

N. SHMELEV AND V. POPOV, *Na perelome*. Moscow: Norosti, 1989. 420 pp., 2.40 rubles.

This book provides the best exposition thus far of what, in the view of reform-minded Soviet economists, is wrong with the Soviet economy. The authors discuss Soviet economic history, concentrating on an analysis of War Communism, NEP, and the first five-year plans. In order to provide a better understanding of history they devote a separate chapter to explaining the problems with the Soviet economic statistics and the distortions in the Soviet aggregate data. The rest of the book is devoted to the analysis of the Soviet economic system as it existed by the mid-1980s and to some suggestions for the reforms.

The authors clearly demonstrate the collapse of the economy and the resilience of the markets during the height of War Communism, even though they do not always provide the sources for some of the data. They state without attribution, for example, that the "speculators" supplied the cities with just as much bread as the government was able to procure through *prodrazverstka* (p. 14). The authors take a conventional view of War Communism as a policy forced on the Bolsheviks by the emergency circumstances of the Civil War. Nonetheless, they recognize that the contemporaries of War Communism often viewed it as a logical and well-founded step toward the "new, socialist relations." Given the information in the book a reader may, in fact, start to doubt whether the policy of War Communism was justified as a response to an emergency.

Much more attention is devoted to the period of NEP. Here, again, the authors reflect the opinion of many Soviet reformers that NEP for the first time formulated the fundamental principles of a "scientific, realistic approach to the problems of building socialism" (p. 15). NEP is held up as a standard to be used for evaluating subsequent Soviet achievements.¹ I suppose that such an attitude toward NEP can be explained by the need to find some ideal, some example, to follow in Soviet economic history. It may be difficult for many to reject the concept of socialism entirely.

In describing numerous economic achievements of NEP, Shmelev and

¹ The book even argues that Lenin viewed NEP as a retreat only insofar as it resulted in an explosive development of private entrepreneurship. "He never and nowhere used the term 'retreat' with respect to the trusts and the cooperatives" (p. 32).

Popov argue that its defeat was “the victory of politics over economics” (p. 100). It was the bureaucracy, the “apparat” formed during the years of War Communism, that led eventually to the demise of NEP. In a refreshing departure from historical determinism the authors argue that history could have gone the other way, if only democratic political reforms had accompanied the economic reforms of NEP. They go so far as to state that even without the immediate political reforms, the rise of the bureaucracy could have been checked had Lenin survived for another 20 years. The authors also note the impediments to the workings of the price mechanism created by the oligopolistic structure of the Soviet economy in the 1920s. The implications of all this for the current reforms are fairly obvious.

The main part of the book is devoted to the analysis of what is wrong with the traditional Soviet economic system. This analysis may not be novel for a Western specialist on the Soviet economy, but as recently as two or three years ago it would have been considered rather radical for any Soviet economist. In particular, Shmelev and Popov demonstrate the unworkability of comprehensive planning. The plans, both short and long term, bear virtually no relationship to actual performance. Neither the planners nor the economists decide or even understand where the economy is going. “The ship of the economy has, in fact, lost control” (p. 131). Planning, however, is not completely irrelevant. The plans generate perverse incentives at the enterprise level. The authors provide a number of vivid examples of waste resulting from the “planned” nature of the economy. Replacing direct planning in physical volumes with centralized setting of all or even some prices would not help either. “Price regulation . . . by its very nature rejects in principle the functioning of the market mechanism . . .” (p. 236).

Shmelev and Popov also emphasize the financial problems of the Soviet economy. They caution, however, that the Soviet population has “too much” money only relative to the volume² of goods and services in retail trade. To alleviate the problem it is important to create a well-functioning credit system. The key to solving the financial problems, however, is the reduction of budget deficit. Without this the center would completely lose control over the economy and no radical reforms would be possible (p. 284). The authors think that the presence of the second economy, while important, does not completely balance the effective demand with the limited supply.

The book very much benefits from the chapter on the distortions generated by Soviet economic statistics. The “alternative estimates” of Soviet economic growth presented in the book, as well as numerous charts and diagrams based on the official data, are very useful in understanding Soviet economic history and evaluating the current performance of the economy.

² I would add “and the prices . . .”

In general I agree with Shmelev and Popov in their description of what is wrong with the Soviet economy. I have some serious misgivings, however, about their prescriptions for the future.³ Following many other Soviet economists Shmelev and Popov insist on the socialist nature of the market-oriented economy that will replace the current system. The distinguishing feature of their “socialist market economy” will be essentially the workers’ ownership of the means of production. Enterprise management will be elected by the workers and the workers will control all the major decisions made by the enterprise. The authors recognize that workers’ control may lead to underinvestment out of profits. Therefore, they suggest that the state regulate the proportion between investment and consumption. It seems to me that a similar system has been tried in Yugoslavia with a well-known poor outcome. I can more or less understand the Soviet Communist leaders’ insistence on attaching the adjective “socialist” to the word “market” even though the need for this appears to have diminished. But why do so many Soviet economists refuse to recognize the failure of numerous attempts to combine public ownership of the means of production and excessive state interference in the economy with the workings of the market? Shmelev and Popov also advocate leaving Gosplan in charge of making up state orders and regulating prices, albeit only for the “major commodities,” as well as “regulating the key proportions in the markets for goods, labor, and credit . . .” (p. 370).

To sum up, I highly recommend this book to anyone interested in the views of reform-minded Soviet economists on the problems with the traditional Soviet-type system and with the current (as of 1988) state of the Soviet economy. Even the authors’ recommendations for the future are rather typical of the debate in the USSR. In fact, I am using the English translation of the book as one of the texts in my graduate course on Soviet-type economies, and the students find it quite useful.

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³ The authors’ vision of the future economic system in the USSR is outlined at the very end of Chapter 6 and in the last section of the book.