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Soviet reform and the west

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THE SOVIET economy is in virtual free fall. Gross domestic product is likely to drop by about 20 per cent this year, after an unofficially-estimated 10 per cent decline in 1990. The budget deficit is out of control and the country is on the brink of hyper-inflation. President Mikhail Gorbachev's lurch back to the conservative left last autumn and the half-hearted economic 'reforms' carried out by Prime Minister Valentin Pavlov have, as widely predicted, carried the country further down a blind alley.

Yet, less than nine months after Mr Gorbachev rejected the so-called 500-day economic reform programme associated with Mr Stanislav Shatalin, Mr Grigori Yavlinski and other reform economists, he appears to have accepted their argument that there is no alternative to radical, market-orientated reforms.

Mr Yavlinski is at Harvard putting the final touches to a revised economic programme. It is designed to convince a sceptical west that this time the intention to reform is serious. Meanwhile, Mr Gorbachev is angling for an invitation to the G7 summit in London to seek large-scale western financing. In Moscow he airily mentioned about Dollars 100bn, roughly in line with the Dollars 20bn to Dollars 30bn a year suggested by Professor Jeffrey Sachs of Harvard.

As President George Bush has drily observed 'a hundred billion is still a large piece of change.' Advocates of large scale aid say it is a bargain compared to what the west is collectively saving, thanks to the end of the Cold War, and a good investment if it can head the moribund Soviet economy in a market-orientated and democratic direction.

False starts

Things are not as simple as that. Writing economic programmes is the easy part. Turning words into deeds is infinitely more difficult. There have been many false starts over the last six years. Mr Gorbachev still calls himself a socialist and a Leninist. The military-industrial complex still absorbs an absurd proportion of the country's resources. The KGB and the communist party still wield enormous power. The country still lacks democratic political institutions capable of demanding the sorts of sacrifices that Polish and east European experience has shown will be required.

Yet grounds for cautious optimism do exist. Last month's agreement between President Gorbachev and leaders of nine of the 15 Soviet republics could mark a milestone in the search for a looser, more federal system. Next month's presidential election in the Russian Federation could be the fore-runner of popularly-elected republican government throughout this unwieldy empire.

Begging bowl

As things stand, however, there is little point in throwing dollars at a still largely unreconstructed Soviet Union. Consequently it would be premature to invite Mr Gorbachev to turn up with his begging bowl at the G7 meeting in July.

What is first needed is careful scrutiny of the Yavlinski programme, followed by serious negotiations. The west must make clear its preconditions for assistance, in detail, as well as agreeing what kind of assistance it can best offer.

The broad aim must be to help the Soviet Union look after itself. This does not mean, for example, providing dollars to finance a budget deficit caused by incompetence and political weakness. It may mean providing some backing for currency convertibility. It does mean willingness to send IMF, World Bank and other experts to transfer the technical, financial, legal, accountancy and other skills required to build and operate the fundamental institutions of market style economies. It also means willingness to help organise a large scale privatisation programme and improvements in the efficiency of key export sectors, like the oil industry.

Yet the Soviet Union, a country with large gold reserves, rich natural and human resources and a bloated military economy, is far from an obvious candidate for western charity. For geo-political reasons, the west may eventually be right to decide to help. But only if it is first absolutely clear that the Soviet Union intends to help itself.