

*One More Balance Sheet:
Something Worth Thinking About*

LET ME CITE a certain episode. In the summer of 1991 a regular session was held in Prague by the Interaction Council, an organization founded by the former German premier Helmut Schmidt to bring together a number of highly qualified and experienced men who had formerly been presidents or prime ministers of their countries. A copy of the concluding declaration adopted at this session was sent to me. It proved to be quite interesting, and I asked the newspaper *Pravda* to print it in full. The responses we received to this document were quite varied. But most of the discussion and debate it provoked centered on a passage in the document stating something we were not at all accustomed to hearing, because it contradicted a notion that had been instilled in us for decades—that the Soviet system was superior in all respects. The passage in question stated: “Neither the capitalist market system nor the socialist command economy has proved that it can satisfy both individual and collective needs or that it can distribute income fairly.”

This conclusion was completely justified. Indeed, neither the Western socioeconomic system nor the system created under the name of socialism has been able to solve many of the fundamental problems of the twentieth century. We could go further and state that neither system has been able to avoid acute contradictions, crises, and social or national upheavals. Neither has been capable of making progress toward solving global problems, beginning with ecological problems, the severity of which threatens the very existence of civilization.

Of course the balance sheet on the two existing social systems is not uniform. On the economic plane, the Western countries undeniably have achieved significant results in terms of production efficiency and the quality and quantity of goods produced. In the Soviet Union, in a number of areas connected with the development and application of high technology,

above all, military technology, impressive achievements were made. It is enough to mention the field of space exploration. But in most other areas—in production efficiency, the quality and quantity of goods produced, and, above all, consumer goods and technology applied to civilian use—the Soviet Union obviously lagged behind the West.

Until the mid-1970s (mainly in quantitative respects) the gap between the two systems was reduced somewhat, but subsequently it began to increase again. The phenomena of stagnation made themselves felt in our country with growing force.

In making this comparison and analyzing it, we cannot help but conclude that the key to Western success was the utilization of the advantages of the market economy. The Soviet Union ignored those advantages and lost the incentive toward development. The administrative-command system, that is, the supercentralized administration of the economy, deprived the Soviet Union of flexibility and maneuverability. The economic mechanism was geared toward willful types of decisions that did not take into account economic and ecological considerations, decisions that in many cases were harmful immediately or later on.

The experience of the past eighty years, however, reveals something else as well. On the social level, and on the environmental level, even the most advanced market economy has not proved very effective.

The efficiency of the market economy results from its central law, that of profits and the maximization of profits, but it proved incapable of eliminating poverty for millions of people. As a result, the global “North-South” problem has arisen and remains a terrible menace hanging over the entire world community.

In the most highly developed countries the market has greatly improved productivity, but it has imposed a harmful consumer mentality on the population and created a situation in which unemployment has steadily increased, affecting many millions with all its dramatic social and moral consequences.

Unemployment is one of the basic defects of the market-based system. This defect should be overcome or at least minimized in terms of its consequences for working people. But how? The answer is by means of a rational social policy. But this requires revision of some of the present-day dogmas, which many “experts” have raised to the level of “indisputable laws of development.” If development makes masses of people superfluous, re-

moves them from a life of useful activity, and throws them on the scrap heap, does it not follow that either the content or the direction of development (or both) must be changed? The same can be said about the environmental consequences of market economics. The present system of economic management based on the pursuit of profits is destroying nature. In the West, measures are being taken to make production safer ecologically. But this occurs only when the situation reaches extreme limits, or it happens under pressure from public opinion. In many cases, attempts to “solve” environmental problems are made by exporting harmful production to other countries. Thus, in the final analysis, improving environmental conditions in one place is accomplished at the expense of worsening the world ecological situation in general.

All these considerations, which have become quite evident, have had the result that in recent times the market economy is being criticized more and more in the Western countries themselves. A report by the Interaction Council, entitled “In Search of a Global Order,” noted:

The market mechanism has demonstrated that it is not a panacea for solving intractable world problems nor for achieving fundamental social aims. On the one hand, there is no better system than the market economy for achieving economic growth and prosperity. On the other hand, a market in and of itself cannot ensure a satisfactory distribution of income and tends to result in the exclusion of the weak, the unorganized, and the vulnerable. . . . The market has demonstrated that it is not capable of solving the fundamental problem of the environment which it regards as ‘external.’ There are no market solutions for such problems as poverty, hunger, and population growth.

An equally sharp expression of views has been heard from the Nobel Prize-winning U.S. economist James Tobin, who wrote:

The Invisible Hand deserves two cheers, not the three or four proposed by its zealot ideologues. Individual self-interest can be a motivation for actions of great benefit to society, but only if disciplined and channeled . . . the Invisible Hand theorem has to be modified by recognizing externalities and public goods, where individual and societal interests diverge. These require treatment by governments to protect collective interests.

We have spoken above about the advantages and flaws of the centralized planned economy in the Soviet Union as far as the social sphere was concerned. Without repeating what has been said, it should be noted that despite its weaknesses the system that was called socialist gave people (at least the majority of working people) a minimal income necessary for life and confidence in the future, which working people in the West as a rule do not know. But on the ecological plane, this system did not pass the test.

The lesson, it seems, is obvious: There needs to be a search for solutions that would provide for active utilization of market mechanisms, but these would have to be combined without fail with measures of social and ecological protection. In my view, the search for these solutions is not being conducted seriously except by a few left-wing parties.

Meanwhile the market economy, which has been established solidly throughout the world, faces a new test. The economy has become a global one, and of course so has the market. Under these conditions, all the virtues of the market as well as all its shortcomings are likewise being globalized, and both positive and negative qualities are emerging more and more strongly. This is especially true since the market economy currently has no "rival" in the form of an opposing system in the East, which previously prevented the West from ignoring the social aspects of the economy. The problem of combining social and ecological imperatives is becoming acute.

A comparative analysis of the results of the competition between the two systems could be continued. There is a vast amount of material here, but it is a subject for a separate book. What we would like to do now is to think about a way out of the *general crisis* of world development, a crisis that confronts the world community with the need for radical transformation flowing in one common channel as a new civilizing process in order to provide salvation for all. Here there arises, first, the question of the role of government. I do not think there are any grounds for removing government from all consideration, as proponents of the invisible hand theory do. Incidentally, the role of government as a key regulator of economic and social life is recognized by numerous foreign authors who belong to the most varied shadings on the political spectrum. We have already quoted James Tobin on the need for government action when individual and social interests diverge. Tobin also noted that "Adam Smith himself was quite aware of government's role."

It is impossible not to notice that even in countries where liberal, even ultraliberal, views prevail, the role of government has by no means disap-

peared. The forms this role takes are of course changing. For example, government-owned property is being qualitatively reduced as a result of several waves of privatization, and direct intervention by government agencies in solving economic problems is being restricted. But government continues as a major source of purchasing orders for businesses, and it regulates economic development through tax policies and other financial devices, distributing quite a large part of the national income through the budget.

As for the experience of the Soviet Union, it showed that when government assumes the role of the sole or primary property owner, it is transformed into an instrument for unrestricted domination by a bureaucracy, while the producers are deprived of the opportunity to display initiative and cultivate the spirit of enterprise. These qualities find no room for expression under conditions in which government dictates economic policy. In the final analysis, this system acts as a brake on progress and a deadening influence on those forces that provide dynamism in the national economy and give it the capacity for modernization and innovation. Incidentally, in some countries that belonged to the so-called socialist camp there existed a fairly well-developed cooperative sector of the economy (for example, in Hungary and East Germany), and this sector demonstrated its capability and efficiency. Of course certain national traditions played a role here, too, but this simply confirms that even limited attempts to optimize the role of government in the economy can produce substantial results.

A conclusion suggests itself: Finding the optimal correlation between the role of government and that of private “actors” in the economy, with self-management by those “actors,” that is, finding an appropriate combination of the role of government and that of the market—this is a task that remains unresolved. This applies as well to Russia today, where the idea of separating the government from the economy and the social sphere during a transitional period has had distinctly disastrous results. It seems that there have been recent attempts in Russia as well to find the necessary balance between the role of the market and that of government. But so far these are only attempts.

Generally speaking, an ideal solution to this problem is unlikely ever to be found. In each country, each society, at any given time, it takes on its own particular features, its own special twists and turns. The search for an ideal solution will probably continue. But the extent to which it is successful depends in large part on democracy in the economy, in politics, and in the society as a whole.

This is one of the most important lessons of our history. *The Soviet Union, in the final analysis, experienced its tragedy because democracy was suppressed as a matter of principle over a long period of time.* On the other hand, the signs of a revival in public life, the restored ability of citizens to display initiatives—these began with the revival of democracy that is linked with perestroika. Recent years—especially since 1993, after the dissolution of the Russian parliament and the shelling of the parliament building, and the adoption of a new constitution granting authoritarian powers to the executive branch—have been marked by the constriction of democracy, distortion of it, and the depreciation of its most vivifying aspects. This is dangerous. A feeling of hope rises, nevertheless, because in spite of everything, the majority of Russian citizens consciously and voluntarily have refused to go along with the antidemocratic choice.

Today the development of democracy in the West is held up as an example for the future. While acknowledging what has been achieved there, we cannot help noting that Western democracy is not well: It is in a crisis. Democratic institutions persist, but the citizenry seem more and more alienated from those institutions, which are simply degenerating. Vitally important decisions are made behind citizens' backs, without their participation and beyond their control. These decisions are made by political elites and are the result of political trade-offs that often serve the interests of narrow groups. As a result, the political activity of most people has lessened and the gap between government and society has increased. Thus, even in the most-developed Western countries, democracy itself needs to be renewed; it needs, if I may say so, a democratization.

Of course the situation varies from country to country. But the chief political question for the present and the future is to find up-to-date forms of democracy and to fine-tune them in their most essential aspects—while of course taking into account the unique evolution of each society. This problem is further discussed below.

In the light of the entire Russian post-October experience, we have solid criteria for evaluating the potentials of one or another economic system or sociopolitical regime. And thus we can hope to obtain useful solutions in our search for the road to the future.

In drawing the balance sheet on the past eighty years, we cannot fail to touch on a key question for the future, namely, "Who won the Cold War?"

The Cold War ended as a result of the interaction of various factors. We must be honest about this. If there had not been a change in Soviet policy, if

the new thinking had not emerged, the Cold War might have continued for much longer. That point deserves emphasis.

It is customary for Westerners to claim that the West was victorious in the Cold War and that the East—above all, the Soviet Union—was defeated. This analysis of the issue is very convenient for those who would like to impose conditions on the so-called losing side, to bend it to their will. True, quite a few people in Russia admit they were defeated, but they also seek to avoid any serious analysis of what actually occurred. What happened is this: In the rivalry between the two social systems—the one that was established in the Soviet Union and other countries allied with it, and the other that existed and still exists in the West—the positions held by the Western system turned out to be superior. In what respect, and why, are the questions at issue. As discussed above, the responsibility for this lies in the “model” of social development established by the Bolsheviks and the policies pursued throughout their years in power, especially after Lenin’s death.

The system founded by the Bolsheviks has now passed from the historical scene. Although I emphasize that fact, it would be a major mistake to consider the “Russian experiment” useless, as though it had made no contribution to humanity. Since that is surely not the case, certain conclusions need to be drawn not only by the successor governments of the former Soviet Union but also by the West. Both Soviet developments and those in the West have posed many problems that remain unresolved. In seeking solutions to these problems, everything must be taken into account, both the experience of the USSR and that of its former opponents. To ignore any part of our common world experience would be irresponsible and would not bring us closer to solving the problems before us.

As for who won the Cold War, the answer, in my opinion, lies simply in rephrasing the question. We should ask, Who gained by the termination of that war? Here the answer is obvious: Every country, all the peoples of the world, benefited. Because the confrontation has been overcome, we have all been delivered from a terrible danger, the threat of nuclear catastrophe. We all have a unique opportunity—the first in many centuries—to organize a truly peaceful coexistence among people of different nations and governments all over the planet. We can engage in development under conditions of cooperative and constructive activity.

Of course simply because such a possibility exists does not mean these prospects will be realized. It is evident thus far that not much has been

achieved. There is a saying, “The dead hand of the past lays hold of the living.” The legacy of the past is so heavy, with so many layers, that the world has not yet been able to free itself from that legacy. Moreover, pressing new problems confront us that were previously unforeseen.

The lessons of the past nevertheless encourage us to do all we can to rid ourselves from the burdens of that legacy so that we may transform the future, if not into a golden age (probably an exaggerated hope), then into a period of humane progress corresponding to the interests of all humanity.