANY DECISION LIKELY TO AFFECT PRICES.

12. SEE MIFT.

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