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ABANDON THE PLANNED ECONOMY



by Kenneth R. Gray

If they want to have their choices, they can't have their druthers." Central authority is crippled and Soviet citizens now have choices. But, their choices will continue to add up to chaos unless guided by freely determined prices. The present situation of continually growing repressed inflation is worse than open price inflation. I agree with Stanley Johnson and Alexander Nikonov that price liberalization can't wait for political developments to establish effective budgetary and monetary institutions.

Any political decision by Boris Yeltsin and others to free prices will require courage, leadership, and the unclouded support of Soviet as well as Western economic advisers.

Such decisions will also require the broadest possible education of the Soviet people seeking to enjoy their new democracy. In this regard, Western economists need not apologize for the insights which even the most basic supply and demand analysis provides. They apply. Price ceilings lead to excess demand and call for somebody to allocate resources administratively. Some Soviet economists, looking at their past, now argue that it wasn't great design but price controls that backed the state into planning and collectivization. Despite the intent to jettison the administrative economy in the failed reforms of the 1960s and 1987, the state hasn't and won't be able to back out without freeing prices. Some probably want it that way.

U.S. Comparison

I often compare the current Soviet situation to the U.S. economy two or so decades ago. Congress was arguing whether budget deficits cause inflation. The public demanded price controls because of fear of monopoly. A "no gasoline" situation soon developed because of price controls, although Americans continued to consume gasoline at the highest levels in the world. (See the Centerfold for a note on the high levels of Soviet meat consumption.) In 1973, the U.S. restricted soybean exports because of inflation. As an administrative system designed to ration energy took shape in Washington, frustrations grew. In Texas a bumper sticker appeared that said, "Turn up your thermostat and freeze a Yankee!" The state considered, if not seceding from the United States, splitting into parts as allowed by an 1845 treaty in order to gain more Senate votes against the windfall profits tax on oil. Thus, interregional and interrepublic animosities have an economic basis that grows in times of shortages.

Choices

In early November, Mikhail Gorbachev chose to oppose Boris Yeltsin's decision to free prices, charging that monopolists would use the opportunity to raise prices. Regulatory guidelines for natural monopolies, yes, but Russia would have to wait a very long

time for a market economy if it waits for restructuring to produce concentration ratios with which purists would be happy. Oligopoly may temporarily distort prices compared to an ideal—but if prices are permitted to adjust so that markets clear the need for state rationing of producers goods, the greatest barrier to entry by new enterprises is eliminated. If they want to continue to have choices, they really can't have their druthers.

Stalin blamed the 1928 grain crisis on (millions of!) "monopoly" farmers. In many cases there are now sufficient numbers, certainly there are of farm producers. Encouraged to do so, hundreds of food wholesalers sprang into being after 1987, doing necessary middleman processing and distributive activities. Encouraged by the 1987 law on cooperatives they were called "speculators" and smashed in 1989 by the party, appealing to popular sentiment.

I used to think that a two-tiered system of prices was a key to effective transition from a planned to a market economy. Now, macro policy makes state prices increasingly unrealistic. I now think the system should be abandoned rapidly—abandoned for the reasons the authors identify, but also because a mixed system breeds confusion in the public's mind. People become frustrated at not finding goods at the low state prices. Then they direct their frustration against those who respond to the laws of supply and demand.

In every city, in now highly restricted market channels, food is available at high prices. The same is true of other consumer goods. Shoes are an example. Soviet citizens (e.g., retired Moscow friends) often worry more about them than about food. Seen in this light, the distributional problem is one of *income* distribution. The Government's comparative advantages are greater in this area than they are in continued detailed intervention in the production and distribution of goods—even if it can't tax but has to print money. **C**

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