

A Message to Gorbachev: Redistribute the Wealth

Adopting a program of 'socialist privatization' would give each Soviet citizen an equal number of chips and a level playing field before the free market casino opens for business.

Mikhail Gorbachev's call for a "humane democratic socialism" is at once a critique of the systemic failures of the Soviet experiment and a vision of the unfulfilled ideals of socialism. Gorbachev's *perestroika* aspires to create a cooperative society characterized by democracy, social justice, security, prosperity, and equality of opportunity. The political freedoms of speech, expression, and travel have been extended by *glasnost*. But genuine democracy requires a guarantee of a *dual franchise*, the right to vote with ballots and the right to vote with economic resources. Both rights are meaningless in the absence of alternatives from which to choose.

No easy formula can assure equality of opportunity in the exercise of economic freedoms. The problem arises because every exercise of economic freedom affects the distribution of economic resources, and any attempt to impose equality of outcomes necessarily compromises economic freedom. Although it is impossible to assure equality of outcomes, it is possible to create a level playing field by establishing full rights to private ownership and an egalitarian distribution of economic resources with which citizens can cast their economic votes.

From the Soviet perspective, the communist experiment has achieved a reasonable degree of security and equality, but at great cost to democracy and efficiency. Soviet leaders view Western capitalism as suffering from the reverse problem, having achieved democracy and efficiency at great cost to equality and economic security. The challenge is to conceive a novel form of economic and political organization that eliminates the apparent contradictions between capitalism and socialism in order to capture the most salient advantages of each.

How then, can a communist nation reconcile socialism with capitalism? I believe that the highest principles of socialism can be attained by undertaking a program of socialist privatization, an egalitarian redistribution of the state's custodial assets to its citizens as a prelude to the introduction of market-oriented reforms. The program would begin with the granting of private property rights. A second stage would call upon the state to relinquish its stewardship of the means of production and redistribute the nation's wealth (equity shares in state enterprises, agricultural resources, and the housing stock) to its citizens.

The mechanism for redistributing state assets would amount to a massive open-market operation with the sale of assets to the public. The public's newly acquired earning assets would form a wealth-based safety net to cushion the economic dislocation that is bound to accompany any radical transformation of economic institutions. The sterilization of receipts from the open-market sale of assets would restore monetary balance. Then the stage would be set for the rapid introduction of market-oriented reforms.

Relative prices would be set free to seek their market-clearing levels. In one "controlled big bang," the price mechanism would be liberated to perform its information and incentive signaling role. The "diktat" system of centrally planned administration must then step aside to permit the price mechanism to perform its resource allocation function. The explosive forces of the big bang would be contained by the stable macroeconomic environment and the shock absorbers put in place prior to the release of prices. I believe this sequence of reforms is the one most likely to assure a sustainable stable transition path to Gorbachev's vision of a "humane, democratic socialism."

Socialist privatization would establish a secure and level playing field *before* unleashing the competitive forces of a free market. In contradistinction to the current Polish reform, which plunges the economy directly into the game of free enterprise with the deck stacked against workers, socialist privatization would award all players an equal number of chips before opening the free market casino. Once the right to private ownership of resources is legally established, resources would be equitably distributed by an open-market sale that assures monetary balance through sterilization.

Thereafter, state monopolies would be broken up, and relative prices of both factors and products could be decontrolled to seek their market-clearing levels. These market prices, uncontaminated by overall inflation, will reflect both the availability of resources and the evenly weighted preferences of citizens exercising their economic franchise by voting in the marketplace. In short, an initial egalitarian redistribution of state custodial property would establish the socialist prerequisite of equality of opportunity. The subsequent adoption of competitive free markets would provide the information and incentive mechanisms that promote the much sought after gains from improved productivity and efficiency.

This radical form of *perestroika* would institutionalize economic democracy by first distributing economic power equitably, and then giving free expression to eco-

nomie choice through unfettered markets. The idea of redistributing state property as the antecedent to the introduction of market reforms has direct applications for Eastern Europe as well. It would dampen inflationary pressure, reduce economic hardship, and limit the conversion of past privilege into present property. The announcement of a program of socialist privatization would stop the hemorrhage of human and physical capital that now threatens to drain these nations of their economic vitality. Socialist privatization would ease German economic reunification in a number of important ways. First, it would provide a powerful incentive for stemming the flow of resources from east to west. An open-market sale of state assets to the resident citizens of East Germany would privatize the economy in an equitable manner, giving its citizens a real asset nest egg to help them endure the economic hardships of the transition period.

It would also provide a mechanism for converting East German marks into real assets. The real custodial assets held by the state for the people would provide the backing for the state's outstanding financial liabilities. A swap of East German marks for real assets eliminates them from circulation, thereby circumventing the problem of determining an appropriate rate of exchange between east and west marks. The newly distributed real assets could be directly priced by the market in terms of single unified currency. This would smooth the unification transition and significantly reduce the burden of subsidies that would otherwise be borne by the welfare system.

Ends and means

Soviet leaders increasingly acknowledge that neither exclusive state ownership of the means of production, nor central planning, are requisite foundations for the attainment of socialist ideals. Both institutions are accidents of history, being neither necessary nor sufficient for the realization of socialist values. Indeed, their perpetuation jeopardizes the very values that socialist ideology espouses. These institutions foster an authoritarian-bureaucratic system that is antithetical to egalitarian democracy. They establish the rule of privilege over the rule of law. They are inadequate to the task of achieving prosperity, being incapable of efficiently managing a complex economy.

Yet, paradoxically, it is the very existence of state ownership and central control that presents communist nations with a unique opportunity. They alone can undertake an unprecedented redistribution of economic

resources that does not require the expropriation of property. The ability to redistribute wealth without dispossession arises from the state's paternalistic role as custodial agent for the property of all its citizens. By abdicating this function, the vanguard actually demonstrates the success of its stewardship, because in so doing, it achieves its long-proclaimed goal of establishing an egalitarian distribution of property. It need only return the property held for the people, to the people. Every worker receives an inalienable private property right to a portion of existing capital.

A share economy

The outright redistribution of the nation's wealth to its citizens, as distinct from either the decentralization of property envisioned by the proposed Soviet laws on ownership or the insidious East European sales of state property to a select few, conforms to socialist ideals. Private property rights would become the democratic basis for the effective functioning of market mechanisms. The aim of an equitable distribution of property is to establish a share economy in which citizens, in their dual roles as workers and capitalists, have an equal and direct stake in the outcome of the reform process.

Operationally, socialist privatization would distribute titles to state assets among the central, regional, and local governments, managers, laborers, and foreign investors with the largest percentage being equitably distributed directly to the nation's citizens. State enterprises and collectives would be incorporated, with newly issued equity shares representing titled rights to ownership as well as claims to income.

A portion of these enterprise-specific shares would be earmarked for purchase by the workers, managers, and foreign investors responsible for the operation of specific corporations. They would be given the right of first refusal to acquire shares in their enterprise at prices determined by public auctions. The remaining corporate shares would be bundled into "citizen shares" that are distributed to the general public, the central government, and to regional and local governments.

Socialist privatization would achieve several microeconomic and macroeconomic objectives simultaneously. The unbundled shares of an individual enterprise that are earmarked for its workers, managers, and foreign investors are intended to provide them with direct incentives for efficient management. This would establish both self-management and direct ownership. These shares would be priced at public auction, thereby

creating a mechanism for individual equity valuation.

The public share distribution would create the occasion to register and title property in the name of each citizen. Once legal title is established, each citizen would be given an income-earning asset that provides insurance and security against transitional dislocations. Risks of specific corporate failures would then be pooled and dispersed over the entire population. The procedure for distributing citizen shares to the public is designed to establish a rudimentary banking system with deposit and lending facilities. The open-market sale of citizen shares, at nominal prices, would absorb the state's excess outstanding financial liabilities which, when sterilized, would eliminate the threat of an increase in the general price level.

The central government share allocation would create a revenue source for the financing of public expenditures without direct taxation. The government would simply collect dividend payments on its citizen shares in lieu of taxes. The shares would appear as assets on the government balance sheet and the government could issue its own liabilities against its assets. These fully backed government liabilities could be sold to banks and the public, enabling the central bank to exercise monetary stabilization policies through conventional open-market operations. The full backing requirement would place limits on monetary expansion. Asset distributions to regional governments would play a similar role, creating an autonomous revenue base for local authorities to determine a politically acceptable pattern of decentralized public expenditures.

Finally, the distribution of shares to government would create a unique structure of parallel economic incentives for public agents and private citizens. Government actions would be motivated and monitored by both the political process and by the common economic incentives that government now shares with its citizens. The state and the public would share comparable stakes in the outcome of reforms and therefore have compatible inducements to assure their success.

Once constitutional guarantees of private property rights are granted and state resources are equitably distributed, more efficient allocation and management of resources can take effect. There is a growing consensus among Eastern European economists and more radical Soviet reformers that free market mechanisms must replace central planning as a means for allocating scarce resources. To effect such a change, subsidies, price controls, soft budget constraints,

production quotas, monopoly power, strict labor tenure, and nonconvertible currency must be abolished.

Critical obstacles

To succeed, economic reforms must overcome several critical obstacles that now menace the fragile transition. These include: (1) the "ruble overhang" that threatens any price decontrol program with a massive initial increase in the general price level; (2) the budget deficit, whose financing through money creation implies continued inflation; and (3) transitional unemployment created by the reallocation of labor and capital resources.

The ruble overhang is the cumulative result of past failures of central planners to create a monetary balance between the demand for consumer goods and supply. An important source of this chronic macroeconomic imbalance is the disproportionate allocation of total output (GNP) to military and investment goods at the expense of the production of consumer goods. Soviet workers are paid in rubles to produce the entire GNP but their options for spending their earnings are limited by the relatively small percentage of output devoted to the production of consumer goods and services.

The inability of Soviet planners to match after-tax cash earnings with the value of available goods and services creates a chronic shortage of consumer goods and consequently, an excess stock of rubles (the ruble overhang) that is accumulated in the form of household cash hoards or savings deposits. Both cash and savings deposits are poor stores of value since controlled nominal returns are less than inflation, making real interest rates negative. At the present time, household savings deposits total R338 billion and the unknown quantity of currency in circulation in the hands of the public is believed to range between R100 and R300 billion. These figures suggest that the stock ruble overhang is presently between 1.1 and 1.6 times the annual retail sales of the Soviet Union.

Unlike fully convertible currencies in Western nations, the ruble is an archaic pseudo-currency. Its medium of exchange function is severely circumscribed by both foreign and domestic inconvertibility. The ruble can neither purchase foreign currency nor can it be used to purchase domestic assets. Even its convertibility into domestic goods and services is severely restricted by the inequitable and inefficient dual distribution system that plagues the Soviet economy. Access to many goods and services is determined by privilege, not rubles.

Enterprises also face an inconvertibility problem because rubles can only be used to make wage payments. All other enterprise expenditures must be made on a noncash basis, through the use of credits of the state banking system. Enterprise credit funds are themselves largely inconvertible since they must be used in accordance with the central plan, and if thought to be excessive, are often taxed away. Aggregate monetary imbalance and inconvertibility induce the hoarding of consumer goods and capital equipment, and the forced savings of rubles.

It is now well understood that assuring the stability of the general price level must precede the introduction of market mechanisms and price reforms. Otherwise, relative price signals would be swamped by general price increases, robbing them of their information and allocation function. The elimination of the ruble overhang must therefore be the prelude to price reform.

The traditional recessionary method of absorbing excess rubles is inflation or higher taxation. Taxes can be explicitly levied on incomes and savings deposits or implicitly imposed by wage reductions. Neither is a politically acceptable alternative in the Soviet Union because both involve expropriation. How then can monetary equilibrium be achieved without permitting massive inflation?

Empowering the ruble

A direct solution is to enhance the ruble's status to that of a fully functioning monetary instrument. To attain the status of a normal currency, the ruble must be permitted to serve as a genuine medium of exchange, fully convertible into goods as well as real and financial assets. The problem of the ruble overhang is not that there are too many rubles; it is, that there are too few goods and, more importantly, too few assets that rubles can purchase.

The most direct and efficacious means of eliminating the ruble overhang is to change the institutional arrangements governing property rights in the Soviet Union. A socialist privatization program that extended asset ownership rights would increase the menu of real and financial assets available to the public. This would decrease the demand for inventories of goods and real capital assets as stores of value.

It would also increase the demand for rubles for the purchase of real and financial assets. Making the ruble a truly functioning monetary unit would facilitate monetary balance by increasing the demand for rubles while simultaneously reducing their supply. It would,

therefore, stabilize the general price level even as relative prices are freed to seek their market clearing levels.

Fiscal balance

The elimination of future inflationary pressure will also require fiscal balance, namely the reduction or elimination of fiscal deficits. Deficit reduction requires increased revenues and reduced expenditures. In the program described below, the government retains a share of the nation's assets in order to provide it with a non-tax revenue source that increases *pari passu* with the success of reforms. These revenues may need to be supplemented with a general value added tax, special excise taxes, and pollution taxes.

Expenditure reductions will require smaller investment and military outlays. The replacement of central planning with market mechanisms will significantly reduce expenditures by cutting government payrolls, suspending subsidies to unprofitable enterprises, and eliminating existing subsidies on goods. These changes alone might be sufficient to eliminate the current deficit.

Mechanics of privatization

The programmatic design of socialist privatization must be consonant with long-term macroeconomic and microeconomic objectives. These include the achievement of monetary and fiscal balance, the efficient provision of public and private goods, and an equitable distribution of income and wealth.

It is essential to create a central bank for overall monetary control, and an extensive network of retail and commercial banks to provide the nation with the financial services required by a fully functioning monetary system. The creation of the banking system will be accelerated by enlisting the expertise and participation of established foreign banks and international financial organizations. Since political time horizons are short, the provision of rudimentary banking services can initially be established through the postal system which reaches every populated area of the Soviet Union. The post offices can become the foundation of a branch banking network offering basic deposit and loan services.

The banking system's initial functions would be to establish private ownership titles to assets distributed by the state, provide deposit facilities, and grant loans against newly acquired privately held collateral as-

sets. The state's custodial assets would be sold at nominal prices, set at a fraction of their expected market value. The prices must be set low enough to assure a high real rate of return order to provide sufficient incentives for citizens to voluntarily participate in the nationwide privatization program. As true asset values become established, asset appreciation permits the gradual expansion of loans (fully secured by asset collateral) to cushion any dislocation engendered by the reform process.

Citizen shares

Socialist privatization of some 46,000 state enterprises would require that they be reconstituted as corporations with limited liability. Corporate ownership would be evidenced by title to tradeable equity shares in each of the currently operating enterprises, entitling the owners of the shares full participation in dividend distributions and capital appreciation of the enterprise. The shares must also be saleable on equity markets.

For simplicity of exposition, there would be a bundle of equity shares consisting of an equal fractional ownership share in each and every state enterprise. This bundle would be called a "citizen share." The distribution of citizen shares constitutes the most essential feature of socialist privatization, the rational pluralization of property.

I suggest distributing the bundled citizen shares in the following manner: 10 percent to the central government; 20 percent to the Soviet republics; 50 percent divided equally among all Soviet citizens. The remaining 20 percent would be unbundled, with individual enterprise shares allocated to workers, managers, and foreign investors. The initial distributions between citizens and public authorities could be subsequently modified by public referendums.

A simple instrument for evaluating the adequacy of public goods provision by government authorities would be to grant citizens the periodic right to vote for a marginal increase or decrease in the allocation of citizen shares to central and regional authorities. This mechanism would be analogous to a public vote to increase or decrease taxes while maintaining a balanced budget. Citizens, would in effect, democratically determine the degree of economic privatization they desire by voting to change the allocation of citizen shares between the government sectors and the private sector.

The allocation of 10 percent of citizen shares to the central government enables the state to discharge its

monetary and fiscal responsibilities. The asset side of the government's balance sheet would consist of its portfolio of citizen shares. These assets would provide the backing for the issue of interest and noninterest-bearing government liabilities that can be sold by the central bank to commercial banks and the public.

Being fully backed by the real assets represented by citizen shares, these government liabilities establish a sound basis for executing monetary policy through open-market operations by the central bank. Moreover, the equity shares in government hands provide a source of fiscal revenues that reduces its reliance on other distorting taxes.

Under this scheme the government would use its dividends from citizen shares and other tax revenues to provide public goods, most importantly national defense, central government services, and debt service. Fiscal discipline is imposed by requiring that government debt be fully backed by the government's reserves of citizen shares. In short, the central government's holdings of citizen shares provides both a source of government revenue and a real asset-based anchor for monetary issue.

A private revenue source

In capitalist fiscal systems, the government's tax revenue is assured by granting the government the coercive power to appropriate a portion of the future incomes accruing to its citizens. Socialist privatization grants the government the right to own titles to a portion of the nation's assets outright, thereby providing the government with an independent revenue source. Essentially, the government's share of equity holdings represents the capitalized value of the income stream it would otherwise have to appropriate from its citizens in the form of taxes.

Similarly, in capitalist monetary systems, the credit worthiness of the government is established by lenders' perceptions of the government's ability to sustain its coercive power to appropriate sufficient income from its citizens to service its debt. Under the socialist privatization program, the government is granted outright title to a portion of national assets that it can use as direct backing for its issue of government liabilities.

The 20 percent of citizen shares distributed to regional governments would provide those authorities with a national revenue base for public expenditures. Each republic would be encouraged to allocate a portion of its shares to lower-level local authorities. This

would permit diversity in the choice of public goods and services and assure local citizen control over those services that most directly affect their well-being.

Socialist privatization envisions 50 percent of all citizen share bundles distributed in equal shares to each and every citizen. In the Soviet Union, rough calculations suggest that the per capita share value of this distribution may be two or three times the average per capita annual income of the Soviet citizen. Each citizen would be enabled to purchase his share entitlement at a nominal cost through a nationwide share registration program. The cost of the shares should be set at the lowest possible fraction of the forecasted market value of the shares consistent with the achievement of monetary balance. The idea is to use the share distribution to absorb and sterilize a sufficient amount of excess rubles to restore the monetary equilibrium required for overall stability of the price level.

Given the current level of earnings and the skewed distribution of wealth in the Soviet Union, many citizens may not have sufficient liquid savings to directly purchase shares even at the low nominal price. Citizens without requisite means would be entitled, upon registering their shares, to establish a bank deposit account and receive a loan to aid in the purchase of their citizen share. The citizen share itself would serve as loan collateral.

The interest rate on the loan would have to be set above the interest rate on ruble deposit accounts but below the expected rate of appreciation of the citizen share. This rate structure would provide an incentive to pay for shares with available rubles rather than through the loan mechanism.

The proposed citizen share distribution serves several reform goals simultaneously:

(1) It institutes a painless ruble absorption mechanism for establishing monetary balance without having to resort to inflation or direct taxation.

(2) It establishes an egalitarian asset distribution, providing each member of society with a direct stake in the successful outcome of the reform process, while providing each citizen with income earning assets that serve a safety net function to cushion the dislocation effects of reform.

(3) The administrative process of share distribution and registration facilitates the institution of a nationwide banking system that provides basic deposit and loan services. As such, it performs an indispensable function of introducing and educating the public in the use of basic banking facilities.

Three problems; three goals

Three interdependent problems remain to be solved. First, how are citizen share equity values to be determined? Second, how can we assure adequate incentives for workers and management to strive for productive outcomes if management and ownership are largely divorced? Finally, how can we achieve ruble convertibility for international currencies?

Each of these issues is addressed by the proposed distribution of the remaining 20 percent of the nation's citizen shares. In an economy without any history of equity markets and hence no experience in share valuation, it is necessary to enlist the talents of those individuals most likely to possess relevant information and skills appropriate to the task of asset valuation. It will be recalled that each citizen share is composed of a bundle of disparate shares of separate economic entities. The shares of each separate entity therefore need to be priced before it is possible to determine a composite market valuation for a citizen share.

Market pricing of unbundled equities of specific firms can only take place after financial and price reforms have been enacted. Financial reforms require the elimination of monopoly power and subsidies to unprofitable firms by the earnings of successful firms. This necessitates the replacement of "soft budget constraints" by "hard budget constraints." Under these circumstances, some of the enterprises represented in the citizen share bundle will no longer be viable, and bankruptcy provisions must be established for these enterprises.

Successful firms, no longer burdened with the taxes required to subsidize ailing firms, will show increased profits, and new entrants will be attracted to these lines of business. Reforms must therefore provide for exit of failing enterprises and entry of new firms into profitable business areas. Ownership rights in any new firms that substantially benefit from the dissolution, reorganization, or asset sales of existing firms must be distributed in accord with the initial socialist privatization plan. This assures that neither government nor the public will suffer a dilution of its equity interests as a result of dynamic industrial reorganization.

Proper valuation of equity shares requires that investors have sufficient information to form reasonable expectations about present and future profits. This in turn requires projections of input costs and output prices. While central planning establishes relative prices for goods and factors of production, these prices typically do

not reflect true scarcity values or opportunity costs. Nor do they flexibly respond to changing economic circumstances. If relative prices are to convey both appropriate information and incentive signals, major efforts must be undertaken to break up existing monopolies into smaller competitive enterprises. Centrally controlled prices can then be set free to clear markets.

This represents a controlled big bang approach to reform. Prices of goods regularly traded on international exchanges could initially be set to conform with international market prices so as to minimize the distorting effects of residual monopoly power in some industrial sectors of the USSR. All other prices should be set free to seek their market-clearing levels.

Price controls are best eliminated all at once rather than by the more timid and distorting method of step-by-step reform. This is particularly true when price reforms are preceded by a program of socialist privatization that serves both to speed and buffer the adjustment process. The prior establishment of monetary balance permits market-determined relative price changes to quicken the pace of resource reallocation since relative price signals are not contaminated by increases in the general price level.

The elimination of central planning directives and bureaucratic controls significantly reduces transaction costs of exchange. The dispersed holdings of property rights pools risk and provides an asset buffer that enables individuals to withstand the disruptive consequences of transitional unemployment. In short, socialist privatization would help to speed the adjustment process initiated by the big bang while cushioning its transitional impact. It is the newly distributed asset shock absorber and the established monetary stability that controls the explosive forces of the big bang.

With relative goods and factor prices approaching, however roughly, their market-clearing values, it is then possible to value equity shares. Initial equity prices of individual enterprises could be established by an open public auction of the undistributed shares representing 20 percent of the original share issue.

The richest source of information relevant to the pricing of equity shares of any particular enterprise resides with its managers and workers. The richest source of skills for valuing equity shares is to be found in the international financial and entrepreneurial community. It is therefore essential that both of these sources be given incentives to enlist their knowledge and skills to attain appropriate share valuations at the public auctions.

Managers and workers will determine the efficiency with which enterprises operate. They must be provided with productivity incentives that contribute to the public interest. Workers and managers of every separate enterprise should be given a right of first refusal to purchase 10 percent of their enterprises' outstanding shares at the prices determined by public auctions. Similarly, international financial entrepreneurs would be offered an inducement to participate in the share pricing process by giving them the right to purchase up to 10 percent of the remaining outstanding shares at the public auction prices.

Incentives, productivity, and profits

The proposed procedure would accomplish the three interdependent goals. The nation's equities would be priced by engaging the talents of those most able to assess their market value. Management and labor of particular enterprises would have an equity incentive to increase the efficiency, productivity, and profitability of their enterprise. Foreign investors would be given an incentive and opportunity to purchase shares of particular enterprises, giving them a direct interest in the sound restructuring of management practices and the introduction of new technologies.

Foreign investors would be required to purchase shares with rubles, which in turn must be purchased with foreign currency. Since most of the excess rubles have already been soaked up by the sales of assets to Soviet citizens, the foreign demand for rubles to purchase Soviet assets will raise the international value of the ruble. The foreign currency reserves created through the sale of assets to foreigners, in combination with the asset backing of the ruble, should be sufficient to establish the ruble as a *de facto* internationally convertible currency.

As soon as initial equity values for specific shares have been established by auction, the Soviet stock exchange would open for public trades. The daily stock exchange index value of a "citizen share" would be prominently published in every Soviet newspaper and serve as a visible indicator of the progress of perestroika reforms. Confidence in the reforms would be bolstered by rising share values and a steady stream of dividend payments to shareholders. Rising equity values are likely because the equity market will be initially structured as a positive sum game.

During this crucial period, the aggregate value of citizen shares is expected to appreciate substantially. This appreciation is assured by the low initial cost, the

elimination of current mismanagement practices, and the efficiency and productivity gains brought about by the improvement in information and incentive systems. Every upward movement of the citizen share index will help to build confidence in the success of the reforms. The confidence will be reinforced by permitting gradual increases in loans that can be used to acquire other sources of real property such as land, apartments, capital, and equities.

During the initial phase of the transition all enterprises would be required to pay out their profits in the form of dividends. Firms' investment requirements would be financed by loans through the banking system whose function is to provide intermediation services between savers and investors. Both the equity and debt markets will establish positive real interest rates, thereby creating a meaningful channel for the allocation of savings to investment, over space and time.

Continued confidence in the success of reforms will also require a visible reduction in shortages of consumer goods and services. Demand will be reduced by the elimination of the ruble overhang and the use of rubles to purchase available stocks of real assets. In addition, there will be an increase in the supply of consumer goods and services. Ruble convertibility will encourage the dishording of inventory stocks and improve prospects for imports of consumer goods.

The reallocation of military and investment expenditures to consumer goods will also help to improve available supplies. Unconstrained market prices will provide information and incentive signals for the entry of new enterprises into consumer markets. Private ownership rights and price incentives are likely to induce improved productivity in both industry and agriculture.

The communist experiment sought to establish a cooperative, equitable, democratic and prosperous society by placing ownership of the means of production in hands of the state and by directing the economy bureaucratically according to a central plan. It is now increasingly acknowledged that the experiment did not succeed in attaining its goals.

Yet paradoxically, the failed experiment has created a unique opportunity to salvage its goals by now undertaking a reform program of socialist privatization. By overseeing the return of state custodial property to its citizens and initiating market-oriented price reforms, *perestroika* can directly effect an egalitarian distribution of wealth and create the requisite institutions for genuine democracy and market efficiency.