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**Dates:** 05/02/1991 - 06/17/1991

**Sub-Fonds:** Records of the Office of the Vice President, Development Economics and Chief Economist and later Senior Vice President, Development Economics and Chief Economist (DECVP)

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**ISAD Reference Code:** WB IBRD/IDA DEC-03-23

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PRDDR - Soviet (General)  
May - July 1991

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The World Bank/IFC/MIGA  
O F F I C E M E M O R A N D U M

DATE: 17-Jun-1991 04:46pm

TO: Wilfried Thalwitz  
TO: Paul Isenman  
TO: Costas Michalopoulos

( WILFRIED P. THALWITZ )  
( PAUL ISENMAN )  
( COSTAS MICHALOPOULOS )

FROM: Geoffrey B. Lamb, PRDPD

( GEOFFREY B. LAMB )

EXT.: 32544

SUBJECT: Grand Bargain

USSR

I spoke to Stan this afternoon (Wilfried you may know all this) to find out how/when we could get a copy of the Grand Bargain.

Apart from a few members of the Yavlinsky/Allison team, only Gorbachev and Bush currently have it. At the end of next week it will be sent to the G7, and Stan's expectation is that it will then be promptly leaked.

} Stan says there are absolutely no surprises in the economic side of the plan to anyone familiar with the JSSE: it's a little faster, and a bit tougher, but otherwise essentially the same approach.

They are also now trying to nuance the thing to be very much Yavlinsky's (i.e. to downplay the US contribution) to raise the probability that it'll be accepted at the Soviet end.

CC: Lynette Alemar

( LYNETTE ALEMAR )

# OFFICE MEMORANDUM

DATE: June 11, 1991

TO: Distribution

FROM: Martin Schrenk, CECSE

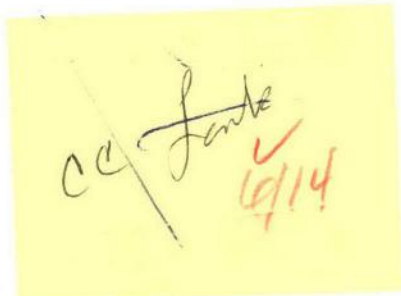
EXTENSION: 36985

SUBJECT: NEWS ON THE USSR

RECEIVED

91 JUN 13 PM 2:59

PRDDR



1. As you may know, we are trying to keep track of information on political/economic events relevant for system reform in the USSR. Attached is a selective batch of pieces which seem of general interest. We intend to repeat distributions of this kind whenever justified by recent material.

2. The first item in the batch is a brief summary of the draft "action program" (the final version is apparently due these days). It was initially ridiculed by Western media, but mostly ignored. But after it had become the framework for the "nine plus one" (9 republics plus the Union) agreement, for the compromise between Gorbachev and Yeltsin, and more recently for the Yavlinksiy mission, it is now more widely seen as the most important current initiative. Should you be interested in more detailed information, we can send you our comprehensive summary accompanied by the full text.

Attachment

## Distribution

Mme./Messrs.: W. Thalwitz (PRESV); C. Michalopoulos (PRDDR);  
P. Isenman (PRDDR); L. Summers (DECVP);  
D. de Tray (DECVP); M. de Melo (EM4DR);  
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J. Linn (CECDR); A. Gelb (CECSE)



# REPORT ON THE USSR

Vol. 3, No. 20, 1991

## ALL-UNION TOPICS

### ECONOMY

## Pavlov's Anticrisis Program

Keith Bush

*Pavlov's draft anticrisis program was made public by TASS on April 9, only to be withdrawn immediately. It is the fifth attempt at a comprehensive economic reform to be undertaken since Gorbachev's accession. It consists of a package of stabilization measures designed to halt the present recession and disintegration of the economy and a package to enable transition to the market by creating the environment and the infrastructure for limited privatization and for the development of market institutions. Both packages are to be implemented simultaneously. The stabilization package is not enough to overcome the crisis, and the market-transition measures do not go far enough in terms of privatization or of correcting the deformations produced by collectivized agriculture and by the monstrous defense burden. The program is currently under review, and must be approved by the Union republics before implementation.*

USSR Prime Minister Valentin Pavlov's anticrisis program, unveiled on April 9, 1991, represents the fifth attempt at a comprehensive economic reform undertaken since USSR President Mikhail Gorbachev came to power.<sup>1</sup>

(1) The first was the Abalkin plan, which was discussed at an all-Union conference in November, 1989. It envisaged a three-stage process: a stabilization program to be

implemented during 1990; the establishment, during the period 1991-93, of preconditions for a market, including the partial liberalization of prices; and, finally, the creation of market institutions in 1993-95. Its implicit goal was the functioning of a market mechanism from 1996 on. This first project did not proceed beyond the drawing board and was not adopted by the legislature.

One month later, the Ryzhkov plan of December, 1989, was adopted by the USSR Congress of People's Deputies. The first stage of that emphasized stabilization in 1990-92 through the use of administrative measures. The second stage, for the period 1993-95, was intended to achieve much the same as the final two stages of the

<sup>1</sup> This section is drawn from the excellent review of the Soviet reform process in the journal of the Commission of the European Communities, *European Economy*, December, 1990, pp. 83-93.



Abalkin plan. As the deterioration of the consumer market accelerated, this plan was increasingly deemed to be too slow in yielding results.

(3) In May, 1990, Ryzhkov presented what was the third attempt, an accelerated version of his plan that sought to implement "the shock therapy" advocated by Gorbachev some two months earlier. Under this variant, the stabilization period was to be completed by 1992, with the market already functioning by 1993, although destatization was to take much longer. However, one of its proposed stabilization measures—namely, a steep rise in the retail prices of staple foodstuffs—met with strong resistance in the USSR Supreme Soviet and among workers, and the modified Ryzhkov plan was not adopted by the USSR Supreme Soviet.

(4) In September, 1990, three alternative programs were presented to the USSR Supreme Soviet: they came to be known as the government program, the Shatalin program, and the Aganbegyan compromise program. None was approved by the legislative body, but elements from all three were consolidated into what later became known as the Gorbachev synthesis or "basic guidelines," which was adopted on October 19. Although the proclaimed goal of this fourth plan was a changeover to the market economy, its timetable was imprecise and the boundaries between the different phases of stabilization and transition were left vague. It was judged to be more of a manifesto than a road map to the market.

#### Pavlov's Progress

Nikolai Ryzhkov was hospitalized after a heart attack on December 25, 1990, and Valentin Pavlov was appointed USSR prime minister in his place on January 14, 1991. He was confronted with, *inter alia*, a disintegrating economy, the breaking down of established vertical and horizontal links, an unchanged price formation system, escalating inflation, a severe monetary overhang, a large and growing hard-currency debt, a fall in exportable products, and a sharply deteriorating credit rating. (Pavlov is partly to blame for the defects of the price system and for inflation—he previously served as the head of the USSR State Committee on Prices and was USSR minister of finance.)

Shortly after his appointment to the post of prime minister, Pavlov implicitly acknowledged the need for movement towards the market at a more rapid pace than that provided for by the "basic guidelines." His first two major concrete measures were not particularly well thought out or implemented. On January 22, it was decreed that all 50- and 100-ruble banknotes be exchanged within three days, and savings deposits were partially and temporarily frozen. Out of a total of 48 billion rubles' worth of cash in these denominations, about 7 billion rubles were effectively confiscated, representing less than 5 percent of money in circulation. Against this modest contraction of the money supply had to be set the substantial loss of what confidence people might still have had in the state and its institutions.<sup>2</sup>

<sup>2</sup> See Keith Bush, "Gorbachev's First Currency Reform," *Report on the USSR*, No. 5, 1991, pp. 25–26.

The next shock for the already dispirited population of the USSR was the retail price increase on April 2, when the prices of many staples were doubled and even trebled.<sup>3</sup> Partial compensation was provided in advance: for most workers, this came in the form of a supplement of 60 rubles to their monthly pay packet. The authorities declared this would offset 85 percent of the retail price increases, but a researcher at the Institute of World Economics and International Relations calculated that it effectively covered only a third of the increase.<sup>4</sup> Probably the greatest shortcoming of the whole exercise was the failure by the authorities to provide any additional supplies of goods at the higher prices.

Another milestone of sorts was Pavlov's notorious interview with *Trud* on February 12. Although most of the attention it drew was for its xenophobia, the profoundly antimarket sentiments expressed by the prime minister were just as disturbing.

#### The Program's Unveiling

During a rambling television interview on March 26, Gorbachev referred to an "anticrisis" program that would be submitted to the premiers of the republics and to the USSR Supreme Soviet at the beginning of April.<sup>5</sup> On the afternoon of April 9, TASS carried the "Draft of the USSR Cabinet of Ministers' Action Program for Leading the Economy out of Crisis."<sup>6</sup> About two hours later, TASS circulated a service message "annulling" its previous transmission.<sup>7</sup> Unconfirmed reports say that Gorbachev presented the program to the Council of the Federation on April 9, but that he neither took questions nor allowed discussion and that he handed over the forty-page document only at the end of the session. It may be that the participants' delayed reaction of protest accounted for the TASS withdrawal. Later that evening, the president went on television at prime time to outline the severe measures aimed at stabilizing the economy.<sup>8</sup> Two days later, *Rabochaya tribuna* announced that work on the text of the program was continuing and that it would be completed during the next few days.<sup>9</sup>

The initial draft was overwhelmingly approved by the USSR Supreme Soviet on April 23, which gave the USSR Cabinet of Ministers until May 20 to "refine" the program, after which and with final agreement of the republics—an important qualification—it was to be resubmitted to the legislative body.<sup>10</sup> It was noted on May 3 that "differences" remained between Moscow and the Union

<sup>3</sup> See Philip Hanson, "Pavlov's Price Increases," *Report on the USSR*, No. 12, 1991, pp. 8–10; *idem*, "Implementing the Price Increases," *Report on the USSR*, No. 17, 1991, pp. 6–7.

<sup>4</sup> *The Financial Times*, May 1, 1991.

<sup>5</sup> *Central Television*, March 26, 1991.

<sup>6</sup> TASS, April 9, 1991.

<sup>7</sup> *Ibid.*

<sup>8</sup> *Central Television*, April 9, 1991.

<sup>9</sup> *Rabochaya tribuna*, April 11, 1991.

<sup>10</sup> TASS, April 23, 1991.



republics.<sup>11</sup> At the time of writing, the text of the program does not appear to have been generally reissued.

### The Anticrisis Program

Except where otherwise indicated, what follows is drawn from the "Draft of the USSR Cabinet of Ministers' Action Program for Leading the Economy out of Crisis," as carried by TASS on April 9 but subsequently annulled, and Pavlov's formal presentation of it to a joint session of the USSR Supreme Soviet on April 22 and to the CPSU Central Committee on April 25.<sup>12</sup>

#### The State of the Union

Some specifics of the crisis that provoked the program are spelled out. During the first quarter of 1991, national income (produced) had fallen by 12 percent when compared with the corresponding period of 1990. Sharp falls were noted in labor productivity, industrial output, agriculture, and foreign trade, while inflation was accelerating. The disintegration of the economy had reached a point where "a once unified economic space is being fragmented into cloistered autarkies." The severity of the recession was deemed such that no program could ensure a rapid recovery. Later, Pavlov was to elaborate: "The economy is sliding down with enormous speed. We can definitely see processes under way in the country that we will not be able to remedy for years." He saw "a real threat to the existence of the state."<sup>13</sup>

#### General Outline

The program is said to be based upon the "basic guidelines" of October, 1990, which it supersedes, making "the main guidelines more detailed and furnish[ing] them with specific measures." But it is precisely the absence of detail of how its aims are to be implemented that has been one of the major criticisms leveled at the program from the start. It is also stated that the program embraces ideas and proposals advanced by republics, "alternative authors," and international economic organizations.

The following paraphrases some of the main provisions of the program, albeit not necessarily in the order or grouping in which they were presented by TASS:

#### PROVISIONS FOR STABILIZATION THROUGH THE END OF 1991

- A ban on strikes and the holding of "sociopolitical events" during working hours and increased liability for the organizers of illegal strikes (the TASS text referred solely to "strikes," but Pavlov and others subsequently spoke of "political strikes").

- Introduction of "special regimes" for the power, transportation, and communications sectors. (Pavlov later explained that "a 'state of emergency' or 'special regime' does not mean that people will be forced back to work, but

it is possible to let people work with the help of force."<sup>14</sup> Addressing the Central Committee plenum, Pavlov dropped the term "special regime" and proposed that: "A state of emergency be introduced immediately in the sphere of transport, in the sectors of the fuel and power complex and metallurgy. A special operation regime should be introduced in the banking system and in tax services.")

- Enforcement of the agreements between the Union and the republics (presumably those of January, 1991) on the deliveries of food and agricultural raw materials.

- "The ensuring in 1991 of strict observance of the procedure for linking the growth of means channeled for consumption with the increase of commodity output." In other words, to ensure that any pay rises are linked to productivity.

- Suspension of short-time working.

- Immediate dismantling of administrative and economic barriers.

- Guarantee of supplies to the agroindustrial complex.

- Reopening of enterprises that had been closed down on ecological grounds.

- The concentration of available construction capacity on food and consumer-goods plants near to coming into production.

- Closure of energy-inefficient enterprises.

- Resumption of payments to East European countries on a clearing basis and in national currencies.

- Mobilizing urban workers and troops to help with the 1991 harvest and to assist in the transportation of produce.

- Offering inducements to labor to work abandoned or underpopulated agricultural land.

- Expediting the allocation of 5 million hectares of agricultural land for private farming (decreed in 1990, but so far only partially implemented).

- Lifting taxes on profits derived from manufacturing consumer goods and from constructing consumer-goods capacity.

- Lifting some of the restrictions on the activities of cooperatives.

- Encouraging the public to sell hoarded consumer goods.

<sup>11</sup> USSR Deputy Prime Minister Vladimir Shcherbakov, *Radio Moscow-1*, May 3, 1991.

<sup>12</sup> TASS, April 25, 1991.

<sup>13</sup> *Central Television*, April 20, 1991.

<sup>14</sup> TASS, April 22, 1991.



- Taking steps to repay the country's foreign debt.
- Cutting imports by 10-15 percent by the end of 1991.

#### FINANCES AND MONETARY CIRCULATION

- Obliging the republics to honor their contributions to the all-Union budget.
- Tightening credit ceilings for Union and republican budgets.
- A moratorium on new budget programs.
- Replacing sales tax by value-added tax and excise duties.
- Imposing ceilings on Union and republican budget deficits.
- Setting up a federal reserve system of central banks with strict instructions not to lend to the government.
- "Strict observance of the legislation on the independence from executive power of credit institutions at all levels."
- Adoption at all levels of extraordinary budgets during the second half of 1991 in which "expenditures will match revenues."
- Using interest rates to influence the amount of credit in line with the rate of inflation.
- Limiting subsidies to unprofitable enterprises.
- Reducing personal taxes on high incomes and raising minimum personal allowances.
- Instituting measures against tax evasion.

#### MOVES TOWARDS THE MARKET?

- Transition to "primarily free price formation" by October 1, 1992.
- Introduction of a special mechanism for controlling the prices of monopoly products.
- Removal of all administrative restrictions on individual earnings.
- Preparation of draft legislation on indexing incomes and transfer payments by May, 1991.
- Introduction, with effect from 1992, of "tripartite collective labor (wage rate) agreements to regulate the growth of wages at all levels, from Union-wide down to enterprises" ("tripartite" here means the trade unions, employers, and government).

- Privatization of housing "on a voluntary and predominantly free basis"; housing space above certain norms to be offered for sale to the occupants.

- Drawing up inventories of the assets of enterprises deemed suitable for privatization.

- Transformation of about two-thirds of small enterprises in the service sector into "family-run and private enterprises" during 1991-92.

- "Transfer to citizens' ownership of a minimum of 10 percent of the value of the property of all organizations and enterprises."

- Division of shares of newly privatized enterprises between Union, republican, and local authorities.<sup>15</sup>

- "Transfer to the so-called internal convertibility of the ruble."

- Operation of "market institutions such as the USSR State Property Fund, an antimonopoly committee, a small businesses committee, a state pension fund, and a state employment agency."

- Development of stock and commodity exchanges with foreign participation.

- Enhancement of cooperation with international financial organizations.

#### FOREIGN TRADE

- A draft legislative act on the repatriation of profits and hard-currency investment to be prepared and submitted to the USSR Supreme Soviet by June 1, 1991.

- Institution of export-promotion and import-substitution measures.

- Examination by the Council of the Federation of the feasibility of free enterprise zones.

- Ending the monopoly of the state foreign trade organizations.

- Granting concessions to foreign companies to develop natural resources including mineral deposits in the USSR.

- Encouraging barter deals.

#### RESTRUCTURING

- Reducing the number of sectoral ministries.

- Large-scale redistribution of resources from obsolescent plants to more modern ones.

<sup>15</sup> *Ibid.*



- Further consideration to be given to cutting defense expenditures and to increasing the output of consumer goods by the defense-industry complex.

- Completion in 1991 of the All-Union Foundation for Fundamental Research.

- Introduction of unemployment benefits with effect from July 1, 1991, a massive program to retrain redundant workers, the establishment of public works programs, and the encouragement of the migration abroad of workers to earn hard currency and to learn new skills.

#### INTERACTION BETWEEN CENTER AND REPUBLICS

- The unity of the following: the financial, credit, and monetary systems; foreign-exchange policy and the customs service; price-setting policy and principles; the system of social guarantees and employment policy; and the accounting and statistical system.

- Within the above framework, the formation of "a single economic area in which independent goods producers freely operate under the jurisdiction of the laws of the relevant republics and goods and money are moved about without let."

- Fulfillment by Union republics of all constitutional and contractual obligations.

- An end to "the war of laws"—i.e., the often contradictory decrees and laws issued by authorities at all levels.

#### Appraisal

It may be somewhat premature to pass judgment on an economic program that has, apparently, not been released to the public and whose initial draft may well be substantially altered by the Union republics, even if prospects of accord have improved with "The Peace of Novoe Ogarevo," the agreement signed between Moscow and nine republics on April 23.<sup>16</sup> After the USSR Cabinet of Ministers session on April 20, it was noted that republican representatives had raised objections and that "the representative of the RSFSR Council of Ministers had voiced a specific position."<sup>17</sup> And the best that Pavlov could claim was that "the republics have effectively approved this total concept on the whole" (emphasis supplied).<sup>18</sup> Moreover, as noted, the USSR Cabinet of Ministers has been instructed to carry out "the necessary refinement" of the program by May 20.<sup>19</sup>

<sup>16</sup> *Pravda*, April 24, 1991; see Roman Solchanyk, "The Gorbachev-El'tsin Pact and the New Union Treaty," *Report on the USSR*, No. 19, 1991, pp. 1-4.

<sup>17</sup> *TASS*, April 20, 1991.

<sup>18</sup> *Central Television*, April 20, 1991.

<sup>19</sup> Which was restated in *Izvestia*, May 1, 1991.

Granted that the text is not final, nevertheless, like most political programs and manifestos, the program has something for everyone but will satisfy nobody completely. One of the complaints most frequently voiced by domestic critics is that the program lacks sufficient in the way of specifics. It is certainly less specific than the Shatalin program but, on the other hand, more detailed than the "basic guidelines" that it presumes to succeed. Yet the Shatalin program consisted of some 350 pages of dense prose. Few have actually read it. Boris Fedorov is quoted as stating that Gorbachev read the Shatalin program from cover to cover, debated it for seven hours with the authors, but then decided—or was persuaded—to reject it, while El'tsin did not read it at all but gave it his full support.<sup>20</sup> It would be wrong to discount the new program because it is shorter than the Shatalin plan—in fact, it consists of ten chapters and 135 special measures, and to implement it in 1991 will require thirty-one new laws, eight presidential decrees, and ten agreements with republics. Furthermore, many felt that the Shatalin program was too detailed and that its timetable was too vulnerable to the effects of the inevitable slippage. What would be helpful, at this early stage, is for the Pavlov administration to state briefly—in a way that would be comprehensible to the bulk of the population—what its aims are with respect to privatization and the transition to the market.

Another common judgment is that the program is an incongruous mixture of command-administrative measures together with the stimulation of the market mechanism by decree. Yet, such criticism surely overlooks the point of departure, for, speaking without hyperbole, the Soviet economy in the spring of 1991 is in free fall and disintegrating. The GNP could drop in 1991 by 10-15 percent, perhaps by more. Such a precipitous decline would put an enormous strain on the social fabric of any country but especially on a country that has been, and is, going through such political, social, and nationalist upheavals as the USSR is. The imposition of, or abandonment to, an unfettered market mechanism would merely add fuel to the already raging conflagration. And Pavlov has repeatedly claimed that his government does not intend to impose the market by fiat but merely to create an environment in which a market infrastructure and institutions can be developed.

Reformers will approve of Pavlov's declared intention to proceed simultaneously with stabilization and transition to the market, as opposed to the previous Abalkin and Ryzhkov variants, which envisaged a lengthy period of stabilization before any moves towards the market could be initiated.

Nevertheless, a cursory reading of the draft program and its subsequent elaborations suggests that it does not go far enough in the direction of privatization and that its positive features are outweighed, and perhaps fatally flawed, by its omissions and shortcomings.

<sup>20</sup> *The Financial Times*, March 16, 1991.



Several of its positive features are policies that have already been authorized or even initiated, but it does no harm for the government to reaffirm them. Few would object, in principle, to such measures as: further privatization and destatization; the commitment to "primarily free price formation" by October, 1992; an antimonopoly board or boards; retraining, relocation assistance, and a social safety net for the unemployed; tighter monetary policies; index-linked savings; lower personal income tax rates; more private trade in foodstuffs and consumer goods; more private plots and market gardens; the liberalization of foreign currency dealings for individuals and firms; and further encouragement of foreign investment.

Some elements, however, exude the dank odor of the Brezhnev era. An "All-Union Foundation for Fundamental Research" sounds less than promising; other suggestions appear to be contradictory or inconsistent. It is not readily apparent, for instance, how the transfer to private ownership of two-thirds of the service sector can be married with "the division of shares of newly privatized enterprises between Union, republican, and local authorities." Pavlov has warned the USSR Supreme Soviet that the budget deficit in 1991 is heading towards 200 billion rubles. It is difficult to reconcile the stated aim of balancing the budget, itself wholly laudable, with the proposed cuts in personal income taxes, the creation of a social safety net, cheap credits for agriculture, implied hikes in agricultural procurement prices, and the indexation of transfer payments and salaries—if not wages—alluded to, not to mention the reduced budget revenues during the recession.

When Pavlov formally presented the program to the USSR Supreme Soviet, he emphasized his government's commitment to privatization but added that "a critical mass" of privatized smaller enterprises must be in place and functioning before taking larger enterprises out of state hands could begin.<sup>21</sup> Much will depend upon the size of this critical mass. The program foresees a minimum of 10 percent of all state property in citizens' hands—presumably by the end of 1992. Valentin Minaev, the secretary of the USSR Supreme Soviet Committee for Economic Reform, deemed this to be too little and too late—in his view, "to ensure that the market starts working, it is necessary to create a minimum critical mass of nonstate property . . . [of] at least 35 percent."<sup>22</sup> Pavlov has made it clear that he is against the privatization of large- and medium-sized industrial enterprises and that he is not in favor of the free distribution of state property other than housing: "It is necessary to create conditions for all working people to acquire property from their earned income and not for it simply to be distributed." Furthermore, he regards it "a big mistake to propose a massive sell-off of land." He continues to be less than supportive of cooperatives, emphasizing the opportunities they

provide for "speculation" and "profiteering." All of this suggests that privatization will be a protracted process, perhaps too protracted to allow "the critical mass" to be attained before it is too late.

Published five-year plans have traditionally dismissed defense expenditure with what, in essence, amounted to one word: "enough." The latest draft plan is also similarly brief about what it envisages: "To study a program for the conversion of military industry in the second quarter of 1991 with a view to further cutting military expenditure while ensuring the sufficient and necessary defense capability of the USSR." The performance of the whole economy and the living standards of the population of the USSR cannot properly be considered if defense is excluded—it is the single most distorting and destabilizing feature of that economy. President Gorbachev has chosen to discount the official measures of the USSR's defense burden, which are still understated, and has suggested that it amounts to 18 percent or even 20 percent of the Soviet national income;<sup>23</sup> many observers would put it higher.

The program envisages no radical changes in agricultural management. The allocation of more private plots, market gardens, and auxiliary farms for factories can assist in supplementing the urban diet but alone will not enable the country to feed itself from a modern, efficient agricultural sector.

### Conclusion

The anticrisis program has two parts—a stabilization package and a set of market transition measures. The stabilization package, although perhaps too harsh for some of the republics, does little or nothing to alleviate the very real and very evident manifestations of the current economic crisis. It will not, for instance, put goods into the stores. It will not dampen inflation, which, after the price increases on April 2, may have broken the three-digit barrier. It is by no means clear that the program will halt the present dramatic decline in industrial and agricultural output. The USSR, once able to boast first-class creditworthiness, has now been marked down as a risk; the Pavlov plan does little to remedy this. The market-transition package has many laudable elements but does not go far enough towards privatizing industry, providing an unequivocal commitment to private property, dismantling the socialized agricultural system, or reducing the burden of defense.

There remain a number of open questions: whether any program can be implemented under the present circumstances, which is in doubt because the government can be said to lack legitimacy and credibility, and whether the enabling legislation and the implementing decrees would be observed. Legislation regulating strikes was passed in 1989, but it has not prevented the worst labor unrest to date from breaking out in 1991.

<sup>21</sup> TASS, April 22, 1991.

<sup>22</sup> Pravda, April 22, 1991.

<sup>23</sup> Pravda, April 29, 1990; Radio Moscow, February 26, 1991.

(RL 187/91, May 6, 1991)



## IN THE REPUBLICS

RSFSR

# Russia's Radical Reform Program

John Tedstrom

*The Silaev program for economic reform in the RSFSR adopts an approach that draws on the Shatalin-Yavlinsky "500-days" plan. At the same time, however, it shares many of the features of all-Union reform legislation that has been passed in the last year. Whether the Silaev program will complement all-Union measures or conflict with them in the political arena remains to be seen. The outcome of the political tug-of-war over reform between the center and the republic will largely determine whether Silaev and El'tsin get the chance to transform the Russian economy.*

Faced with economic chaos and lack of effective leadership on the part of the all-Union government, the RSFSR has taken upon itself the task of devising its own program of economic stabilization and reform. If implemented, this program could have a considerable positive impact on the republic's economy. It departs from the premise that "the economy is coming ever closer to a limit beyond which it will be necessary to talk not in terms of an economic crisis but of a catastrophe."<sup>1</sup> RSFSR Prime Minister Ivan Silaev presented his government's program to the third (extraordinary) session of the RSFSR Supreme Soviet in late March. Since then, it has been a very popular subject of discussion in both the republican and the all-Union media.

(1) The Silaev program is notable for three reasons. First, those who drafted it drew extensively on the Shatalin-Yavlinsky "500-days" plan,<sup>2</sup> updating and modifying that document's prescriptions for the Soviet Union's economic ills to fit the situation in the RSFSR.<sup>3</sup> Thus, by definition, the Silaev program adopts a relatively ambitious approach towards modernizing the republic's economic system, relying to a greater extent than the all-Union (or Pavlov) program on privatization, entrepreneurship, and market

relations. Second, it is oriented towards practical measures that in theory could be implemented in a relatively short time. Third, the program not only attempts to cope with center-republic relations, but devotes a good deal of attention to the growing problems of republican-local relations within the RSFSR.<sup>4</sup> The Silaev program consists of several sections, including a plan of practical action, a package of monetary and fiscal measures, and a section on defense of citizens' economic rights that essentially draws the line between republican and all-Union jurisdictions. Although the Silaev program is more radical in its approach to reform than most all-Union economic legislation, it does draw on and complement several USSR laws already passed by the USSR Supreme Soviet. Inasmuch as the Silaev reform program does not contradict all-Union legislation, chances of its running into roadblocks in the course of its implementation are reduced.

### Practical Measures

The section on practical measures focuses on three points: stimulating business activity, reforming the pricing mechanism, and limiting the scope and influence of monopolies in the RSFSR market place. Measures to

<sup>1</sup> "Programma pravitel'stva RSFSR po stabilizatsii ekonomiki i perekhodu k rynochnym otnosheniyam," *Komsomol'skaya pravda*, April 23, 1991.

<sup>2</sup> *Perekhod k rynku*, Moscow, Arkhangel'skoe, 1990. Several members of the Shatalin group, including Grigorii Yavlinsky, worked on the RSFSR program or reviewed drafts of it. Several Western economists also reviewed parts of the program.

<sup>3</sup> It is a testimony to the damage suffered by the Soviet economy since August, 1990, that Silaev's team had to devise a program that, in certain respects, is even more radical than the "500-days" plan.

<sup>4</sup> Although the official text of the Pavlov government's "Action Program" has yet to be published (details are under review in the USSR Supreme Soviet), a reasonably complete draft was issued by TASS on April 9, 1991. Remarks about the Pavlov government's program relate to this document.

<sup>5</sup> There are many parallels between the relationship of the RSFSR government to the local authorities under its jurisdiction and that of the all-Union government to the republics. In many ways, the Silaev program sets out to maintain the integrity of the RSFSR and embodies some strong measures directed towards that end.



stimulate business activity include reducing penal taxation of profitable businesses (especially those that plow profits back into investment projects) and lowering the upper band of personal income tax (to 30 per cent) in hopes of encouraging entrepreneurs. Prices are to be freed in stages, but more quickly (for the most part, within six-eight months) than under the Pavlov plan. The prices of goods whose production can most easily be increased in the short run will be freed first. Also in contrast to the Pavlov plan, the prices of fuel and energy within the RSFSR will be freed, beginning with coal prices.

The antimonopoly measures incorporated in the program are a step in the right direction, but they could have been bolder without posing excessive political or economic risks. In general, the program provides for penalization of monopolistic behavior (charging excessive prices). Taxes and fines will be used to keep prices down, and revenues from these sources will be used to support the development of small, competing firms. There seems to be no plan, however, to force any monopoly producer to split up or to spin off part of its production capacity as a new company. To the extent that the Silaev program addresses the monopoly issue, it parallels all-Union legislation adopted by the USSR Council of Ministers in August, 1990.<sup>6</sup> Finally, the RSFSR government hopes to attract foreign manufacturers and their products to the republic by granting special tax privileges and moving towards a system of repatriation of profits that would be more acceptable to foreign partners.

Measures designed to stimulate entrepreneurship are one of the more impressive features of the Silaev program. They fall into two categories: the abolition or simplification of a group of laws and regulations that now stand in the way of setting up businesses and the extensive decentralization of economic activity within the RSFSR. Among the laws abolished are Article 153 of the RSFSR Criminal Code, under which intermediary commercial activity falls, and Article 88, which forbids citizens to conduct business with hard currency.

Related measures include:

- extending the right to operate with hard currency to all citizens and enterprises in the RSFSR;
- removing discriminatory taxes against trade intermediaries;
- removing administrative restrictions on trade intermediaries, including those involved in foreign trade operations (once a list of forbidden activities has been drawn up);
- eliminating prohibitive customs tariffs on imports of consumer goods and food;

- dispensing with compulsory state orders (*goszakazy*);
- simplifying the system for registering new enterprises;
- simplifying accounting regulations.

Silaev has presented himself as a firm supporter of private business, asserting on Central Television that "Russia will be saved by entrepreneurs."<sup>7</sup> In this respect, he stands in marked contrast to the all-Union leadership, which often seems to regard entrepreneurs merely as a necessary evil.

Finally, the plan includes measures to transfer the bulk of centrally distributed material resources to commodity exchanges, to establish special lines of communication for interregional commodity exchanges and bank account transfers, and to make an inventory of incomplete state construction projects and put them up for sale.

Taken together, the sections of the program covering antimonopoly policy and entrepreneurship could in theory create a considerably more market-oriented economic environment. Fortunately for the RSFSR leaders, the measures included in these sections of the Silaev program tend to parallel most of the all-Union legislation on these issues, and the central authorities should not find much to object to.<sup>8</sup>

### Local, Republican, and Central Powers

The Silaev program attempts to strike a delicate balance between the RSFSR government and regional and local authorities, on the one hand, and the all-Union authorities, on the other. Only time will tell if such a balance is achievable in the current Soviet context.

First, the program lays out methods for maintaining the economic integrity of the republic. These include removing all restrictions on interregional trade within the RSFSR, abolishing coupon and ration card systems within the republic, and prosecuting local authorities who exceed their powers and who establish local customs and tariff regimes. As regards the RSFSR's economic relations with other republics, the program intends that interrepublican trade shall be shifted to world market prices, forcing "domestic" prices in each of the republics to move in that direction as well.

These measures may well be challenged by rebellious regions within the RSFSR. Already, a number of autonomous republics have declared themselves full republics, and Tatarstan has unilaterally declared its independence from the RSFSR.

The Silaev program also shows concern for the possibility that the center may try to impose its will on RSFSR citizens. To guard against that, it envisages a series

<sup>7</sup> Central Television, April 14, 1991.

<sup>8</sup> "Ob obshchikh nachalakh predprinimatel'stva grazhdan v SSSR," *Izvestia*, April 10, 1990, p. 2. See also the RSFSR Law on Entrepreneurship in *Ekonomika i zhizn'*, No. 6, 1991, pp. 16-18.



of steps, some of which steadfastly assert the RSFSR's control over events on its territory and some of which indicate a willingness to compromise with the all-Union authorities.<sup>9</sup> While stressing the republic's right to manage budgetary, financial, and economic matters on its own, the Silaev program advocates negotiations on a number of key points. It states that "the Council of Ministers of the RSFSR considers it necessary to reach agreement with the Union government on general principles and approaches concerning questions of monetary emissions and financial policy in general, pricing policies, foreign economic activities, including customs policies, and tax and budget policies." At the same time, the Silaev program would prohibit any further confiscations of money by the center and pledge to defend the sovereign right of the RSFSR authorities to conduct monetary and fiscal policy within the boundaries of the republic. It is likely that what the Silaev program hopes to achieve is agreement with the center on general principles so that the RSFSR government can deal with questions of practical policy on its own. Such an approach would raise many tricky issues, both political and economic. It is questionable, in particular, whether the RSFSR has the necessary resources to manage monetary and fiscal policies independently of the center.

### Monetary and Fiscal Policy

The section of the program covering monetary and fiscal policy devotes most of its attention to the formation of local and regional budgets, revenue sources, and expenditures. It pays rather less attention to monetary questions. One important point is that the program does not envisage the replacement of the all-Union ruble with a separate republican currency. In this sense, it is more moderate than, say, the Estonian reform plan, which regards the eventual introduction of an Estonian crown as a necessary step. The program rejects the republic's current fiscal system, which was imposed on it by the center, and starts from scratch. It lists numerous kinds of taxes (property, income, etc.) that will provide a diversified revenue base for the republic. A property tax raises many complicated questions not only about actual ownership of property but also about its value. All tax breaks envisaged by all-Union law would be abolished under the Silaev program and replaced with new ones in RSFSR law. On the whole, local authorities would receive more power to tax and spend as they see fit.

The program intends to replace the turnover tax on alcoholic products, tobacco, gold, and other precious substances with an excise tax.<sup>10</sup> While this may shift the

incidence of the tax to producers in the short run, experience has shown that, if prices are freed, they will increase by the amount of the excise tax. This tendency will be particularly strong in respect to such traditional Soviet staples as alcohol and tobacco. If prices are more rigid, as producers' variable costs increase their gross profit margins shrink correspondingly. In this case, when producers are able to shift production to more profitable goods, they often do so. In the past, Soviet producers certainly lacked that flexibility. To a large extent, they still do, but they have more choice of suppliers and inputs than was generally the case before, and Soviet consumers are likely to get lower-quality products as a result of cost-cutting measures by the producers. The economic logic behind this move is not spelled out in the Silaev program and remains somewhat of a mystery.<sup>11</sup>

The logic behind the replacement of the new "sales tax" with a real value-added tax is clearer.<sup>12</sup> The 5-percent tax that Mikhail Gorbachev introduced last year was not really a sales tax or a value-added tax but a hybrid of the two that increased the effective tax rate on goods as they passed from one producer to the next. A sales tax is levied at the point of retail sale. A value-added tax is levied at the various stages of the production process and is based on the producer's gross receipts less the costs of any intermediate goods which were taxed at earlier stages of production. The regulations governing the Soviet "sales tax" do not allow producers to deduct the cost of intermediate goods from their gross receipts, so they are paying tax not just on value added but on the total value of the product, which includes intermediate inputs that have already been taxed. The producer is in reality paying a tax on a tax. Although the Silaev program does not go into detail on this question, it is almost certain that the object of switching to a real value-added tax is to eliminate the multiple taxation of the current system. It is worth pointing out, however, that the Pavlov plan also envisages shifting from the existing "sales tax" to a value-added tax and from the turnover tax to excise taxes.

production, while the Soviet turnover tax is simply the difference between the wholesale and retail prices. Excise taxes on alcohol and tobacco are often referred to as "sin" taxes and are intended to raise the cost of consumption. Excise taxes are often applied to goods that are relatively price-inelastic—i.e., the consumer's purchase of the product will not decrease, in relative terms, as much as the price increases. Alcohol and tobacco are examples of such goods, especially in the Soviet Union. Excise taxes on precious substances, on the other hand, are probably intended to encourage people to hold cash instead of "fleeing from the ruble."

<sup>11</sup> This scenario is only one of several possible variants. The supply response of producers to the introduction of an excise tax will vary depending on each producer's production function.

<sup>12</sup> Under the agreement signed by President Gorbachev and the nine Union-republican representatives on April 23, 1991, the 5-percent sales tax may be abolished on a Union-wide basis as well. See the text of the agreement in *Pravda*, April 24, 1991.

<sup>9</sup> It is worth noting that the decree signed by Boris El'tsin on May 1, 1991, transferring coal mines located on the territory of the RSFSR from all-Union to republican jurisdiction is wholly consistent with the Silaev plan. So is El'tsin's arrangement with all-Union authorities to approve his decree prior to his signing it.

<sup>10</sup> Excise taxes are levied on particular goods (generally ones that are believed to carry external costs) at the point of final



Finally, the Silaev program plans important reforms of the banking and credit system. These measures include commercializing the banking system, creating a federal reserve board of some kind, and allowing interest rates to assume market levels. The all-Union legislation on banking—two laws were published in December, 1990—and the measures provided for in the Pavlov plan largely parallel the intentions of the Silaev program, but from a "central" perspective.

### Privatization

The Silaev program outlines a series of measures designed to facilitate the development of a significant private sector in the RSFSR economy. An important theme running through these measures is that privatization will not be funded by handouts. On the contrary, it will be commercial banks, supported only in part by republican budget funds, that will be primarily responsible for allocating venture capital. The program predicts that not less than 100 large joint-stock companies will be operating in the very near future. During 1991, the Silaev program predicts, some 19,000 retail trade outlets, 12,000 public catering enterprises, and 15,000 enterprises of Rosbytsyuz will be sold to private owners. Within two or three years, approximately 30 percent of medium- and large-scale enterprises are to be privatized as well.<sup>13</sup> Of the proceeds of these sales, 80 percent will be transferred to local budgets, 20 percent to the RSFSR budget.

As regards privatization in the agricultural sector, Silaev hopes that the 1,500-square-meter allotment of land per person announced earlier this year will be implemented before the fall harvest. He is confident that private farmers will, because of economic pressures, bring in the harvest and avoid another catastrophe such as occurred last year. Silaev says that by the end of 1991 there will be some 30,000 private peasant farms in the RSFSR, compared with only 2,000 today.<sup>14</sup> The 80/20 split of privatization revenues will apply to sales of agricultural land as well.<sup>15</sup>

Housing will be privatized by handing it over to occupants on the basis of current housing (space) norms.

<sup>13</sup> In the case of medium- and large-scale enterprises, at least, shares will be given to employees and sold on the market. The first 30 percent of shares will be given to employees free of charge. The rest will be placed on the market, but employees of firms being privatized will have first option and will be able to purchase the remaining shares at a 30-percent discount.

<sup>14</sup> Central Television, April 20, 1991.

<sup>15</sup> Current USSR legislation does not permit private ownership of land, and Gorbachev has called for a referendum on the question. The Russians have got round this problem: current RSFSR legislation stipulates that local soviets shall serve as "clearing houses" for distribution of land. Once acquired by an RSFSR citizen, land must remain in his (or his legal heir's) possession for at least ten years. After that it can be sold or transferred, but even then only through local soviets. See the amendments to the RSFSR Law on Land Reform, *Sovetskaya Rossiya*, January 5, 1991.

If individuals wish to purchase more space, they will be able to do so at the market rate.

### Conversion and the Market

The Silaev program contains a special section on measures for converting Soviet defense industries to civilian production. The section is short on detail and merely states that the RSFSR government will make specific proposals to the USSR Supreme Soviet regarding conversion sometime in May. The RSFSR program intends to encourage the participation of defense industries in the task of meeting civilian needs by granting tax breaks and extending other benefits to them for their cooperation. In addition, a proportion of the profits from defense industry sales abroad (although not specified, it is implied that this covers all output, not just arms) will be turned over to the relevant local budgets for expenditure on social needs. Finally, where defense and civilian production in defense industry plants is totally separate, the civilian component will be spun off.<sup>16</sup>

### Can the Silaev Program Succeed?

Many reform programs have come and gone, and the odds are that the Silaev program too will not be implemented in the form now envisaged. Since Silaev presented his program to the RSFSR Supreme Soviet in March, an agreement has been reached—to which the RSFSR is a signatory—between the center and nine of the Union republics. The agreement is designed not to reform the Soviet economy but as a crisis-management measure. Nonetheless, it incorporates some of the points embodied in the Silaev program. Which program will take precedence is not certain, but it is likely that the RSFSR will be forced at least to delay implementation of all or parts of its reform program for a time.

Political questions aside, the Silaev program does present a noticeably more competent and comprehensive blueprint for reforming the RSFSR economy. It devolves a good deal more decision-making authority to local governments than the Pavlov plan (but the Pavlov plan would probably leave that for the republics to decide anyway), encourages economic accountability at all levels, supports privatization and entrepreneurship, and, not least of all, incorporates measures to put the republic's banking and credit system on a sounder economic basis.

A major factor in the Silaev program's favor is that it largely complements existing and draft economic legislation at the all-Union level. While its drafters are quick to point out that the Silaev program draws heavily on the "500-days" plan, almost the same claim can be made for the Pavlov plan. Pavlov's plan is a direct descendant of the "Basic Guidelines" that President Gorbachev issued last fall, and that document, too, drew on the "500-days" plan, though to a lesser extent than Silaev's program. Thus, the two programs can be said

<sup>16</sup> See Silaev's comments on these points in *Sovetskaya Estoniya*, April 16, 1991, p. 3.



to share a common heritage. Nevertheless, the Silaev program diverges from all-Union legislation in two general ways. First, it tends to plan a more ambitious timetable of reform, although the question of pacing implementation is often only implicit in the program's text. Second, because the RSFSR is only part of a larger whole, its legislation need not deal with Union-wide concerns. As a result, the Silaev program is sometimes "less cautious" than all-Union reform legislation—on the

question of what to do with the defense industries, for example. The major conflict with all-Union reform programs, though, will be over jurisdictional questions of economic authority. Ultimately, the fate of the Silaev program depends on a number of factors, not the least of which is whether even the mighty Russian Federation has the economic and financial strength to embark on a course of reform independent of the center.

(RL 191/91, May 13, 1991)

KRASNAYA ZVEZDA prints a TASS report about the signing in Lisbon of agreements on ceasefire and political settlement in Angola.

PRAVDA published a message of greetings by the CPSU Central Committee to the tenth congress of the Martinican Communist Party. The same newspaper features Gorbachev's message to the organisers and guests of the exhibition "For Mankind's Survival in the 21st Century", which opened in Moscow.

PRAVDA writes about a meeting in Washington between Yevgeniy Primakov and Vladimir Shcherbakov, who are staying there on the Soviet president's instruction, and U.S. President George Bush.

Newspapers cover unrest in the suburbs of the French capital and comment on social tension in Poland.

### TASS Reviews 3 Jun PRAVDA

LD0306071791 Moscow TASS in English 0654 GMT  
3 Jun. 91

["Soviet PRAVDA Preview"—TASS headline]

[Text] Moscow June 3 TASS—Mikhail Gorbachev congratulated Angolan President Jose Eduardo dos Santos with the signing of an agreement on a ceasefire and a political settlement in the country.

In a message, published in today's PRAVDA, the Soviet leader stressed that the Angolan Government can count on the Soviet Union's assistance in achieving "full national reconciliation, a stable and democratic development and social-economic revival."

The newspaper also publishes Mikhail Gorbachev's congratulatory messages to Bjoern Engholm on his election as chairman of the Social Democratic Party of Germany and Narasimha Rao on his election as chairman of the Indian National Congress (I) Party.

On page one, PRAVDA carries materials opposing the intention of Leningrad authorities to give the city back its old name St. Petersburg.

Five million Leningrad residents take little interest in the "far-fetched act of renaming" and are concerned much more with "how to survive in an atmosphere of progressive desolation, decline, poverty and food shortages," the newspaper writes.

PRAVDA covers the presidential race in the Russian Federation. It reports a meeting between presidential candidate Nikolay Ryzhkov and Moscow students.

Ryzhkov denounced economic shock therapy supported by Boris Yeltsin, PRAVDA reports.

It writes about a visit to Tula by Soviet Liberal Democratic Party leader Vladimir Zhirinovskiy, campaigning for the Russian presidency. The visit was largely unsuccessful, the newspaper writes.

Candidates often give unrealistic promises, PRAVDA writes commenting on the campaign. The newspaper praised Nikolay Ryzhkov's programme as "full of pragmatism and practicality; based on economics, rather than politics."

PRAVDA reports a meeting of industrial managers and experts to discuss the production of baby food.

"Half of the 5.5 million babies born annually in the Soviet Union are deprived of normal nutrition," the newspaper says.

Soviet prosecutor general comments in PRAVDA on the Army crackdown on protesters in Novocherkassk on June 1-3, 1962. Twenty-two people were killed, 39 wounded and 114 were arrested when troops charged residents protesting against price hikes and falling living standards.

PRAVDA justified authorities' actions and use of troops and weapons to quash the protest.

PRAVDA carries an article marking the 100th birth anniversary of Russian pilot Konstantin Artseulov, who tested the first Soviet fighter plane.

The newspaper comments on the results of a joint session of the NATO military planning committee and nuclear planning group.

It expressed alarm over the creation of a NATO rapid deployment force in Europe.

One of the stories focuses on developments in Romania, where the parliamentary opposition opposes the ratification of a Soviet-Romanian treaty on friendship and cooperation, signed recently during President Ion Iliescu's visit to Moscow.

### Economic

#### Yavlinskiy Comments on Plan for G-7 Cooperation

PM0206150191 Moscow MOSKOVSKIYE NOVOSTI  
in Russian No. 20 19 May 91 pp 5, 6

[Interview with Grigoriy Yavlinskiy, former deputy chairman of the RSFSR Council of Ministers, by MOSKOVSKIYE NOVOSTI Chief Editor Yegor Yakovlev under the rubric "Chief Editor's Conversations"; place and date not given: "Tomorrow's Sensation. Grigoriy Yavlinskiy Back on the Political Stage"]

[Text] Yegor Yakovlev: Our last detailed conversation was toward the end of last year. And although you were full of optimism and spoke about the creation of an independent center for economic and political studies, I must admit that I was depressed at the time and was rather reluctant to talk about it. The "500-day" program was rejected and trampled on for the sake of short-term political expediency and equally short-term expedient amendments. Yavlinskiy resigned as deputy chairman of Russia's Council of Ministers. Your proposed center was

Yavlinskiy on G-7 Cooperation  
June 3



something of a vagrant—with no fixed address or means of existence. If I were to imagine at that time that six months later I would be interviewing you about a fresh idea, it would have been tantamount to believing in the beautiful fairy tale about someone having the power to reemerge from the ashes.

Grigoriy Yavlinskiy: I spent six months extricating myself from the confusion which followed the collapse of the "500-days" program. I had to find an answer to my own question: "Come on, guy, in the previous conditions you offered an answer that seemed right to you, but will you be able to think up something in today's conditions?" The budget is falling apart. Output is declining by 12 percent. Oil extraction is being cut back so much that we will have to buy oil by year's end, and what can be used to buy it, seeing that we used our own oil revenues to buy everything else. No program, no action plan. The government is feeding us one improvisation after another.

#### The Birth of an Idea

Grigoriy Yavlinskiy: Zadornov, Mikhaylov, and I got together and started thinking. A core idea was needed, but there was no sign of it. It was contained in the previous program: To coordinate efforts in good time, then work for six months so as to see light at the end of the tunnel... January, February, March passed—not even an outline of a core idea. We were getting rather nervous. I felt especially responsible for the guys—they had all left their work and had received no wages for three months.

Yegor Yakovlev: Surely you must have had some ideas?

Grigoriy Yavlinskiy: In theory—yes, but nothing to actually work on. As late as last summer we still had a common economic space. Now, as one of us remarked, we have ended up with a common space of problems. Crisis everywhere and along all avenues! Extrication is no longer possible by means of economic solutions alone.

And a second factor, which I would describe as a negatively positive process. Negative, because everyone finds life harder everywhere. It was becoming obvious that not a single republic could count on its own special path. Programs were being compiled in Russia, the Ukraine was experimenting with rationing, we all know the end of Prunskiene's attempts in Lithuania. All these failures are building up and beginning to have an effect. It was possible to assume—and this is the positive aspect—that the pendulum of centrifugal tendencies would swing the other way. But how was the critical point to be determined? We are, after all, talking of a pendulum—if it completes its arc and swings back again, this would produce a new and unimaginable level of collapse.

Yegor Yakovlev: Excuse me, I would like to grasp the way the quest itself proceeds. You said: We started thinking. What does this mean? Sitting down and staring at a blank wall?

Grigoriy Yavlinskiy: Every person probably has his own way. This is my life and I look at everything through this prism. I went to Japan—and I looked through that prism; I look at you in the editorial office—and I am talking and thinking about the same thing. This is how a state of readiness emerges. All you need after that is a convenient situation, and things take off from there.

Yegor Yakovlev: Is this what happened this time?

Grigoriy Yavlinskiy: The first day of the Third Congress of RSFSR People's Deputies, for example, gave me a special push. The prime minister was bringing in troops to prevent the Moscow rally. Yeltsin announced a break in the congress' work. The troops formed, and the rally went ahead. I thought to myself: Neither side can emerge victorious. Power nowadays is so hot that there is not a single force that can pick up and hold onto this flat iron—it is painfully hot. And not just in Moscow. How can Armenia or Azerbaijan defeat the other? This is absurd. And the same applies to Georgia and Ossetia. There you have it. This means that solutions must be sought via compromises, via a coalition of different forces.

Yegor Yakovlev: Is that all! Ultimately, you are repeating what Gorbachev has been saying all the time: It is necessary to pool our efforts, we are all in the same boat.

#### The Creation of a Program

Grigoriy Yavlinskiy: I think it was on a Sunday; Mikhaylov, Melnikov, and I got down to work, saying more or less what you have just said: There is no point in endlessly repeating something with which everyone is fed up to the teeth: Let us live together. No point in issuing appeals, let us try and tell people how it should be done. We started looking for precedents once more. Poland? But there were only two forces there—the Polish United Workers Party and "Solidarity." Canada-Quebec? The conflict there is only on ethnic grounds. France and Algeria? They parted company. Maybe something more suitable could be found in Yugoslavia? But things are in such a mess there that it is impossible to find an answer.

There are no outside examples. We dug into our own history. Back to 1611-1613. Collapse of the state, onset of chaos. And yet they did manage to agree and a czar was elected—otherwise nothing would have happened. Minin and Pozharskiy. They succeeded in uniting against the common enemy, even though their contradictions were irreconcilable—one of them a prince, the other a meat merchant. Even though the State Duma did not manage to achieve anything serious in 1915-1917, it did create the Progressive Bloc.

That was all. And suddenly—an influx of energy, because the task was clear: We had to describe the way which could lead to common accord. We went up to my office and I spent several hours dictating. What should be done immediately, what should be done later. Who



should participate in the talks and on what principles they should be based. What interlinkage should there be with constitutional power. For example, the Army problem cannot be overlooked. How should the Army participate in the talks? And all these talks are nothing but a transitional process which must end at some point and mark the beginning of, if you like, a new era.

The draft was ready five days later and we started consulting jurists and historians.

Yegor Yakovlev: But what is the underlying principle?

Grigoriy Yavlinskiy: The concept was intended not as a declaration but as a procedural document. In the sense that we are not trying to solve the Baltic problem or give an answer as to what should be done with Georgia, the Army, or the miners. Our philosophy was that the actual talks should indicate what should be done in the future. And the answer may well be something we have not even dreamed of.

Yegor Yakovlev: So you designed a mechanism which should answer the question: What will happen?

Grigoriy Yavlinskiy: We designed a device, a retort if you like, where a reaction will occur; we made provision for all that was necessary to make it occur, but the answers to questions can be gained only as a result of this reaction. I personally, for example, am prepared to take a certain position in the talks. But, we diligently avoided taking a position in the document. We did this deliberately, so as not to scare off either Polozkov, or Sobchak, or Gorbachev, or Yeltsin, or the Georgians, or the Ossetians.

Yegor Yakovlev: This is a new—and more than likely the only—example of such an approach in our Soviet history. Hitherto everything used to be done for the sake of a programmed end goal.

Grigoriy Yavlinskiy: Seeing that we spent the early part of this year on a hard quest for an answer to the question of what to do, and did not find it, this means that we should be thinking not about the answer—which probably nobody knows—but about a mechanism which would enable us to obtain an answer. That was our discovery.

But the nearer the guys got to finalizing the concept, the more worried the look on their faces became. Ultimately, our group ended up in what I would describe as a state of excited depression.

#### Deadlock and Coincidence

Grigoriy Yavlinskiy: Last year, when experts were studying the "500-day" program in Washington, they asked me: Why is there no section on foreign aid? I replied: It would be easier for us if you helped us, but we do have the resources to do everything on our own. We really did have them. Incidentally, even if that program had failed to produce the desired results, it would have

nonetheless prevented the collapse of the financial system and all the other economic disasters with which we are only too familiar.

Now we have lost the opportunities which existed until as late as last summer, we have destroyed the base facilities. Runners have their starting blocks. But now we have nothing to use as a starting block—everything has been ruined, one way or another. All reserves are exhausted, including the reserve of the population's patience. In order to acquire a prop we could, of course, make society form ranks, dress everyone in uniform, and shoot anyone who sidesteps to the left or to the right. But, as everyone knows, we have already been through that.

Obviously, we need outside resources. What is the meaning of aid? I felt very humiliated by the foreign aid packages. I dislike foreign aid. I have grown up in this country and I believe that we are sufficiently great to cope by ourselves. Incidentally, when people in Washington asked me what policy my country would follow—pro-American, pro-European, or pro-Chinese—I replied: It will follow a pro-USSR policy.

But why go begging for help? Collaboration with Western partners could develop on the basis of a joint program. Everyone should be interested in this. I have analyzed the logic of my foreign colleagues. They have more than enough worries arising from East Germany's annexation. Soon enough they will have even more: As production in the USSR declines, we will cut off our neighbors from our energy sources and will close our market. Do they want yet another kid in an empty room; crying and demanding to be fed? And what about the world energy balance? What about the thermal balance? There are also grave geopolitical problems. How does all this fit together? There was no answer to be found.

Yegor Yakovlev: And what happened?

Grigoriy Yavlinskiy: When something is ripe in your mind, a coincidence may come in handy. I arrived at the White House on the Embankment [RSFSR Government headquarters] one day in April, and I was handed a packet. Someone had obviously brought it over, did not have a pass, and left it with the duty militiaman. I opened the envelope, and what a surprise: An invitation from the U.S. Department of State to attend a sitting of the "Big Seven" council of consultants. To be opened by Baker, to be addressed by Brzezinski, all proceedings to be chaired by Japan's former prime minister... Nobody from our side has attended any such sittings before.

Yegor Yakovlev: And why were you in particular invited?

Grigoriy Yavlinskiy: The "Big Seven" are due to meet in London in two months' time. They will probably discuss the Soviet Union and the consultants ought to hear what a Soviet specialist has to say before preparing their



recommendations. They had evidently heard of me, the economic forecasts which I published in the press have all come true.

Yegor Yakovlev: What did you do on receiving this invitation?

Grigoriy Yavlinskiy: I started thinking about a response. I could not go to Washington just like that. We are talking big politics, affecting the interests of the state as a whole... I got in touch with Yevgeniy Primakov, knowing that he had been assigned economic security questions. I told Silayev (Yeltsin was on leave). They agreed: I should go. Primakov advised me to let Washington know: The Soviet Union would like to somehow attend the future sitting of the "Seven." "Are you actually giving me such powers?" I asked, and he agreed. That was how we parted.

I flew to the United States, but while still in Moscow I read the "9 + 1" statement in the morning newspapers. I perceived it as a most important argument in the work I had to do.

#### Notes. How Policy Is Made

Washington, 25 April. First day of the Council of Consultants sitting. Yavlinskiy, as distinct from many other guests, is given the status of participant. A sitting devoted to the Soviet Union's problems is planned for the second day. That evening, however, Zbigniew Brzezinski devotes his dinner speech to this topic.

Grigoriy Yavlinskiy: While listening to Brzezinski, I felt as if I was attending some strange meeting in Moscow, the first part of it chaired by some superannuated party official, and the second part by a superannuated general, describing such horrors that make you give up everything. According to Brzezinski, the Soviet Union is no longer a serious power from a geopolitical point of view, and nobody is interested in it any more. Russia is breaking apart. From the geostrategic point of view, the Soviet Army has finally disintegrated and is no longer anything to be taken into account. I could not agree with a single one of his propositions. I said to myself: "Well done, Zbigniew, you have got me out of a tight spot—tomorrow I will begin by replying to your speech."

Washington, 26 April. Yavlinskiy is the first to speak at the sitting devoted to the Soviet Union's problems. The time allotted to him is extended three times. He takes the floor on two more occasions during the discussion, analyzing the situation and developing the idea of effective collaboration.

Washington, the evening of 26 April. The cochairmen of the Council of Consultants ask Yavlinskiy to repeat everything that he said at the sitting. They admit its importance. And suddenly they express doubts: What are your powers? You spoke of cooperation, of a joint program, of the Soviet Union's interest in the London meeting of the "Seven"—do you have a document to

confirm all this? Maybe you have a letter from Gorbachev and Yeltsin on this matter? Then let such a document be signed by Primakov and you. Primakov is known in the United States, he works with Gorbachev and you work with Yeltsin. If you really have influence, then the letter should be sent to INTERNATIONAL ECONOMY MAGAZINE three days after your return to Moscow.

New York, 27-29 April. Graham Allison, well known political scientist who is close to U.S. government circles, works with Yavlinskiy. Principles which could be incorporated in a joint program are discussed. They agree that Yavlinskiy and his team will fly to Harvard, taking along their draft for joint work. The overall draft must be prepared by early June so that the experts of the "Seven" could have it one month ahead of the meeting.

On the New York-Moscow flight, 29-30 April. Silayev, Kozyrev, and Lukin return to Moscow together with Yavlinskiy.

Grigoriy Yavlinskiy: I told them everything, having immediately made the decision no to do anything in secret.

Moscow, 30 April. Yavlinskiy briefs Primakov on the trip's results. He speaks of the need for a letter. Primakov agrees to sign it.

Moscow, the night of 30 April-1 May. Yavlinskiy and his group prepare the draft document.

Moscow, the morning of 1 May. Primakov reads the draft letter in the Kremlin and makes amendments.

Moscow, 2 May. Yavlinskiy and his group work on the letter.

Moscow, the morning of 3 May. Yavlinskiy calls on Primakov at home. He makes a few more minor amendments and signs the "Address to the 'Group of Seven'."

Grigoriy Yavlinskiy: I asked him whether he had succeeded in agreeing with the text. Primakov replied that unfortunately he had not. I expressed my profound respect for the fact that he had nonetheless signed the letter. I took the piece of paper and ran all the way home. The letter was faxed straight away. The deadline was met.

#### From the "Address to the 'Group of Seven'"

...We address you with the following idea. There is need for a plan which would make it possible to ensure effective collaboration between the USSR reformist leadership and the "Seven" countries. We are talking about a specific action program. We bear the main responsibility for elaborating it. The group of Soviet scientists elaborating the program includes official representatives of the republics. Furthermore, direct participation in the program's final elaboration by experts



from the "Seven", suitably empowered by their governments, would be considered useful. Following the preparation of a clear-cut program regarding reforms in the USSR, the "Seven" should consider the possibilities and prepare their own parallel plan of action which would clearly specify the scale, timing, and forms of economic assistance for Soviet reforms by the "Seven."

We believe that the program of reforms in the USSR should include:

- clear demarcation of powers between the center and the republics, especially in economic activity, on the basis of rational decentralization of power and federalization of union executive organs;
- formulation of demands for rigid financial and monetary policy;
- liberalization of prices;
- implementation of a large-scale program of privatization and demonopolization;
- strategy for the economy's structural perestroika, creation of prerequisites for developing an open economic system in the USSR and its integration in the world economy;
- consistent creation of legislative backup for the functioning of market relations, including the regulation of foreign economic ties, foreign currency policy, and foreign investments;
- requirements and basic guidelines for the utilization of economic assistance by the "Seven" to stabilize the socioeconomic situation and implement reforms in the USSR;
- creation of a system of minimum social support for the population in the conditions of an unstable economy.

...The action plan by the "Seven" could include the scale, timing, and forms of economic assistance to the USSR, as well as methods for easing the servicing of the country's external debt and long-term credits, the USSR's admission to international economic organizations, the lifting of restrictions and the amendment of regulations governing trade with the USSR, elaboration of long-term investment programs, scientific and technical cooperation, and other avenues...

...We believe that conditions favoring the implementation of such a program could be in existence in the USSR by next fall. A good opportunity to arrive at basic agreements and discuss technical details with the USSR's participation will be provided at the London meeting this summer. It will be difficult to forecast the further development of events in the country if this chance is missed...

[Signed] Grigoriy Yavlinskiy, Yevgeniy Primakov.

[Dated] Moscow, 5 May 1991.

Moscow, 4 May. Primakov notifies Yavlinskiy that he will be received by Gorbachev in the afternoon the next day.

Moscow, 5 May, 1700 hours. Yeltsin invites Yavlinskiy to call on him. On learning the results of the trip to the United States, he remarks: "All the republics will join to get this done." He discusses with Yavlinskiy the possibility of creating an interrepublic organizational committee to implement the program. Advises Yavlinskiy to head this committee. Telephones Gorbachev.

Moscow, 1830 hours. Yavlinskiy is received by Gorbachev. Primakov and Yakovlev attend the meeting. Yavlinskiy briefs Gorbachev on the concept of the process of talks in the country—the "Social Accord." Gorbachev reads the document there and then. Having heard the proposals brought back from Washington, he suggests that both ideas be incorporated in a single document, to be prepared within one week.

Grigoriy Yavlinskiy: Gorbachev said that today he finds the process of talks for the sake of social accord more important than any narrow party interests. He was the first to realize that the idea of joint actions with the "Seven" and the process of talks within the country as conceived by us are interlinked, that they constitute a single whole.

Moscow, the night of 5-6 May. Yavlinskiy informs Allison of his meetings with Yeltsin and Gorbachev and their amicable attitude.

Harvard, 6 May. Allison to Yavlinskiy: The schedule proposed by you could prove to be protracted, a more rigid schedule for the group's work must be adopted.

Moscow, 6 May. During a meeting with President Mitterrand of France, Gorbachev raises the problems of cooperation with developed countries.

Harvard, 9 May. Allison sends Yavlinskiy a memorandum on the work program of the Soviet-U.S. working group "on cooperation in the Soviet economy's transformation into a market economy and its integration in the world economy."

Kremlin-The White House, 11 May. Telephone conversation between Gorbachev and Bush. The interlocutors discuss cooperation prospects.

Moscow, 12 May. Yavlinskiy presents Gorbachev personally with the single document "On the Implementation of a Policy of Social Accord on the Basis of Cooperation with Developed Countries."

#### Back to the Interview

Yegor Yakovlev: I have been listening to you for several hours now, not just with interest but with rapture. At the same time, I realize: Ultimately you are elaborating and proposing something that is obvious to any soberminded person.



Grigoriy Yavlinskiy: I would have considered myself somewhat weird if I had come up with obscurities. It is necessary to concentrate on actions which would be understood by the multitude within three seconds, and by the others within 30 minutes. I look people in the eyes and they understand everything. I talk with Gorbachev—and he grasps immediately. I talk with a driver—and he also understands at once.

Yegor Yakovlev: Nonetheless, what has prompted these steps? At times I get the feeling that some sort of messianism is burning your soul. This is the second time you have come up with proposals that are not interim but actually determine the fate of the country as a whole. And you are doing this without any orders or requests, simply because you have decided to do it.

Grigoriy Yavlinskiy: No messianism at all. I analyzed the situation, discovered a way out, and started proving it. You must not think whether you will succeed or not, whether you will catch the blow or evade it. You must do what you think is right. There are no alternatives to what is right. There can be only one right solution. If you refuse to do what you believe is right, you have two alternatives: Either do nothing or do the wrong thing. But both these alternatives are unacceptable.

Yegor Yakovlev: Say nothing happens once again, like with the "500-days" program?

Grigoriy Yavlinskiy: First of all, I do not believe that this program will come to nothing. One way or another, it has become a starting point. Some people reject it, others support it, but it exists even though it may not be implemented. As regards the present collision, believe me, I am more aware of the weaknesses, the difficulties, and the internal contradictions which hinder the present program's implementation than anyone else. Moreover, I can admit that I am already thinking of ways out of the situation if the entire structure collapses. Actually, the time spent on pondering these matters increases day by day. The time will come when this situation will not yet be fully resolved and I will decide what to do next. But I cannot move on to the next combination before I have exhausted all the opportunities that are available today.

#### Talent and Power

It was getting dark, and Yavlinskiy kept glancing at his watch. He had to make at least one business telephone call. We went to the next-door dacha, which has a telephone. Yavlinskiy is now known to many people, and the elderly occupants were not only impressed but also touched by his visit. Soon enough they got even more emotional. Yavlinskiy telephoned Moscow and it appeared that Gorbachev had been wanting to talk to him for several hours and he was being sought everywhere: at home, at work, in the streets. But Yavlinskiy had gone to ground in the forests outside Moscow.

The old-fashioned dacha telephone rang a minute later. Yavlinskiy answered Gorbachev's questions. Our kind hosts, who were present during the conversation, did not

know what to do, where to sit. For my part, I must admit that my thoughts ran in a different direction. The powers that be might have the most specialized services. But unless talent wishes to join the powers that be, nobody can force it.

MOSKOVSKIYE NOVOSTI never publishes followup materials. But there will be a followup, not in manuscripts but in life itself. We will publish followup materials as events develop around Grigoriy Yavlinskiy's new concept. Incidentally, there has already been a followup. In an article entitled "Through Rubles to Reform," THE WASHINGTON POST proves: If the developed countries are interested in the USSR's democratization, they must support its leadership. The London newspapers discuss the possibility of Gorbachev's arrival to attend the July meeting of the "Seven."

#### Views Western Aid Program

LD0206035991 Moscow Central Television First Program Network in Russian 1435 GMT 1 Jun 91

[Interview with Grigoriy Yavlinskiy, an author of the 500-day economic program, on his meetings with U.S. economists at Harvard University, by an unidentified correspondent; place and date not given—recorded; from the "International Panorama" program presented by Vsevolod Ovchinnikov]

[Text] [Correspondent] Some American economists are saying that very large sums are needed—on the order of 15-30 billion [currency not given] a year—in other words, something like a new Marshall Plan.

[Yavlinskiy] Yes, it's a question of very large sums, but it's a country and a problem that indeed demand... [changes thought] Everyone says good reform requires money.

[Correspondent] Can they make it available to us—the Western countries?

[Yavlinskiy] You know, I've been asked whether I'm not being overly optimistic, and I said no. I was asked whether I'm a pessimist, and I also said no. I said we've got to work.

[Correspondent] As I'm sure you know, in the United States at present, not only the economists, but a number of politicians too are saying that this is not the time to give financial aid to the Soviet Union. It is better if it helps itself. That is to say that first, deep economic reforms are needed, and then we can start talking about credits. Now they're saying that this could be money thrown to the wind.

[Yavlinskiy] Well, you know, generally speaking this is the problem of the chicken and the egg. Of course, if now, in the condition we're in, if they were to invest a little money or a lot of money, you can be sure it'll do no good. But on the other hand, to say first carry out your reform and then we'll give you money, on the professional plane this just evokes a smile. If it were possible to



Supreme Soviet

Supreme Soviet Debates Privatization Bill

OW0506152591 Moscow INTERFAX in English  
1230 GMT 4 Jun 91

[Text] The Supreme Soviet has begun to discuss the amended version of the draft bill on privatization which provides for the possibility of denationalizing all state run facilities, apart from those belonging to the defense industry and bearing on environmental protection and human health.

Under the draft state-owned property will largely be sold. Labor staffs will be given priority in the process of denationalization. Facilities can be bought either by their staff or leasers. They can be turned into joint-stock companies or sold by auction or by contest. Both Soviet and foreign juridical persons and citizens will be in a position to act as buyers.

Payment can be made by installment within 10 years.

The draft was worked out by the government. It also provides for gratuitous transfer of basic assets worn out by at least 70 percent.

The most heated debates developed in connection with the stand taken by deputy prime minister Vladimir Scherbakov who resolutely opposed the gratuitous transfer of industrial facilities to their labor staff. According to him, even if only 35 percent of the government property is subject to gratuitous privatization, this would double the rate of inflation in the country.

Besides, Vladimir Scherbakov stressed that the denationalization program should be accompanied by endeavors to resolve the problem of employment. According to him, the cabinet ministers intend to submit to the parliament a draft bill on bankruptcy which provides for measures designed to ensure social security for workers.

Under the draft bill facilities run by the central authorities will be privatized by the State Property Fund, and those run by the republican authorities by the relevant republican organizations.

Apart from the State Property Fund labor collectives will also enjoy initiative as regards the privatization of state-owned facilities.

Debate Postponed For Improvements

LD0506155791 Moscow TASS in English 1526 GMT  
5 Jun 91

[By TASS correspondent Vladimir Isachenkov]

[Text] Moscow June 5 TASS—The Soviet Parliament today postponed the debate on the new privatisation bill for two weeks so that it could be improved.

The bill gives constituent republics broad powers in deciding on forms and time of privatisation and gives work collectives priority in acquiring shares issued by their enterprises.

After workers repay 20 per cent of the venture's value ownership rights for the enterprise are passed to the work collective. Privatisation will be monitored by the Soviet State Property Fund.

Under the bill some privatised property will be handed over to individuals free of charge. However, First Deputy Prime Minister Vladimir Shcherbakov said the government supports buy-outs rather than hand-outs.

He opposed giving out certificates that could be used to buy shares free of charge. In contrast, the Russian Government suggests giving each citizen a payments cheque for 7,000 roubles—a total of 1.2 trillion roubles. Russian authorities believe this would put all Russian citizens in equal conditions.

This would increase inflation because the market will be inundated by huge amounts of new payments means, Shcherbakov said.

In addition, many people would try to sell their certificates, instead of buying shares for them. As a result, "shadow economy dealers" would be able to buy many enterprises.

"Free-of-charge" privatisation is applicable only to antiquated production capacities and social and cultural services, Shcherbakov said.

However, most lawmakers said that about 30 per cent of industrial assets should be handed over to the public for free.

"We should remember that we are passing the bill in a poverty-ridden country and it is necessary to grant immense benefits to the people so that privatisation does not halt at the very beginning," Deputy Aleksandr Kuzmin of Moscow said.

Deputy Prime Minister Comments

LD0506103791

[Editorial Report] Moscow Central Television Second Program Network in Russian at 2105 GMT on 4 June, during its "At the USSR Supreme Soviet Session" program on 4 June proceedings at the USSR Supreme Soviet, carries a 12-minute report on the draft law on "destatification and privatization" including recorded remarks by USSR First Deputy Prime Minister Vladimir Shcherbakov. The program announcer reports:

"The floor was given to Vladimir Shcherbakov, first deputy prime minister of the USSR: His speech clearly expressed the idea that it is necessary to take into account the changing situation in relations between the center and republics. It seems to us, he said, that the proportion of Union and republican jurisdiction in this sphere has changed so much that it would be more

Privatization Law  
June 4



correct to turn this law into the basis of legislation of the Union and of the republics on destatification and privatization, as many republics are insisting.

"The central thing, the deputy head of the government believes, is the question of how to correlate what is to be paid for and what is to be free when destatification is being carried out. He said the government is in favor of the process of privatization being for the most part a sell-off [vozmezdnio]. According to him, to give the people certificates, coupons, or any other new sort of warrant for payment will lead to a new burst of inflation.

"In Shcherbakov's opinion, it is impossible to determine criteria for free allocation of state property that suit everyone. Whatever criterion you choose—by age, industry, republic—someone will always feel wronged. So privatization without payment is only possible in a few sectors, for example in the social and cultural sphere, the deputy prime minister stressed."

Vladimir Shcherbakov answered questions from deputies about how ordinary workers can afford to buy shares, saying that there is no fair way to allocate them; and about the social sphere, about which he said:

[Begin Shcherbakov recording] "Calculations as to the social and economic consequences of the adoption of this law have been made; we presented them in the first reading and then presented them additionally to the commission. They have all been made. The calculations show that if we go on with allocating even 35 percent free of charge—with the exception, of course, of the facilities we have already agreed on in the law, those of an infrastructural nature, we are simply going to allocate the basic assets free of charge—inflation will increase by about two or two and a half times. It all depends on the scale, of course, but roughly by two or two and half times.

"As for the consequences of privatization and destatification on employment, it is very hard to forecast. There are two basic factors. The first factor is that about 20 percent of our workers at enterprises, to judge from the time available [po fondu vremeni], are surplus to requirement. But that is to judge from the time available; it is very hard to say how many people are surplus. Some of them will certainly be forced out, and we must combine our program of destatification with a program of employment.

"As for the actual scale of unemployment, it is quite possible that within this program enterprises that have lost state support will (?most) frequently find themselves in a difficult financial situation, and bankruptcy. In the next few days we shall present you with a draft law on bankruptcy, which envisages special measures as to what is to be done in this case.

"As for a program of social protection for citizens, they need to be protected not only from privatization. We need to look at the problems of protecting and supporting citizens altogether in the context of the market

economy. This idea exists, as you know. It has been discussed and been adopted as a basis by you yourselves—not only the one published under the aegis of the State Committee for Labor; it was adopted in the basic tenets for the transition to the market set out here by the president. We consider that it exists, and the question is only how best to take it into account when doing this work. I think that here we must simply coordinate: It is hardly worth making a special program. But this question must not be lost sight of." [end recording]

### Supreme Soviet Discusses Its Possible Demise

LD0606083691 Moscow TASS in English-0730 GMT  
6 Jun 91

[By TASS correspondent Lyudmila Aleksandrova]

[Text] Moscow June 6 TASS—The Soviet parliament observed the second anniversary since the beginning of its work early this week.

It took place in a rather ambiguous situation, created by the prospect of signing a new Union treaty which, according to the "nine plus one" agreement between the Soviet president and leaders of nine republics, is to be followed by the adoption of a new constitution and the election of new federal authorities. Thus, the document adopted last April actually dooms the present parliament to premature death.

Naturally, this prospect did not make federal legislators very optimistic, and they issued a special statement expressing their determination not only to take part in the discussion of the new Union treaty, but also to sign it as a kind of the 16th republic. The statement puts forward some demands which, according to the leaders of some republics, could block the process of reaching agreement.

Both participants in the "nine plus one" process and federal legislators themselves hold various views on this issue. For example, head of the Russian parliament Boris Yeltsin is stressing the "recommendation character" of suggestions of the federal parliament. At the same time, chairman of the federal parliament Anatoliy Lukyanov said that since the point at issue is the changing of the existing state and not the creation of a new one, the central authorities of the country have the right to take part in the signing of the new Union treaty. This stand was supported by Gorbachev in his recent speech in Alma-Ata.

Federal legislators regard their future in different ways. For instance, Yevgeniy Kogan, representative of the Soyuz (Union) group, believes that the "nine plus one" agreement is an attempt of a "soft coup", aimed at removing from power lawfully elected people's deputies.

This opinion is not shared by everyone. "The joint statement of the ten made it clear that we, people's deputies elected during the first stage of perestroika, are



3.05

# NATIONAL AFFAIRS

of 15 leading scholars at the Soviet parliament and the Soviet president. These scholars may hold various political views.

The same newspaper features an interview with director general of the Moscow labour exchange Igor Zaslavskiy describing how the exchange tackles issues of employment and social protection of people.

He notes that the lack of tested procedures and reliable instruments for the social protection of working people is the main difficulty for the exchange.

The KOMSOMOLSKAYA PRAVDA newspaper tries to explain why private farms in Latvia go bankrupt.

KRASNAYA ZVEZDA science analyst M. Rebrov expresses his ideas about the profitability of the Mir space station. He notes that flights by foreign cosmonauts aboard Soviet spacecraft on a "gratis financial basis" and experiments aboard the Mir station "without mutual cash settlements" are at least bad management and even a crime, taking into account the serious economic situation in the country.

The TRUD newspaper deals with the same topic in an article saying that it is a pleasure to make a cheap journey into space, but a pleasure to whom?

PRAVDA comments on the U.S. Administration's stiffer position towards the Chinese leadership. "Let us hope that common sense will prevail in Washington and the present disagreement with Beijing will be overcome for mutual benefit," the newspaper writes.

PRAVDA describes the situation in Yugoslavia. The newspaper writes that the country is living without president since May 16 for the first time in its history. To all appearances, the way out of the constitutional crisis is not around the corner.

## Economic

### 27.1-Billion-Ruble Deficit in 1st Quarter

OW2805054891 Moscow INTERFAX in English  
1500 GMT 27 May 91

[From "Business Today"]

[Text] Goskomstat, the official Soviet committee on statistics, has reported that the Soviet budget deficit for the first quarter of 1991 amounted to 27.1 billion rubles, a rise of 230 over the same period last year.

According to the official Goskomstat report, this situation is a result of the fact that "certain republics" did not fulfill their requirements regarding payments into the budget as defined in the 1991 agreement for stabilising the official social-economic situation in the country.

The upper limit of the budget deficit for the whole of 1991 had been set at 26.7 billion rubles.

Budget 1991

Here are the main figures concerning the Soviet budget for the first quarter of 1991:

Total income	Planned income for 1st quarter (precise)	Actual	% of plan
Profit tax	55.1	19.9	36.2
Sales tax	9.1	2.8	31.0
Foreign trade income	17.0	4.4	26.0
State internal premium loans	0.2	0.16	78.0
State bursary obligations, spread amongst population	-	0.4	-
Duties and other non-tax income	5.0	4.5	89.5
Money from republican budgets for union programs	10.4	5.9	57.3
Other income	4.7	1.2	26.0
Total expenditure	60.9	47.0	77.3
National economy	8.8	4.8	55.0
Budget loans	2.2	1.9	87.1
Expenditure as a result of foreign trade	6.2	2.6	43.0
Science	3.7	2.8	76.3
Social and cultural programs	4.4	3.7	83.6
Maintaining state and governmental organs	0.4	0.35	83.9
Maintaining law-enforcement organs	2.7	2.1	77.5
Defense expenditure	24.4	22.1	90.6
Servicing internal state debt	2.9	2.2	73.0
Chernobyl, Aral and other programs	1.2	1.7	138.5
Other expenditure	4.0	2.7	69.6
Deficit	5.8	27.1	upby 460

### Plan To Attract Western Capital Being Prepared

OW2805083791 Moscow INTERFAX in English  
1500 GMT 27 May 91

[Text] Stanislav Assekritov, recently appointed chairman of the Fund of State Property of the USSR responsible for the preparation and carrying out of privatisation programs in the country, gave INTERFAX an exclusive interview. Amongst other things he discussed the possibilities of foreign participation in the privatisation of property in the Soviet Union.

According to Mr Assekritov privatisation will first of all effect such branches as the light, food and construction industries and the service sector. These are areas where government control is most clearly unjustified.

May 28



## Supreme Soviet

## Pavlov Encourages Foreign Investment Law

LD3005081691 Moscow Central Television Second  
Program Network in Russian 1845 GMT 29 May 91

[Speech by Valentin Pavlov, chairman of the USSR Council of Ministers, at the USSR Supreme Soviet session in the Kremlin in Moscow on 29 May, from the "At the USSR Supreme Soviet Session" program—recorded]

[Text] Fundamental reform of the administration of the economy and the transfer to market relations are indissolubly linked to the implementation of the course leading toward openness of the economy and its active inclusion in global economic relations. For this to occur, it is necessary to create conditions that will allow our country to fully use the advantages of the international division of labor by becoming part of the community and ensuring our country's deserved place within it as a member with full rights. The most recent history of the development of the world community provides convincing evidence that no single country that remains in a closed space on the path of autarky, no matter to what sociopolitical system it belongs, can achieve any noticeable economic successes. On the contrary, those who were ahead are beginning to lag behind.

The main route to development can only pass through openness, competition, and the cooperation of participants in a single economic space. This holds true both for our country as a whole and also the entire world community. Proceeding from this conceptual approach, the question of the role and significance of foreign investments for our economy occupies a pivotal position in the government program. For an acceleration of the development of the economy and a successful transfer to the market, we need sources of finance in addition to national ones, which would be a very important supplement.

Foreign capital investments, in our opinion, could play an important role in providing large-scale modernization of the Soviet economy, and its structural reconstruction first and foremost through demilitarization. It is impossible to close our eyes to the progressive aging of our fixed assets. Their obsolescence rate has now grown from 38 percent in 1985 to 42 percent in 1990. Moreover, our investment sphere today is left without the necessary money. In the 12th Five-Year Plan almost all of the growth in the country's national income went toward consumption.

On the whole, the value of the fixed assets in need of replacement is today put at 500 billion rubles [R]. Of this, according to our information, more than R50 billion worth must be withdrawn from use immediately. At the same time the annual volume of machine and equipment production in our country is today around R60 billion. Therefore, the question constantly arises: Under these conditions, can we cope with the task on our

own? Personally I always reply in principle, yes, we can, but a second question immediately arises: Is it necessary to do this?

First of all, this will take a longer period of time. Second, we should make it clear to ourselves that, all the same, we shall have to pay for this. The important thing is how we do this. As this has already happened in our history several times before, if we are to do this ourselves we shall have to pay for this with our standard of living, our health, our national resources, and similar things. Therefore, the influx of significant volumes of the foreign investments into the country—state investments as well as private ones—could speed up and ease the task which the economy of the country cannot avoid. Moreover, the problem lies not only in the volume of foreign investments. The quality of their contribution to the development of the country's economy is no less important. Foreign capital is not just money. They, and sometimes only they bring into the country advanced technology, intellectual potential, and management experience. It is no accident that the Coordinating Committee for Multilateral Export Controls and restrictions on the export of many of equipment and technology into our country exist. Foreigners can also directly transfer to us; into our national economy; market practice, knowledge of the market, and its mechanisms and institutions. Direct private investments from abroad are also giving us the additional freedom to maneuver in foreign economic ties. This ranges from increasing the degree of raw materials processing and import substitution to the development of the export base, without which our participation in world economic ties will always be limited.

Of course, here as everywhere else, there is a question of the balance between the pros and cons of such a policy, and its consequences for economic growth on the one hand and economic security on the other. Of course, the activities of foreign investors in our country are associated with the appearance of foreign property in the USSR. Competition with foreign firms will offer little comfort for many. And we have no right to ignore these aspects. But all the same, with all the considerations, overall objective assessment convinces us that attracting foreign investment into the Soviet economy should be not an opportunistic but a strategic course toward integration into the world community. It is not just today that we have embarked on this course, but practically four years ago. Foreign capital operations on the territory of our country have been permitted by the decree of the Supreme Soviet Presidium in 1987. During the past few years, the legal, economic, and organizational foundations for foreign capital operations have been laid.

The main form of that activity up to now has been joint enterprise—that is, the creation of enterprises with the participation of Soviet and foreign capital. Joint enterprise on the territory of the Soviet Union in the period that has elapsed is characterized by clearly delineated quantitative growth indicators and dynamism. Both were a direct consequence primarily of the evolution of

Pavlov on Foreign Investment Law  
June 3



the legal base in that sphere and also a result of our progress along the road toward a market economy and the degree of its openness.

At the present time, over 3,000 joint enterprises with 73 countries of the world have been registered on the territory of the country, including 1,613 in 1990, or 50 percent more than in 1989. Our main partners with regard to joint enterprise are firms in the FRG, Italy, Austria, Finland, and Great Britain. The total capital of the authorized funds of joint enterprises has reached R7 billion. Of this, 38 percent—which is put at R2.7 billion—is accounted for by foreign participants. Thirty-five percent of those registered enterprises are actually carrying out production activities today. They have produced today and have tendered production [as heard] which was basically the ultimate purpose of the organization of such enterprises. In all, there are 840 of them today, that is, producing output and providing services. In 1990, their production valued R4.3 billion, having increased volume almost five-fold. The largest number of enterprises, 430, was registered in the industrial field. The output of the joint enterprises in that sector also occupied the leading place, 53 percent, in the total volume of production by joint enterprises, and was estimated at the sum of R2.3 billion. The export of production and services by joint enterprises doubled in 1990 as compared with the previous year and amounted to R300 million. It was effected to 54 countries of the world, mainly for freely convertible currency. Moreover, imports doubled and amounted to R1 billion. But here it is necessary to bear in mind that half of those imports are accounted for by machinery and equipment, mainly as the contribution by foreign participants to the authorized fund. In 1990, joint enterprises employed 104,000 persons, of whom 1,000 were foreigners. This brief review illustrates the individual tendencies of the activities of foreign capital in our country.

But I once again draw your attention to the fact that it is above all a quantitative growth and dynamism. On the whole it is necessary to point out that today we are far from being satisfied with both the quantitative influx of foreign investments and the qualitative aspect of their impact on the country's economy. It is necessary to point out that the political situation in our country, the inter-ethnic squabbling, and the absence of legal framework are among the main reasons for this phenomenon.

Allow me to dwell on the economic difficulties in greater detail. First and foremost, it is the general state of the economy—uncertainty as to the return on resources that have been invested. Besides, as a purely market structure, joint entrepreneurship was rather difficult to squeeze into the framework of our administratively regulated economy. First, it concerns domestic economic policy on the one hand and a mechanism for the implementation of this policy on the other. First of all, economic priorities and a clear position in the economic policy regarding the attraction of foreign investments were absent. Of course, this did not help the matter itself and put potential investors on their guard.

Further, I would like to name such an obstacle as the disorganization of the material and technical supply to joint enterprises. Well, it has been known that up to now we built our material and technical supply, especially of the resources of raw materials, mainly on distribution principles. Joint entrepreneurship was not included in the sphere of distribution.

Such factors as the considerable disproportions that existed between world and domestic prices in our country, and the absence of a mechanism to effectively regulate them by means of tax levers should also be cited today. The reasons also include the nonconvertibility of the ruble, the acute shortage of professional cadres, the absence of a single information system, and others. In general, this list could be extended. But it is clear that all this stood in the way of attracting foreign investments into the country and lowered the role and significance of the efficiency of using incoming foreign investments in the national economy.

In general, I would like to say that we simply did not have a real and planned management of foreign investments and a clear-cut understanding as to where our priorities lay in utilizing them, in what sphere and on what principles.

Our negligence in regulating this process was often the reason for blatant violations of the current economic and administrative legislation, speculation, and similar phenomena.

It is on the basis that in certain circles a distortion has already taken place of the very concept of foreign investments. Voices are being heard ever more loudly which are calling not only for their activities to be limited in our economy but simply to stop their influx.

I should like to say once more that world experience and moreover the state of our economy dictate precisely the reverse. Today it is necessary to encourage in every way the influx of foreign investments, at the same time increasing their impact on the economy of the country as a whole by improving the mechanism of the management of the process itself through legal and economic levers.

This may be in various forms, but it should be especially stressed that the process of attracting foreign investment must be organically linked to the process of dismantling state controls. In principle foreign capital can and must participate in this process on an equal footing with domestic business, but at the same time the game must be played in accordance with precise rules and with certain priorities.

In principle two kinds of foreign finance are available to us: foreign loans and credits, and direct private investments. I must today report to the Supreme Soviet that loans and credits have their limitations, and very substantial ones at that, as they are directly linked with the



state debt, with the balance of payments, and with the budget deficit. As you know, we have all these elements present today.

Moreover, it is also important to note that the effectiveness of the use of foreign loans and credits, as practice—including by our country—shows, is in the overwhelming majority of cases lower than the effectiveness of private investments. I am not even speaking of the fact that the conditions for obtaining loans and credits on the world market are now very tough and are constantly being tightened. That is why the most rational source of additional finance for the economy's requirements we see today lies in direct private investments. In principle there is nothing new here. This is the experience of the world. But in practice this source must also be regulated by legislation.

As regards its volume, as regards its potential possibilities one must bear in mind that it does not have any restrictions. So we see our task in creating the appropriate economic and legal conditions in our country with a view to encouraging the influx of these funds into our country.

It is important to note here too that in principle there exists a world investment market with its laws and conditions. That is why it goes without saying that if our conditions—political, economic, social and the like—are worse than the generally recognized world conditions no foreign capital will come to us. They, as you can also see today, are not in very much of a hurry to invest money in our economy, and this we must clearly see.

That is why the law which has been submitted for your examination is precisely aimed at resolving this task of creating the legal conditions for the further activity of the executive authorities and the union republics.

The draft law provides first of all for the creation of the appropriate legal basis for the operation of foreign capital on the Soviet Union's territory. Here we took into account both world experience and the conditions of the world capital market, above all what we have accumulated in the past four years. We proceed from the fact that legal norms for regulating the operation of foreign investments accumulated by the world community must in principle be applied in our country, first taking into account its features and the specific nature of our economic life. From the time that the draft law was submitted to the Supreme Soviet, quite a few amendments have already gone through to build up the legislative basis for regulating our socio-economic life. That is why the Supreme Soviet adopting the corresponding legislative acts has also required introducing corrections into the draft law being submitted. This work was carried out with the USSR Supreme Soviet committees for international affairs, for capital construction and architecture, for legislation, for economic reform, and also with the commission for economic relations with the union republics. As a result the draft submitted to your examination was produced.

As far as the amendments introduced are concerned, these have already been reflected in the document's name, since today it is called the fundamentals of legislation. This has been so arranged because in the draft treaty on the union, published on 9 March of this year, foreign economic regulation was assigned to the competence of the union and the republics, with the union elaborating the fundamentals of legislation in this sphere.

It is necessary to point out here today that the status of the Union and the republics, which has still not been finally determined from the point of view of the strict demarcation of powers, rights, and obligations, serves as an obstacle at this time for a more precise wording of the points within a number of articles that the legislation is based. The main peculiarity of the basis is the spreading to foreign investors of a national regime of the regulation of investment activity. This practice is generally accepted in the world. At the same time, the draft basis determines those spheres where the activity of foreign capital is either restricted or prohibited.

The second fundamental question proposed to be solved by means of the basis is the protection of and guarantees for foreign investments. This point was originally not included in the draft because it was meant to be a general norm that would be set out in another law. However, in connection with the basis of legislation on investment activity in the USSR, which came into effect 1 January of this year, the International Affairs Committee considered it necessary to repeat this norm in the present basis, too. This is Article 9. We agree with such an approach with one condition, and that is that compensation to a foreign investor in cases of nationalization, requisitioning, and confiscation will be conducted based on the market cost of property in the currency in which the investments were made. I believe that this addition would be the correct one.

Now, here are the main points set out in the remaining part of the draft. Here, the circle of participants has been widened. In other words, it points to the fact that corporate bodies, individuals without citizenship, foreign states, and international organizations may be foreign investors. Here, the right is given to set up enterprises with 100 percent foreign capital. The activity of enterprises may be broadened in any forms which do not contradict the acts of legislation of the USSR and the republics. It is borne in mind that—apart from joint enterprises—joint-stock companies, limited companies, partnerships, and even individual activities may be set up. A legal regime for foreign investors, no less favorable than that for Soviet enterprises, organizations, and citizens, save for the exclusions which are provided for by this basis and acts of legislation of the republics is being set up. Well, this may apply, for example, to national security and the environment.

With the purpose of freeing the activities of enterprises with foreign investments, it is proposed on the basis to



give the right to export the output of one's own production and to import output for one's own requirements without licenses.

At the same time we believe that taking into account our present reality, such wording should be made more precise. Taking into account our views and practice, it seems to us more proper to write that the products of personal production and investments can be imported and exported—well, imported above all—without licenses. As practice shows, the wording “for personal needs” turns out to be so flexible that everything you keep on talking about is being presented as personal needs; these include luxury cars, video equipment, and everything else one would desire.

In connection with this, when making this wording more precise—I mean that deputies can discuss this issue in greater detail later—that property brought into the USSR as the contribution of a foreign investor to the authorized capital of the enterprise should, within the time scale of its being formed, be exempt from customs duties and taxes on imported goods. Thus, we believe the system for taxing the enterprises' export product and the import of goods will be simplified from the point of view of setting up and developing the production process.

The basis which has been presented envisages that the property of enterprises with foreign investments may be used by them as a security for all kinds of their obligations, including the attraction of loaned funds.

Foreign investors and enterprises with foreign investments may be given land for their use, including the lease of it in accordance with the legislations of the USSR and republics on land. By proposing this, first of all we have in mind the possibility on the part of enterprises to pledge their property rights as a security for all types of obligations. It is, all in all, not just a guarantee, it is the responsibility of an owner and a leaser to the banks, and without solving this issue—I stress—without solving this issue the attraction of capital will not take place.

With the purpose of setting to rights the creation and activities of enterprises with foreign investments, it is proposed to set the time scale, the size of the contribution, and the procedure for every participant to contribute to the authorized capital, and this should be provided for in the articles of association. In our opinion the participants in a joint enterprise must fully contribute their assets to the authorized capital in accordance with the time scale set out in the articles of association.

If one year after registration there is no confirmation of deposit of 50 percent of the investment in the particular enterprise, it is recognized according to our proposal as invalid. This is done because today we have masses of examples when individual foreign participants sign all the founding documents without depositing into their authorized capital even one-tenth of their obligations toward it. At the same time such an enterprise under our

legislation, as you know, receives substantial enough tax concessions. In this connection this kind of legal regulation is proposed.

The draft fundamentals also envisage granting foreign investors rights to concessions for the exploitation of natural resources carried out on the basis of concessional contracts concluded with the bodies of state administration of the republics in line with the procedure defined by the legislative acts of those republics.

In addition to the provision on concessional contracts—that is article 40—and in accordance with the anticrisis program, work is currently being conducted to draft a legislative act on the procedure and terms for granting concessions on the territory of the USSR to foreign states and companies. It is also planned to define the most important types of cooperation with foreign entrepreneurs in the field of exploitation of natural resources in the USSR and other types of economic activity, singling out concessionary agreements, agreements on the allotment of the marketed output, on the creation of joint enterprises in the field of use of resources, contracts on provision of services, and so on.

This legislative act will precisely demarcate the rights and obligations of the host side and the concessionaire. In it there should be precise definition of the mechanism of the functioning of the agreements and stipulation of the time schedule, the procedure for resolving disputes, elucidation of questions of insurance, accountability, control, supervision and also terms of payment, procedure for marketing of ready output, fixing of taxes, and tax concessions.

It will also list the spheres of the national economy in which concession contracts and other forms of agreements can be concluded. We proceed from the view that, in addition to the real fundamentals and the legislative enactment on the procedure for awarding concessions on the territory of the USSR, legislative enactments of the USSR and the republics will be additionally drawn up in the future on mineral wealth, as well as similar draft laws on specific spheres of activity—on oil and gas resources, and on enterprise in the mining and quarrying industry, in forestry, in fishing and in extracting marine products—in which, in our view, the specifics of the activities in those sectors of the national economy will be reflected.

In general, there must also be a separate conversation about the fact that, unfortunately, one has, in practice, to contend, well, in general, with ignorance of legal matters, of the world community and of world practice, and in that sense, sometimes the solutions proposed by our entrepreneurs, and even our ministries and departments are at fault owing to their very serious weakness from the point of view of the defense of our interests. Unfortunately, we do not yet know how to defend ourselves legally, and, in that sense, the draft fundamentals of legislation must, nevertheless, provide a base on which this defense must later be legally and competently built. But today all that is still at the level, well, I would say, of



amateur conversation, and here one often chances to see that the conditions for interaction between our economy and foreigners depend so much on the luck of the draw with regard to our specialists who are engaged in it. If one ends up with strong, competent people, then the terms of an agreement are profitable.

The question of free economic zones is also included in that law. That is article 41. It is also world practice, but it must be borne in mind that, taking account of the fact that today decisions are already being made about creating free zones, let us say, in Leningrad and Nakhodka, but, you understand, throughout the world there are different economic zones.

And in this sense then both the legal regulation and all entrepreneurial activity in these zones must be constructed not simply on the principle of proclaiming freedom, or I do what I want; a law must also be in effect there, a law which will pursue the end of not just attracting capital, but attracting capital taking our priorities and our interests into account.

It is necessary to take into consideration the different character of free enterprise zones, and therefore the goals which must be pursued when creating them. Hence it is proposed that the procedure for implementing the economic activities of enterprises is established by the legislation of the union and the republics, and the decisions of the appropriate soviets of people's deputies, each within the limits of their competence. For this reason the decision on creating each zone must be taken according to the procedure established by republican legislative acts.

We consider that today, in order to regulate economic activities and investments, it would probably be correct to have a coordinating union-republican body, in which representatives of the republics would participate. Such a body could carry out all the functions connected with foreign investments, both in our country and abroad, provide the appropriate information, coordinate activities, give help to both our enterprises and also foreign investors, keep a state register, and regulate and assist the development of enterprise in free economic zones. Regulations of concession enterprise must also be its responsibility.

In principle we consider that on the whole the adoption of the present basis is a necessary and timely step, and will assist the influx of foreign investment into our national economy and will help us get out of the crisis.

#### Supreme Soviet 29 May Debates Reported

PM0306093191 Moscow IZVESTIYA in Russian  
31 May 91 Union Edition pp 1, 3

[Report by parliamentary correspondents A. Stepovoy and S. Chugayev: "Most-Favored Status for Foreign Investments"]

[Excerpts]. The draft basic principles of legislation on foreign investments in the USSR was approved at its first reading by the union parliament at the end of the 29 May daytime sitting. In our previous reportage we had already reported that this document of very great importance for our economy was submitted to the USSR Supreme Soviet by the country's prime minister. [passage omitted]

The prime minister's convincing presentation of the draft law, no less convincingly supported by his opponent F. Tabeyev, deputy chairman of the USSR Supreme Soviet Committee for Foreign Affairs, had an effect. Of the 12 deputies who took part in the debates only one—Deputy Ye. Sokolov—resolutely opposed it. In his opinion the adoption of the draft law is evidence of the complete collapse of the economy created in our country and its transformation "if not into a colony, then into a semicolony." The draft law was adopted at the first reading by a majority of votes. The second reading may be expected to take place in June.

At the session's 29 May evening sitting it was planned to finally adopt at the second reading the draft basic principles of civil legislation. As we have already reported it remained for the deputies to discuss and vote for the four concluding sections of this big draft law. They are devoted to copyright, the right to an invention, inheritance law, and the legal capacity of foreign citizens and corporate bodies. Keen debates developed around the article which discusses who should have the right to an invention made while undertaking an official mission. Some deputies, supported by the USSR Academy of Sciences, the Visa and Registration Department, and the government representative, expressed themselves in favor of the right belonging to the organization in which the invention was made. Another section, and this was supported by the USSR Supreme Soviet committee for legislation and law and order, favored the right belonging to the author.

But this contradiction was not successfully resolved by voting. Four times during the sitting A. Lukyanov, who was in the chair, announced registration, and each time the figures on the board failed to show a quorum. It turned out that at the time the deputies from Azerbaijan were taking part in some other event. Thus the lack of just one republican delegation can immediately make the union parliament ineffectual.

By the end of the sitting the Azerbaijani deputies appeared in the auditorium and this enabled the Supreme Soviet to ratify the agreements on the encouragement and mutual protection of capital investments concluded by the USSR Government with the governments of the PRC, Canada, Britain, Belgium, Luxembourg, the Netherlands, Switzerland, Finland, Spain, the FRG, France, Italy, Austria, Turkey, and the Republic of Korea.

But, as the chairman recognized, the quorum was so precarious that it was decided to carry out the voting on



## ROUTING SLIP

DATE:  
6-14-91From the Senior Vice President  
Policy, Research and External Affairs

Name	Room No.	Name	Room No.
V. Rajagopalan		C. Michalopoulos	
L. Summers	x	G. Lamb	
P. Isenman	x	R. Liebenthal	
A. Shakow	x	R. Woodford	
G. Ingram		R. Voight	
K. Jay		J. Holsen	x
Urgent		Comment	
For Action		Approval/Clearance	
Information		Signature	

## REMARKS:

Re Mr. Major's Invitation  
to Mr. Gorbachev.

RECEIVED

9 JUN 14 AM 11:07

PRDDR

USSR

FROM: Patricia M. Gallagher

Room No.:

Ext.:



THE WORLD BANK

ROUTING SLIP

Date

June 14, 1991

OFFICE OF THE PRESIDENT

Name

Room No.

Messrs. Qureshi, Stern, Thalwitz

and Shihata

To Handle

Note and File

Appropriate Disposition

Prepare Reply

Approval

Per Our Conversation

Information

Recommendation

Remarks

Soviet Union

I attach a note from the UK regarding  
Mr. Major's invitation to Mr. Gorbachev.

*FF*

From

Sven Sandstrom



LONDON ECONOMIC SUMMIT: INVITATION TO MR. GORBACHEV

- The Prime Minister has now sent an invitation to Mr. Gorbachev to visit London for a meeting with Summit participants immediately after the Summit conclusion on July 17.
- The invitation makes clear the key point that Mr. Gorbachev should not come with expectations of decisions on financial assistance.
- It also makes it clear that Summit participants share the Soviet objective of integrating the Soviet Union into the World Economy.
- On the role of the multilateral institutions, the Prime Minister has reminded Mr. Gorbachev of the objectives set out in the four-agency study of the Soviet economy completed last year at the request the Houston Summit. And has emphasised that actions to achieve these objectives are essential for a successful economic reform program.
- The Summit participants will be looking to Mr. Gorbachev to spell out how, in practical terms, measures to achieve these objectives can be implemented.
- In issuing the invitation we have not addressed in specific terms the question of what the international institutions might be asked to do following the discussion in London. We think it probable that the Summit participants will wish to consider a continued role for the IFIs in the provision of technical advice on macro-economic policy and certain specific sectors of the economy, but it is not possible to be precise about this for the moment.

June 13, 1991



## ROUTING SLIP

DATE: 5-31-91

From the Senior Vice President  
Policy, Research and External Affairs

Name	Room No.	Name	Room No.
V. Rajagopalan		C. Michalopoulos	
L. Summers	x	G. Lamb	
<del>P. Isenman</del>	x	R. Liebenthal	
A. Shakow		R. Woodford	
G. Ingram		R. Voight	
K. Jay		J. Holsen	x

Urgent	Comment
For Action	Approval/Clearance
Information	Signature

REMARKS:

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91 MAY 31 PM 5:14

PRDOR

FROM:

Room No.:

Ext.:

Wilfried P. Thalwitz

sads\w48809



1991-05-31 17:44 SECRETARIAT GENERAL 00 1 0247001 17:44

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES  
ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Centre pour la Coopération avec les Economies Européennes en Transition  
Centre for Co-operation with the European Economies in Transition

2, rue André-Pascal, 75775 PARIS Cedex 16

Téléfax : (33.1) 45.24.91.77

Téléphone : (33.1) 45.24.93.36

DESTINATAIRE/ADDRESSEE : Mr. W. Thalwitz

FAX NO. : (19.1.202) 477. 0549

DE/FROM : S. Zecchini

ENVOYÉ PAR/SENT BY :

NOMBRE DE PAGES/NUMBER OF PAGES : 2 (y compris cette page/including this page)

DATE: 31st May 1991

MESSAGE:

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91 MAY 31 PM 5:14  
PRDDR



Le Secrétaire général suppléant  
The Assistant Secretary-General

2, rue André-Pascal  
75775 PARIS CEDEX 16  
Tél. 45 24 82 00

SZ/91.109

c.c. Mr. Summers

## M E M O R A N D U M

A/To: Mr. Richard Erb  
Mr. W. Thalwitz  
Mr. J. Flemming

De/From: S. Zecchini

Paris, 31st May 1991

Objet/Subject: Pre-summit meeting on the USSR economy and Joint  
Seminar in Moscow

I have received from the USSR Ministry of Foreign Affairs an invitation to take part in a seminar on 2nd - 4th July which will also be attended by the other organisations that participated in the Joint Study. I have also been informed that the IMF and World Bank have sent technical missions to Moscow recently to update their knowledge of the economic situation. A similar mission was planned by the OECD for the first half of June.

In view of the July seminar in Moscow, and after taking into account the fact that by mid-June all of us will have completed technical missions, I propose that a meeting of the participating institutions be held before the seminar in Moscow. This meeting is essential in order to avoid presenting to the Soviets conflicting assessments of the situation as well as of the follow-up. It is crucial that the four participating institutions seek to maintain a degree of coherence, if not cohesion, in dealing with such a delicate issue as the reform of the Soviet economy. Hence, the purpose of the meeting I am proposing is to circulate information gathered separately, to exchange views about the assessment of the situation and policy prescriptions, and to reach a minimum of harmonization of positions to be taken in that seminar. I propose that this meeting be held on Sunday, 30th June in the premises of the OECD starting either at 9.30 a.m. or at 3.00 p.m. On Monday, 1st July the participants in this meeting could leave from Paris for Moscow.

I also believe that it is necessary to have a pre-summit meeting after our seminar in Moscow. We could use half a day in Moscow for having this meeting before returning to our offices, or we could hold it in Paris on the way back to our offices.

I am looking forward to receiving an answer to my proposal.



# THE WORLD BANK

## ROUTING SLIP

DATE  
5-24-91

FROM THE SENIOR VICE PRESIDENT,  
POLICY, RESEARCH AND EXTERNAL AFFAIRS

NAME

ROOM NO.

Mr. Holsen

cc: Messrs. Isenman, Lamb, Michalopoulos

APPROPRIATE DISPOSITION

NOTE AND RETURN

APPROVAL

NOTE AND SEND ON

COMMENT

PER OUR CONVERSATION

FOR ACTION

PER YOUR REQUEST

☒ INFORMATION

PREPARE REPLY

INITIAL

RECOMMENDATION

NOTE AND FILE

SIGNATURE

### REMARKS

Mr. Holsen, I don't know if WT will want to go to Europe at that time. I will wait until Tuesday and get back to Mr. Flemming after talking to WT about it.

FROM:

Patricia M. Gallagher



**THE EUROPEAN BANK**  
FOR  
RECONSTRUCTION AND DEVELOPMENT

122 Leadenhall Street  
London EC3V 4QL

Tel (071) 338 6000  
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**NO. OF PAGES: 1**  
(Including cover page)

**TO: J.A. Frenkel / T. Ter-Minassian - IMF**  
Fax No: 010-1-202-6234211/2

W. Thalwitz / J. J. Holsen - IBRD  
Fax No: 010-1-202-477-6391/6549

S. Zecchini / M. Tuveri - OECD  
Fax No: 010-33-1-45249177/7931

**FROM: John Flemming**

**DATE: 24 May 1991**

RECEIVED  
91 MAY 24 PM 3:48  
PRDDR

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**MESSAGE:**

**Re: A Pre-Summit Meeting in London of the Participants in the  
Joint Study of the Soviet Union**

As the London Summit in mid July will be considering responses to Soviet requests for assistance in the context of the Joint Study on which we all worked last year, it seems appropriate to meet and exchange ideas on how our conclusions stand up in the light of subsequent developments and the findings of more recent missions.

Would you be free to attend a meeting for this purpose in the week beginning 10 June 1991? Do you have preferences within that period? A prompt reply would be much appreciated.

  
John Flemming



RECEIVED  
91 MAY 23 AM 10:13  
PRDDR

ROUTING SLIP		DATE May 22, 1991	
OFFICE OF THE SENIOR VICE PRESIDENT, OPERATIONS			
NAME		ROOM NO.	
Members of the USSR TA			
Informal Working Group			
(Messrs. Isenman, Kavalsky, Levy,			
Goldberg, Holsen, Hasan, Knight,			
Weigel, McCulloch, Lamb, Michalopoulos)			
<input type="checkbox"/>	To Handle	<input type="checkbox"/>	Note and File
<input type="checkbox"/>	Appropriate Disposition	<input type="checkbox"/>	Note and Return
<input type="checkbox"/>	Approval	<input type="checkbox"/>	Prepare Reply
<input type="checkbox"/>	Comment	<input type="checkbox"/>	Per Our Conversation
<input type="checkbox"/>	Full Report	<input type="checkbox"/>	Recommendation
<input checked="" type="checkbox"/>	Information	<input type="checkbox"/>	Signature
<input type="checkbox"/>	Initial	<input type="checkbox"/>	Send On
REMARKS			
FROM David R. Bock			



**The World Bank**

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.  
Washington, D.C. 20433  
U.S.A.

(202) 477-1234  
Cable Address: INTBAFRAD  
Cable Address: INDEVAS

May 21, 1991

Mr. Jean-Louis Cadieux  
Director General Adjoint  
European Economic Community  
Brussels, Belgium

Dear Mr. Cadieux:

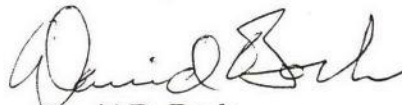
Early this year, Mr. Qureshi and Mr. Delors discussed the European Community's ECU 400 million program of technical assistance for the Soviet Union. Following up on this when I visited Brussels in March, we discussed in principle the idea of using the World Bank as an executing agency for part of that program. We agreed to get together again towards the end of this month.

We have given much thought to the question of technical assistance to the Soviet Union and the individual republics because of their obvious and massive requirements, but primarily because of the many technical assistance recommendations in the Joint Study of the Soviet Economy. As you know, the Bank had been preparing its own program as a follow on the Joint Study but that has been in abeyance since January. Nevertheless, we would like to discuss informally with you the composition of the EC's program in order to stay abreast of events, as well as consider the possibility of the Bank acting as executing agency for specific components should that prove to be in everybody's best interest and acceptable to the Bank's Board of Directors.

A World Bank mission is in Moscow at this time for discussions with Soviet officials and advisors on the technical background papers to the Joint Study. This mission will no doubt be brought up to date on Soviet thinking about technical assistance priorities as part of the exchange of views on the background papers. Once the mission has returned to Washington, and we have had a chance to debrief them, I will give you a call about the content and timing of a follow-up discussion with you and your staff.

With best regards.

Sincerely,



David R. Bock

Director, Operations Staff  
Office of the Senior Vice President, Operations







# Keep the Heat on Gorbachev

NYT OP Ed  
14/05/91

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P R D R

By Hedrick Smith

**T**o sort out Soviet politics, Americans need a seasonally adjusted method for interpreting the zigzags of Mikhail Gorbachev. In fall and winter, he typically aligns himself with reactionary forces. But in spring and summer, he turns toward reform and compromise with progressive forces.

He has done it again. After five months of alliance with Communist and military reactionaries, Mr. Gorbachev rebuffed the hard-liners last month, and is now operating in a partnership with his rival, Boris Yeltsin, the Russian Republic leader and champion of the reformers.

Mr. Gorbachev's shift reflects a pragmatic concession to the power of republican governments, one that opens an opportunity for American policy. The West can widen its official dealings with republican and local governments to promote long-term democratic and market reforms. Mr. Gorbachev himself offered the means for doing so, asking Washington for a

*Hedrick Smith, a fellow of the Johns Hopkins Foreign Policy Institute, is author of "The New Russians."*

new agricultural credit of \$1.5 billion.

Clearly President Bush wants to say yes, but Washington should also spread its bets among the contending forces — not abandoning President Gorbachev but moving to expand parallel connections at all levels of the fragmented Soviet power structure. Here are some steps that should be taken:

- Amend the 1990 legislation establishing the Support East European Democracy program to include the Soviet Union, so that the U.S. can help train elected legislators, mayors and city council members in the art of democracy. Those reformers confront the hard-line party apparatus and lack experience in governing.

- Invest in building democratic institutions in the Russian Republic and other republics. With only \$300,000, the National Endowment for Democracy through the National Democratic Institute has run seminars for Soviet officials on budgets, taxes, services and coalition-building. Some 200 city officials have begun this training, but 20 times that number need help. Multiply the budget tenfold, using Federal money, and it would still pale beside the cost of aid to the Kurds.

- Take advantage of glasnost's daring spirits like the TV journalists of the popular program "Vzglyad" who were thrown off the air last December. They are trying to organize alter-

native TV and radio outlets to compete with the censored state media. Seed money and secondhand equipment are desperately needed.

- Extend economic advice to republics, regions and city governments that want market reforms. Until now, the Bush Administration has been so worried about offending Mr. Gorbachev that it has only advised the central Government, where the will to create a market is weak.

## Eight ways to encourage Soviet democracy.

By contrast, leaders in Moscow, Leningrad and some other cities are eager to promote privatization, free trade zones and wholesale markets, rewrite tax laws and ease customs restrictions and other conditions for joint ventures. Low-cost technical advice offers potentially large returns.

- Channel U.S. aid, especially food and other humanitarian aid, to republican governments rather than to the Kremlin. Let the local reformers get the bonus for delivering food. Last

winter, when Mr. Bush granted \$1 billion in farm credits, the grain went to Moscow and was distributed by the K.G.B. The leader of Moldavia complained that Mr. Gorbachev was demanding that republic leaders accept his version of a new union treaty as a price for obtaining grain.

- Use this summer's summit meeting of the seven industrialized nations to coordinate aid to Moscow; distribute it in phases, continuing so long as Mr. Gorbachev pursues progressive politics and market economics.

- Insist that the Interior Ministry's black-beret troops stop taking over banks, customs posts, airstrips and other facilities in Lithuania and Latvia. Require as a price of outside help that seized Baltic institutions be returned to local authorities.

- Gradually expand official relations with Lithuania, Latvia and Estonia, leading to establishment of what Zbigniew Brzezinski calls "institutes," or veiled U.S. embassies, and get the Baltic states accepted as full members at Helsinki II conference.

In sum, the moment has come for bolder American actions. The object should be to encourage Mr. Gorbachev to stay on a progressive track, — and to strengthen democratic institutions in case he follows his seasonal pattern and swerves back toward a hard line next fall. □

New York Times  
14/05/91



# BUSH PICKS DEPUTY FOR U.S. SECURITY TO HEAD THE C.I.A.

NYT 15/05/91 p2

## GATES GETTING 2D CHANCE

### President Dismisses Concern That Hearings Will Renew Debate on Iran-Contra

By ANDREW ROSENTHAL

Special to The New York Times

WASHINGTON, May 14 — President Bush today gave Robert M. Gates an unusual second chance to become Director of Central Intelligence. The President chose the career intelligence analyst for a job he was denied four years ago in the face of intensive questioning about the Iran-contra affair.

In selecting Mr. Gates, a veteran of 25 years in Government bureaucracy with no political profile or base of his own, Mr. Bush reiterated his view that the espionage agencies should devote themselves to intelligence gathering and remain aloof from both politics and policymaking.

Mr. Bush said that was the way he ran the intelligence services when he was director himself in 1976, although he moved into the post after serving as chairman of the Republican National Committee.

#### 'He Will Do a Superb Job'

"I will keep it the way it was when I was there," Mr. Bush said today. "And it will be — he will be at the table when matters of — or when we need the intelligence to make critical decisions on foreign affairs. He will not be a political — trying to shape policy. But he will do a superb job as a professional intelligence officer, heading the intelligence agency. That's the way it's going to be."

That often-repeated mandate seems to reflect Mr. Bush's desire to avoid the experiences of the Reagan Administration, when William J. Casey, the intelligence chief, not only was heavily involved in policymaking but embarked on an ambitious covert operation, the Iran-contra affair. That secret effort to sell arms to Iran and divert some of the profits to the Nicaraguan rebels crippled Mr. Reagan's final years in office.

White House aides took pains today to say that Mr. Gates would abide by Mr. Bush's wishes to stick to intelligence gathering and analysis.

## Man of Strong Opinions

The 47-year-old Mr. Gates has a reputation for loyally defending official policy. But he also has strong opinions and clashed with Secretary of State James A. Baker 3d in 1989 over Mr. Gates's intention to give a speech expressing skepticism about whether the Soviet leader Mikhail S. Gorbachev could deliver on his promises of reform. The speech was shelved after Mr. Baker objected to its pessimistic tone.

Although Mr. Gates, who is now deputy national security adviser, was forced to withdraw from nomination to the intelligence post in 1987 because of questions about his actions during the Iran-contra affair, Mr. Bush today brushed aside concerns that the Gates

Continued on Page A22, Column 1

New York Times  
15/05/91

## Skeptic With Strong Views

NYT Front Page Robert Michael Gates

15/05/91

By PATRICK E. TYLER

Special to The New York Times

WASHINGTON, May 14 — Though President Bush said today that he does not want the Central Intelligence Agency involved in policy making, by nominating Robert M. Gates as the agency's new director Mr. Bush has picked a man with strong opinions about the Soviet Union and a strong belief in aggressively packaging intelligence to serve the administration's foreign policy agenda.

Man  
in the  
News

Mr. Gates, 47 years old, is the first former director of the C.I.A.'s analytical arm, or directorate of intelligence, to move up to the agency's top post. This reflects the growing interest in the Bush Administration in understanding fast-changing events in the Soviet Union, Europe and the third world as opposed to trying to shape them through covert action, according to Administration officials.

#### Pessimistic Toward Soviets

During his 25 years in Government, Mr. Gates has served a number of Presidents from both political parties, but despite his image as a low-profile and cautious bureaucrat, he is known at the C.I.A. as a tough and blunt-spoken task master who rose through the ranks by making well-researched judgments and predictions for his bosses, who often complained

that agency analysts were writing history instead of predicting it.

His reputation is that of a scholarly professional who believes that policy makers need timely guidance on potential crises and trouble spots. But he is also known as a man who has not been afraid to use his analytical skills to promote his own policy views, particularly his tough, pessimistic attitude toward the Soviets.

In contrast to the departing Director, William H. Webster, Mr. Gates advocates detailed involvement by the director in the substance of daily intelligence issues and a close relationship with the White House, both to convey important developments quickly and to take Presidential responses back to agency analysts so they better know the views of the decision makers.

"It tells you a change in the world

Continued on Page A22, Column 4

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CAROL BUCHWALD, COLUMBIA MSW.  
We Love You. — Dick, Lisa, Adam. — NYT



# The New York Times

Founded in 1851

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Wednesday  
15/05/91

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## Four Questions for Robert Gates

In weighing President Bush's nomination of Robert Gates as Director of Central Intelligence, the Senate will need to look two ways. At this juncture in international relations, it has an unusual opportunity to raise fundamental questions about the future course of U.S. intelligence. In so doing, it also has the duty to examine Mr. Gates's extensive record in Government service.

Probing the future is important because, with the end of the cold war, far too much of the intelligence community's time and money remains concentrated on the Soviet Union. The new intelligence chief will have a guiding hand in charting a new course. That undertaking can only benefit from wide public debate, and thorough confirmation hearings are a good place to begin.

Mr. Gates's past role in intelligence work also warrants scrutiny. When he was nominated for the same post in 1987, his name had to be withdrawn after he dodged and fudged about his role in arming Iran. The struggle continues to assure political accountability for operations and to insulate assessments from political interference.

Mr. Gates certainly has the experience to manage and control the intelligence community. Whether he has the judgment and the vision can be determined by his answers to four questions.

**What was his role in arms sales to Iran over the past decade?** Without a clear sense of his knowledge and involvement, Congress could well wonder whether he can exercise the independence essential

to keep the C.I.A. from again becoming a personal arm of the Presidency.

**Is he committed to informing Congress in a timely way about intelligence operations?** Without assurances on this point, there will be lingering doubts about his openness to the Congressional oversight that Iran-contra showed to be an essential protection against frightening abuse.

**Does he believe the Soviet Union is incapable of basic change and will remain an implacable foe?** There are reasonable grounds for disagreement over how much the Soviet Union has changed and where it is heading. But an intelligence chief stubbornly certain that it can't change could blinker U.S. assessments. And one inclined to provoke Soviet disunion could endanger U.S. security.

**How could the \$30 billion intelligence budget be better spent?** Until recently, nearly two-thirds of that staggering sum was focused on the cold war. With the nature of the Soviet threat now dramatically altered, there is a crying need to determine how much remains justifiable, and how much to allocate to satellites, scholarship and spies.

Thankfully, Congress has come a long way from the gentlemanly days a generation ago when Senator Leverett Saltonstall, the Massachusetts Republican, said of intelligence operations: "The difficulty in connection with asking questions . . . is that we might obtain information which I personally would rather not have." In 1991, Congress and the country need to ask searching questions about Mr. Gates's past and the Central Intelligence Agency's future.



Op Ed

Washington Post  
17/05/91

Stephen S. Rosenfeld

## Moscow: The Big Chance?

It is dawning only slowly on Washington and the West that suddenly a tremendous opportunity has opened in Moscow to save the Soviet Union, or Russia, or whatever that place is going to be, for democratic reform.

Noting the prospect, a careful person would immediately want to list the usual 42 reasons to be wary, not to expect too much too soon and so on. All of that I am going to stipulate, however, on grounds that caution is already copiously coded into our political radar and that the vital requirement now is to rise above conventional prudence and find the imagination to see large new possibilities.

It is widely accepted—it may even be true—that Mikhail Gorbachev has played out his historic role as the patron of change from above. Boris Yeltsin is the man of the next hour. It is not proven that he's a great leader, but he represents the awakening and ever more insistent forces of change from below.

Stephen Sestanovich, from his scholarly perch at the Center for Strategic and International Studies in Washington, and William G. Miller, who follows the Moscow reform scene closely as head of the American Committee on U.S.-Soviet Relations, make a persuasive case. They suggest that Gorbachev's shift to the right in the past six months unleashed a reaction that in turn produced the current Gorbachev-Yeltsin "truce" or "coalition" whose effect is to revive Soviet democrats and decentralizers. The "nine-plus-one" accord of April 23—nine Soviet republics plus the central union—was the pivot. Yeltsin's imminent popular election as president of Russia and the turnover of the coal mines to the Russian Republic (and their expected early privatization) show the way.

Americans are entitled to some nostalgia at Gorbachev's decline. President Bush gave him the handsome credit he is due the other day in hailing his foreign policy innovations and early domestic reform. What we are not entitled to is absent-mindedness and inattention to the potential of the new situation taking shape in Moscow. There is a real danger of that now.

During the past five years, it has been enough for the West to sit back, watch Gorbachev perform his magical feats and wait for the marvelous fruits of his policy to mature and drop into our laps: the fading of the Cold War, East Europe's liberation, German unification, the opening of Soviet society. The Reagan and Bush teams have done well enough in tracking these developments, but the United States has been in the relatively undemanding position of responding to initiatives and tough decisions taken by others. Consider the sweaty tug of war we have had on the protocol of receiving Baltic visitors—a typical symbolic and relatively trivial issue.

But now comes a period when, to exploit immensely promising but fragile tendencies in the Soviet Union, Washington must decide whether to go beyond these nudges and nuances into bolder assertions of the American interest. There was some plausible reason to put off this decision while Soviet reform was in its initial exciting but tentative and undeveloped phase. But with the prospect of a real political breakthrough, the United States can no longer take refuge in lesser gestures and sideline commentary. Washington is going to be called on to put its money where its profusely professed interest in democracy is.

Jeffrey Sachs, a hot hand in the precocious new specialty of taking command economies market, argues that for a mere \$30 billion a year for five years, the West could hope to bring the Soviet Union to the promised land. Condition the aid explicitly on economic and political reform, he says—I would add: and on an absolute avoidance of state violence against peaceful dissent—and offer it up front, right now, in order to have maximum influence in the Soviet debate. The American share would be \$3 billion—peanuts.

The tendency to treat the Soviet Union as an adversary, or as a country that will only do the right thing under pressure, lingers on in American thinking. It accounts for the various schemes, small and large, to keep the heat on Gorbachev, including the current notion that we can buy the future with a one-shot \$1.5 billion food loan. It's not all bad. But it's a policy tacitly premised on the expectation of the failure, or at most the stinging progress, of Soviet reform.

Events in the Soviet Union may now finally open a vista of far-reaching progress. This is why we need to weigh not just the familiar negative incentives but brave new positive ones. So far the Bush administration shows no awareness of how the stakes may be changing.

## Soviet Debt, Economic Woes Grow

### 'Disaster' Possible, CIA Tells Congress; Loan Squeeze Looms

By Steven Mufson  
Washington Post Staff Writer

The Soviet Union needs \$20 billion to \$30 billion in foreign loans and credits this year, just as the country's unsettled political and economic situation is making most Western banks and companies unwilling to extend it any new credit, according to International Monetary Fund officials.

The loans and credits are needed to import food and vital industrial equipment and to make payments on debts that are coming due and that Western banks and companies do not want to roll over into new loans.

Half the Soviet Union's \$40 billion in commercial debt comes due within a year, according to a report by Deutsche Bank, a major lender to the Soviets in the past, and the country's foreign exchange reserves have sunk to their lowest level in years. Meanwhile, other sources say the Soviet Union's arrears on trade credits have mounted to \$5 billion.

The credit squeeze is coming against the background of what the Central Intelligence Agency's chief Soviet analyst yesterday said is a rapidly deteriorating economic outlook. "The Soviet economy is disintegrating and could be on the way to a disaster of historic proportions," said George Kolt, director of the Office of Soviet Analysis for the agency.

In testimony before a subcommittee of Congress's Joint Economic Committee, Kolt estimated that the Soviet economy could shrink by 10 percent to 15 percent this year while inflation "could easily exceed 100 percent."

"Even if reform proceeds anew, tough economic times are in store

See SOVIET, A21, Col. 3

Front  
page



# Soviet Economic, Debt Problems Grow

WP 11/05/91

SOVIET, From A1

for the Soviets," Kolt said. "If meaningful reform is not carried out, the economic future will be totally bleak."

In Moscow, the Soviet government announced new measures to stem the economic slide. President Mikhail Gorbachev yesterday issued a decree banning strikes in key sectors and introducing incentives to revive sagging industrial production.

The decree, read on state television, said anyone organizing work stoppages in the energy, chemical and metallurgical industries could face criminal prosecution. It also gave basic industries greater control over revenue, allowing them to retain 10 percent for their own use.

Gorbachev's decree was issued hours after Soviet Prime Minister Valentin Pavlov announced that leaders of the Soviet Union and 13 of the country's 15 republics had agreed on an "anti-crisis program" to shift from central planning toward a more market-oriented economy.

Pavlov gave few details of the plan, which was agreed upon Wednesday. But he said central authorities would play a smaller role in setting prices and drawing up supply contracts among individual businesses. Pavlov's deputy, Vladimir Shcherbakov, said sharp cuts were planned in the central government bureaucracy and in defense spending.

Gorbachev also acknowledged that Soviet economic output had dropped 10 percent since January. "The situation calls for special measures," he said in a statement.

Western analysts remain skeptical about the prospects for a Soviet recovery, however.

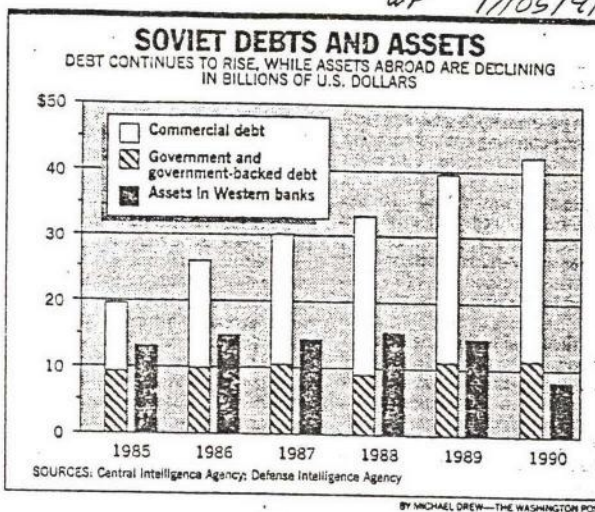
Kolt said that "the U.S.S.R. will face tough choices this year in trying to halt the deterioration" of its balance of payments. He added that "some short-term credits that Western lenders have been refusing to roll over also will have to be repaid, and the pressure to eliminate arrears in payments to Western firms will be great."

The crunch in commercial lending lies behind recent Soviet appeals for government loans. The Soviets are seeking a \$1.5 billion agricultural loan guarantee from the United States. From Japan, Gorbachev is seeking a multibillion-dollar aid package. Gorbachev is also hoping to attend the July economic summit of the leading industrial nations in London.

In an interview in Washington this week, Oleg I. Ozherelyev, economic adviser to Gorbachev, urged the United States to remember that "providing a loan is a mutually beneficial arrangement, not a charitable activity." Ozherelyev said that if the United States were not forthcoming, "there are enormous opportunities in Western Europe" for loans.

But the Soviets might have trouble raising money there too, especially in light of the increased need for capital worldwide. Germany, traditionally a heavy lender to the Soviet Union, already is burdened by the need to invest in the former East German region. And key lenders are pessimistic about Soviet prospects.

"The best we can hope for is that it is not a complete catastrophe," Norbert Walter, a senior economist at Deutsche Bank, said in a recent



Last year, the Soviets obtained official loans from Italy, France and Germany, but the money was tied directly to overdue payments to companies from those countries. It was effectively a rescheduling of unpaid trade debts. Until late 1989, the Soviets had maintained an excellent record of repaying their foreign debts.

Moreover, Western governments, the IMF and the World Bank are divided over how to handle the Soviet requests. The IMF and the World Bank say that lending money to the Soviet Union now is tantamount to pouring water in the sand, and they have urged industrialized nations to wait until the Soviet Union moves more decisively toward economic reforms.

A senior IMF official from Europe said, "No country in the world is ready to put money in a rotten structure. Reform is a must." A senior Treasury official said, "The question is will the money stick. What is the return on the investment?"

Other officials said the Western industrialized nations would come to the aid of the Soviets out of political considerations—including the need to stem migration.

The CIA and the Defense Intelligence Agency estimated in a report that accompanied yesterday's congressional testimony that the Soviets have lined up commitments of \$14 billion in noncommunist government loans, including \$1 billion in commodity credit guarantees pledged by the United States in December.

One-third of the aid will come from Arab states and South Korea, the agencies said. But that might be less than Moscow needs.

The Soviet foreign exchange crisis is a result of rising imports and declining exports. Though the Soviet economy is large, it produces little that the rest of the world wants. Its exports are less than one-third the size of Taiwan's, though the Soviet labor force is 16 times as big.

Moreover, production of oil, the main source of Soviet foreign earnings, is dropping. The rise in oil prices last year following the Iraqi invasion of Kuwait in August gave the Soviet Union a boost in income, but prices have dropped again. Arms sales, another major export earner, also have dropped.

Meanwhile, imports of consumer

goods have increased as Gorbachev tries to ease shortages. According to the CIA, imports paid for with hard currency rose by more than 50 percent between 1987 and 1989.

Foreign borrowing and purchases also ballooned in the past three years because of the limited decentralization of power in the Soviet Union.

Many state-owned firms and individual republics bought goods or borrowed money from abroad without regard to the effect on the Soviet Union's overall balance of payments. To finance imports, the Soviets "nearly doubled their total borrowing from the West from 1987 to 1989," the CIA said.

In the past few months, the Soviets have cut imports of steel products and chemicals that are "badly needed for domestic production," the CIA added.

Pedro-Pablo Kuczynski, a managing director at Goldman Sachs & Co. and a debt specialist, said the Soviet credit crunch was depressing gold prices because traders expect the Soviet Union to sell more of its gold reserves to make up the shortfall of foreign exchange.

"The [financial] market is not going to provide \$20 billion" to the Soviet Union, Kuczynski said. "... There's such a lack of political confidence in what's happening there. ... They're in deep trouble."

There was little in the CIA and DIA's bleak assessment of the Soviet economy to reassure financial markets. Their report to Congress said that "the traditional discipline of the Soviet economy ... has eroded drastically ... but has not been replaced by the discipline of the marketplace."

It cited shortages of basic industrial materials, a breakdown in the distribution system and the rising central government budget deficit as key problems. The CIA said that the Soviet government had tried to disguise its budget deficit by printing more rubles, thus worsening the inflationary spiral.

The agencies concluded, "There is no doubt that 1991 will be a worse year for the Soviet economy than 1990, and it is likely to be radically worse."



# FINANCIAL TIMES

LONDON • PARIS • FRANKFURT • NEW YORK • TOKYO

US

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Friday May 17 1991

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## Soviet president offers radical economic reform in return for aid Gorbachev in secret G7 offer

By John Lloyd in Moscow

**PRESIDENT** Mikhail Gorbachev has made a secret appeal to the Group of Seven leading industrial nations for extensive financial and technical support in return for a root and branch economic reform in the Soviet Union.

The plan was disclosed by Mr Grigory Yavlinsky, a former deputy prime minister of the Russian Federation, who has emerged as an informal mediator between Mr Gorbachev, Mr Boris Yeltsin, leader of the Russian parliament and western financial institutions.

This unprecedented initiative, if followed through, would mean that economists from the World Bank, the International Monetary Fund and other institutions would directly work on the reforms with Soviet officials.

Mr Yavlinsky said he had drafted a letter from Mr Gorbachev to the G7 two weeks ago which proposed the integration of the Soviet Union into the world economy, the liberalisation of Soviet prices, and a

large-scale devolution of power to the republics.

It calls for the active involvement of experts from the G7 in drawing up the Soviet programme and for the preparation of a parallel programme by the G7 to support the reforms.

Mr Yavlinsky said Mr Gorbachev stressed at a meeting at the beginning of this month the importance of the plan commanding both public and western support, and indicated his willingness to override conservative forces in the Communist party. He said that gaining such support was "more important than narrow party interest".

Mr Yavlinsky emphasised that the Soviet leader appeared to have accepted both that heavy western aid was a prerequisite for successful reform, and that he must tailor his economic and political priorities accordingly.

Mr Gorbachev told the Cabinet of Ministers meeting on Wednesday that western aid

was essential – using similar phrases to those used in the letter to the G7.

Mr Gorbachev may himself be invited to address the G7 at its July meeting in London. Professor Stan Fischer, the former chief economist at the World Bank, who oversaw the IMF-World Bank report on the Soviet economy published last December, said yesterday that the report's proposals for aid to the Soviet Union could be the main item on the G7 agenda. Prof Fischer was speaking at a conference in Moscow organised by Harvard University's Kennedy School of Government.

Professor Jeffrey Sachs, a Harvard economist who has been the main adviser to the Polish government on reform, suggested that the Soviet aid should be in the order of \$30bn a year over five years.

Mr Yavlinsky, the main author of the Yavlinsky-Shatalin "500 Day" programme for market reform which failed to get government support last

year, appears to have opened a window through which the Soviet president has discreetly signalled his willingness to craft economic reform to the shape required by the west, in return for its support.

Such a willingness implies that Mr Gorbachev has covertly turned his back on conservative forces which blocked the first attempt at radical market reforms last October, risking their wrath.

However, it is not yet clear how far Mr Gorbachev is willing to institutionalise democratic and legislative reform. But in the agreement he signed with nine republican leaders last month, he promised all-union elections before the end of the year – a pledge which Professor Sachs, and other western experts, regard as significant.

The letter to the G7, approved and redrafted by Mr Yevgeny Primakov, the president's aide, says that a "concrete action programme" should be drafted by representatives

of the Union and republican governments, with the participation of western experts.

Included in the programme, the letter says, should be "a concrete distinction of powers between republics and the centre, especially in the economic sphere"; a liberalisation of prices; a "strategy of structural changes creating the basis for the creation of an open economic system in the USSR and its integration into the world economy"; the development of "a legislative framework for the functioning of market institutions, especially in the sphere of foreign economic links, currency policy and foreign investment"; and the spelling out of the criteria for the use of aid from the Group.

The letter also says that the Group should make clear what forms of economic assistance it is prepared to offer, how it might ease the Soviet foreign debt and extend long-term credits.

Economist behind aid plea, Page 3



# Yavlinsky drafts initiative with an eye on the west

## Economist at centre of Soviet aid plea

By John Lloyd in Moscow

MR Yavlinsky, the young economist at the centre of the Soviet president's initiative to begin a dialogue with the leading industrial countries on a package to secure large amounts of aid for Soviet reform, is a classic example of the chaotic creativity which surrounds the process of Soviet economic change.

The letter requesting western help which Mr Gorbachev has approved for transmission to the Group of Seven was essentially crafted by Mr Yavlinsky. It represents both a plea for financial assistance, and an admission that the Soviet Union must conduct its reforms with at least one eye on the west.

There are many questions remaining on both political and economic – specially on the democratic front – and the reaction of the west is not yet clear, the letter indicates how far the Soviet government is presently prepared to go.

The main proposals in the

letter are that a "concrete action programme" should be drafted by representatives of the Union and republican governments, with the participation of western experts.

The programme would detail the "forms of economic cooperation" with the Group of Seven and would take into account the analysis and recommendations included in the World Bank/IMF study of the Soviet economy published last December.

Included in the programme, the letter says, should be "a concrete distinction of powers between republics and the centre, especially in the economic sphere"; price liberalisation and structural changes designed to reintegrate the Soviet economy into the world market; a "strategy of structural changes creating the basis for the creation of an open economic system in the USSR and its integration into the world economy"; the development of "a legislative frame-

work for the functioning of market institutions, especially in the sphere of foreign economic links, currency policy and foreign investment"; and the spelling out of the and criteria for the use of aid from the Group of Seven.

The letter also says that the Group should make clear what

**Included in the programme should be 'a concrete distinction of powers between republics and the centre, especially in the economic sphere'; price liberalisation and structural changes designed to reintegrate the Soviet economy into the world market'**

forms of economic assistance it is prepared to offer, how it might ease the Soviet foreign debt and extend long term credits.

Since resigning as deputy prime minister of the Russian Federation last year, Mr Yavlinsky has been able to play a

mediatory role between Mr Gorbachev and Mr Boris Yeltsin, the Russian leader.

He was one of those who counselled Mr Yeltsin to compromise with Mr Gorbachev – a compromise which resulted in Mr Gorbachev's pledge on April 23 to devolve power to the republics, while republican leaders, including crucially Mr Yeltsin, agreed to support an anti-crisis plan.

Mr Yavlinsky appears to have been critically important in persuading Mr Gorbachev that no plan has any hope of working unless it attracts very large sums of foreign aid.

He attended the meeting of the Group of Seven in April armed with the request from Mr Yevgenny Primakov, the presidential aide, to let it be known that the Soviet leader wished to take part in the Group of Seven's meeting in July.

On his return to Moscow at the end of April, Mr Yavlinsky was contacted by Mr Prima-

kov, who asked him to draft a letter from Mr Gorbachev to the Group. This process was completed by May 3.

The next day, Mr Primakov asked him to meet the president on May 5. He first met Mr Yeltsin, who told him that all republics would support a radical plan which would have western support – and called Mr Gorbachev to say so. Mr Yavlinsky then met Mr Gorbachev, with his aides Mr Alexander Yakovlev and Mr Primakov.

He gave Mr Gorbachev a copy of his own draft of a concrete action plan, for the kind the Group of Seven might support. Mr Gorbachev proposed merging the contents of the letter into the action plan over the next week.

Mr Yavlinsky is now continuing to work on the reform project, whose ultimate shape depends on the complex interaction of the union and republican governments with opinion in the west.



# Soviets Seek Help From West, Japanese

## 'Anti-Crisis' Economic Plan Used to Bolster Aid Request

By David Remnick  
Washington Post Foreign Service

MOSCOW, May 17—Advisers to Soviet President Mikhail Gorbachev and Russian Republic President Boris Yeltsin have drafted an appeal to the world's seven leading industrial nations to aid the Soviet Union's attempt to reform its moribund economy.

Grigori Yavlinsky, a radical young economist close to Yeltsin, told the weekly newspaper Moscow News that he and a member of Gorbachev's security council, Yevgeni Primakov, drafted a letter asking that the Soviet Union be allowed to take part in the July meeting of the Group of Seven in London.

Although Gorbachev's spokesmen have denied that the appeal has been sent to the industrial powers, members of his cabinet have confirmed that such an appeal is in the works and that a delegation may soon visit Washington. Yavlinsky was in meetings late tonight at the Kremlin, apparently working on the appeal.

Any appeal to the industrial powers will be backed by a new "anti-crisis" plan which is being drafted by 13 of the nation's 15 republics. Gorbachev granted new powers to the republics as a way to enlist support for the plan and all of the republics except Georgia and Estonia agreed to participate in the final drafting.

The program combines a strike ban with a significant push toward privatization and economic competition. The plan also includes cuts in the defense budget, foreign trade incentives, the establishment of free economic zones and a more concrete scheme to make the ruble convertible on world currency markets.

Labor officials denounced the strike ban proposal. "We do not accept such measures," Igor Klochkov, chairman of the Russian Federation of Independent Trade Unions, told the official Tass news agency. "No bans can cure an illness. They can only drive it deeper inside."

The Yavlinsky-Primakov letter alludes to the anti-crisis program, saying that by fall of this year "conditions will have been created" that should encourage the industrial nations to include the Soviet Union in world economic organizations, including the World Bank and International Monetary Fund, provide scientific and

See SOVIET, A20, Col. 1

# Soviets Use Economic Plan To Seek Aid

SOVIET, From A14

technological assistance, extend credits and help "facilitate" Moscow's enormous foreign debt.

"A good possibility to reach principled agreements and to discuss the technical details with the USSR will come this summer at the meeting in London," said the letter, reprinted in Moscow News. "It is difficult to forecast further developments in the country if we lose this opportunity."

The industrial nations, as well as leaders of the World Bank and the IMF, have been extremely skeptical of extending any significant aid to the Soviet Union at a time when the republics and Moscow seemed locked in a political battle that prevented any agreement on a radical change in the country's economy. The officials worried that without such reform, aid would go down a "black hole" and even encourage conservative forces to hang on to the old centralized system.

But the Yavlinsky-Primakov letter is clearly designed to show the West and Japan that Gorbachev, Yeltsin and the republics have reached a compromise and that a certain degree of order has finally descended on the Soviet political scene.

Yavlinsky is the co-author with Stanislav Shatalin of the 500 Days plan, a program of radical reform that appeared last summer to have the support of both Yeltsin and Gorbachev. But after leaders of the Communist Party, the KGB and the military-industrial complex made it clear they would not support such a plan, Gorbachev backed down.

A lengthy battle between Yeltsin and Gorbachev ensued and lasted until late April when the two men, as well as the other eight leaders of republics, broke the barrier and agreed on the series of compromise reforms that are the basis for the new "anti-crisis" program.

Also in April, Yavlinsky was invited to a congressional meeting in Washington to discuss the upcoming session of the industrial nations. Yavlinsky said he took that as an opening and tried to use the opportunity to widen the Soviet Union's appeal to the West and Japan.

A20 SATURDAY, MAY 18, 1991



YEVGENI PRIMAKOV  
... seeks aid from industrial nations



The New York Times

## Moscow to Ask Help From West On Reform Plan

5/18/91 — Sel.

By SERGE SCHMEMANN

Special to The New York Times

MOSCOW, May 17 — The Kremlin has begun an initiative to get major Western countries to join directly in drafting and financing a far-reaching plan for economic and political reform, including creation of a market economy, political decentralization and privatization.

The initiative, details of which were made public in the weekly Moscow News, has not been formally endorsed by President Mikhail S. Gorbachev or by the Group of Seven industrialized powers.

But extensive private contacts have produced an appeal to the West signed by Yevgeny M. Primakov, a senior adviser to Mr. Gorbachev, and Grigory A. Yavlinsky, a widely respected economist.

### Young Aide's Second Initiative

Mr. Yavlinsky, the 39-year-old economist who was the primary architect of the "500 day plan" of radical economic reform rejected by Mr. Gorbachev last summer, was said to be the major mover behind the new initiative.

His aides say he and Mr. Primakov are to fly to Boston on Sunday to discuss refinements for the plan with economists at Harvard University. The idea began taking shape last month when Mr. Yavlinsky was invited to a meeting of experts on the Soviet econ-

Continued on Page 5, Column 1



# Moscow to Ask Direct Help From the West for Its Reform Plan

Continued From Page 1

only from the Group of Seven.

The initiative that emerged is still taking shape, and Mr. Gorbachev is said to be awaiting the reception in the West before he publicly endorses the plan. The Kremlin reportedly hopes to reach sufficient agreement for Mr. Gorbachev to be invited to the summit meeting of the Seven — the United States, Canada, Germany, France, Britain, Italy and Japan — in London in July.

In Moscow, the initiative is thought to come at a propitious time. On the Soviet side, Mr. Gorbachev has struck a promising truce with Boris N. Yeltsin, the head of the Russian republic and the primary champion of radical economic reform, in which the President finally recognized the sovereignty of the republics and their right to secede.

## Growing Sense on Need for Aid

There is also a growing sense in the Soviet Union that the "crisis program" produced by the government of Prime Minister Valentin S. Pavlov can only be a stopgap measure without extensive Western assistance. Mr. Pavlov himself in a recent interview appealed to the West not to be bystanders to the Soviet crisis.

## Soviet Strike Ban Rejected

MOSCOW, May 17 (AP) — A Russian trade union leader today rejected President Mikhail S. Gorbachev's new ban on strikes, saying it was intended to cure the symptoms but not the causes of Soviet economic problems.

Mr. Gorbachev issued an order on Thursday banning strikes in critical industries but offering workers more of the profits in an effort to prevent economic chaos.

Although the decree called for harsh measures against strikers, it was not clear how Mr. Gorbachev could enforce the order. It threat-

ens prosecution of strikers in the coal, oil, natural gas, chemical and petrochemical industries.

Igor Knochkov, chairman of the Russian Federation of Independent Trade Unions, rejected Mr. Gorbachev's decree.

"No decrees, no moratoriums, can cure our sick society or reduce social tensions," Mr. Knochkov said at a news conference. "All they can do is cure the symptoms."

The strike movement, he said, "will become more disruptive if it is made illegal."

On the Western side, President Bush has lately demonstrated a renewed interest in assisting Mr. Gorbachev, prompting a flurry of new contacts, including a telephone conversation between the leaders on May 11.

In addition, many Western experts have come to say that the West cannot sit on the sidelines if it is interested in genuine reforms in the Soviet Union. One of these, Graham Allison, former dean of the Kennedy School of Government at Harvard, helped Mr. Yavl-

sky shape the proposals.

Mr. Yavlinsky is considered by many Western experts to be the most competent of Soviet economists. He has remained active as an adviser to Mr. Yeltsin and other republican leaders. Mr. Gorbachev's willingness to listen to him again was in itself viewed as further evidence that the President is retreating from the alliance with hard-line forces that he formed last fall.

The basic principles of the new initiative are included in an "Appeal to the

Group of Seven" signed by Mr. Yavlinsky and Mr. Primakov. It calls on the Soviet Union to draft a comprehensive reform plan and asks the Group of Seven to prepare a parallel plan of economic cooperation.

The letter outlines those basic objectives:

1. "A concrete distribution of powers between the center and the republics, especially in economic matters."

2. "Strict financial and monetary policies and liberalized prices."

3. "A broad program of privatization and demopolization."

4. "The creation of conditions for the formation of an open economic system in the Soviet Union and its integration into the world economy."

5. "The development of legislative bases for a market economy."

These elements have been cited in most previous reform plans. The difference is that this is the first to propose an active role for the West. The financial package, the Soviets say, could include new terms for repaying Moscow's foreign debt, the lifting of trade restrictions, Soviet membership in the International Monetary Fund and the World Bank, long-term credits and diverse technical assistance.

Drafters of the letter did not include a cost for the proposal. But Aleksei Mikhailov, a member of Mr. Yavlinsky's economic think-tank, "Epicen-

ter," pointed to a recent article by Prof. Jeffrey Sachs of Harvard University — currently an economic adviser to the Polish government — in which he said Western assistance to Moscow should be on the order of \$30 billion per year for five years.

Mr. Mikhailov said the proposal resolved the needs of both the Soviet Union and the West. The West would help Moscow achieve the political and economic stability without which it cannot introduce reforms, and the Soviet Union in turn would launch the reforms that the West demands as necessary for any assistance.

In an interview with Moscow News, Mr. Yavlinsky said he was pruned to seek new solutions after Mr. Gorbachev ordered troops into the Moscow streets in March in an unsuccessful attempt to block a pro-Yeltsin rally. The stalemate, he said, proved "that nobody can win," and that the only path was through compromise and negotiation.

Then last month he was invited to attend a meeting of experts preparing the Group of Seven summit talks.

Mr. Yavlinsky said he argued his case for cooperation in Washington. The experts wanted a sign that the Kremlin shared his interest, and from this arose the idea of a joint appeal from him and Mr. Primakov.



May 20 91

says. AFP reports that Jan Pronk, the Dutch development minister and president of a consortium of government donors to Indonesia, criticized the country, the recipient of \$4.6 billion in aid last year, for rejecting any linkage of aid to domestic policies or improvements in human rights.

SOVIET ASSOCIATION WITH WORLD BANK, IMF BEING PUSHED. The United States and its European allies have revived discussions on bringing the Soviet Union into association with the IMF and the World Bank, U.S. officials and Western diplomats say, Reuters reports. "To the extent that Soviet President Mikhail Gorbachev is now moving more on the reform track, we're beginning to think a little bit more actively about what we can do with our limited leverage," one U.S. official said. The Washington Post (5/18, p.A14) reports that advisers to President Gorbachev and Russian republic leader Boris Yeltsin have drafted an appeal to the world's seven leading industrial nations to aid the Soviet Union in its attempts to reform its economy. The story notes that the industrial nations, as well as leaders of the World Bank and the IMF, have appeared reluctant to extend aid to the USSR at a time when the republics and Moscow seem locked in a political battle that may hamper an agreement on economic change. The Times of London reports on its front page that President Gorbachev has, for the past month, been engaged in "secret diplomatic moves" to try to recover Western support for his leadership and to persuade the Group of Seven industrialized nations to give the Soviet Union substantial credit.

POLAND DEVALUES CURRENCY. Poland devalued its currency by 14.4 percent against the U.S. dollar on Friday to fight a recession caused by the inability of the Soviet Union, Poland's main export market, to pay for Polish products, the Washington Post (5/18, p.C2) reports. The Journal of Commerce (p.2A) carries a story.

IMF ACTS TO EASE IMPACT OF EGYPTIAN REFORMS is the headline of a WP story (5/18, p.A16) which says that the Fund, after more than three years of negotiation, last Friday approved a standby credit for Egypt, allowing the country to borrow up to \$372 million over the next 18 months to soften the effects of tough economic reforms. Under the agreement, touted by some economists as a potential breakthrough in moving Egypt to a market-dominated economy, Cairo will start to privatize state companies, dismantle its bloated bureaucracy, and lift government controls over production and investment. A Journal of Commerce (p.2A) story says Egyptian papers reported last Friday that the U.S. ambassador to Egypt says Washington will support a proposal that the Paris Club forgive much of Egypt's external debt at a meeting later this month.

SUDAN HOLDS TALKS WITH IMF OVER FIVE-YEAR CREDIT BAN. Sudan, saying it is pushing ahead with economic reform, is holding talks with the IMF to win removal of a five-year-old ban on fresh credits, Reuters reports. The official Sudan news agency SUNA today quoted Finance and Planning Minister Abdel Rahim Hamdi as saying talks with



Rowland Evans  
And Robert Novak

# Cuba's April Missiles

On April 25, U.S. spy satellites discovered at least one and possibly "several" banned SS 20 missiles in Cuba, a chilling contradiction of post-Cold War superpower benevolence that is now under top-secret White House scrutiny.

Intelligence sources insist there is no ambiguity about the missile's presence in Cuba, one of the world's last Communist bastions, nor about its illegality. All SS 20s were banned by the 1988 INF Treaty, and all must be destroyed by May 31. Apart from that, the Kennedy-Khrushchev agreement ending the 1962 Cuban missile crisis barred offensive missiles from Cuba—any and all kinds.

Bush administration officials are trying to develop a plausible theory for what they view as audacious conduct by the Soviet military and Cuban President Fidel Castro. Few Soviet actions could stir the patriotic juices along the Potomac as quickly as the transfer of SS 20s to the Caribbean island dictatorship. That is partly why the news is being held top secret while President Bush considers a July summit with Mikhail Gorbachev and special aid for his crumbling country.

The only conceivable explanation would appear to be linked to a minor proviso in the INF treaty that permits what is called "museum piece display" of the SS 20, set up for viewing in unarmed deployment. But the treaty demands full Soviet government consultation with the United States before putting any weapon on public display. One U.S. official told us that there is absolutely nothing to substantiate the "museum piece" explanation.

This same little-known proviso was employed by the Soviets and Cubans when a treaty-banned SS 4 medium-range missile was anchored in Cuban soil near Havana last year over strong U.S. objection. Its transfer there angered the Bush administration.

Washington Post  
20/05/91

When the Soviet Foreign Office earlier told the United States that Moscow wanted to send an SS 4 to Cuba for that purpose, the State Department protested. Despite the INF treaty, it said, even a missile for sightseers, capable of firing warheads against the United States, would damage relations with the Soviets and generate a strong political backlash from American politicians, particularly conservative Republicans. The episode has never been widely publicized.

Then-Soviet foreign minister Eduard Shevardnadze assured the United States in July that no SS 4 would be sent to Cuba. Six months later, in December, the Soviet General Staff surreptitiously shipped the missile to Cuba, and it was put in place as a "museum piece." Shevardnadze's position on this issue, and his quick put-down by the military, is believed here to have been one of the contributing factors in his resignation, when he warned of a coming Soviet dictatorship.

The discovery of the SS 20 is a far more dangerous matter for U.S.-Soviet relations. It comes at a time of apprehension here about the military's growing power within a Soviet system that seems destined to grind to a halt. Yet the latest CIA studies suggest that the huge country, riven by the divisive nationality issue, a bankrupt economy and the collapse of Gorbachev's reform programs, is still mass-producing strategic weapons, including mobile missiles, that dwarf anything being produced in the United States. Indeed, Congress is not likely to fund any mobile missiles in the coming year for a U.S. strategic force that still does not have even one of them.

Unreported elements of this surprising attention to military power have been noted in Cuba, along with the discovery of one or more SS 20s. A new signal intelligence (SIGINT) unit has been located both by on-the-ground observation and by spy-satellite photography near Havana. The military garrison surrounding the U.S. Navy's Guantanamo Bay Naval Station has been beefed up by the addition of several thousand new Cuban troops.

More ominous are intelligence findings that suggest Cuba, with Soviet backing, may be developing a nuclear reactor capable of producing weapons-grade fuel in a new facility near Cienfuegos, the same area in which the one or more outlawed SS 20s have been placed. The Soviets have long had a facility there suspected of handling nuclear warheads to arm their strategic nuclear submarines.

Sudden, inexplicable spasms are natural in the life of expiring organisms, including empires. The savagely split and dying Soviet system may be producing just such aberrations today.

But authoritative Bush administration officials are not likely to accept that as any final answer to Castro's missiles of April. They will soon be demanding a definitive response, and Gorbachev will be compelled to give it.



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Updated On: Friday, May 17, 1991

MORNING PRESS

International Monetary Fund

Friday, May 17, 1991 External Relations Department

USSR makes contacts with G7 on cooperation

AFP, Reuters and NYT, p1, reported from Moscow that Soviet First Deputy Prime Minister Vladimir Shcherbakov told reporters Thursday he and Soviet presidential aide Yevgeny Primakov planned to visit the US shortly to discuss economic cooperation with representatives of the G7. Shcherbakov was quoted by Interfax as saying Soviet President Mikhail Gorbachev and former foreign minister Eduard Shevardnadze have been working intensely for over a year to draw up a plan of cooperation with the G7, adding Soviet economist Grigory Yavlinsky, at a meeting of G7 advisers last month, had established an unofficial channel of cooperation with those forces in the US who favor broader collaboration.

Yavlinsky said in an interview with Moscow News that the G7 intended granting the Soviet Union assistance on condition that a reform program he was working on with the group's experts was adopted. Tass reported that Soviet Prime Minister Valentin Pavlov and Shcherbakov questioned Yavlinsky's remarks.

FT, p1, reported Yavlinsky, who has emerged as an informal mediator between the Soviet Union and Western financial institutions, has revealed a plan, which, if followed through, would mean the IMF, IBRD and other institutions working directly on reforms with Soviet officials. Yavlinsky said he drafted a letter from Gorbachev to the G7 two weeks ago which proposed the integration of the Soviet Union into the world economy, the liberalization of domestic prices and the large-scale devolution of power to the republics. It calls for a program of G7 support for the reforms and an indication of how it might ease the Soviet foreign debt burden and extend long-term credits. Yavlinsky emphasized that Gorbachev appeared to have accepted both that heavy Western aid was needed and that he must tailor his economic and political priorities accordingly.

Former IBRD chief economist Stanley Fischer told a conference Thursday the joint study of the Soviet economy may be the main agenda item at the G7 summit in July.

Kyodo reported from Tokyo that Japanese Foreign Ministry sources said Friday that Western support for the Soviet Union will be the main focus of the summit.

dpa, quoting Berliner Zeitung, reported from Bonn that Gorbachev is seeking a summit with German Chancellor Helmut Kohl in his quest for further aid. The report said the Soviet Union is looking for 30b DM.

Financial markets: Dollar rises on smaller US trade gap

News agencies reported the dollar rose on news the US trade deficit fell by 26.5% in March to \$4.05b from a final February deficit of \$5.5b, its lowest level in more than seven years. The improvement reflected a 2.7% drop in imports to \$38.04b, while exports were up by 1.2% to \$33.99b. The monthly gap between US exports and imports was much smaller than forecasts for a \$5.6b shortfall. The dollar had gained earlier after US Treasury



## IMF Blue Sheet

real GNP would probably decline by 10%-15%, and annual inflation could easily exceed 100%. The report, by the Central Intelligence Agency and Defence Intelligence Agency for Congress's Joint Economic Committee, said there is no doubt that 1991 will be a worse year for the Soviet economy than 1990, and is likely to be much worse. If the government did not carry out meaningful reform the economic future will be totally blank, the report, released Thursday, added, but said an April accord between the central government and the republics could be a basis for improvement in relations and renewed reform.

WP, pA1, reported IMF officials believe the Soviet Union needs \$20b-\$30b in foreign loans and credits this year. The Fund, along with the IBRD, believe, however, that lending money to the country is tantamount to pouring water in the sand, and have urged industrial countries to wait until the USSR moves towards economic reform.

### Poland devalues zloty to boost exports

Reuters reported from Warsaw that Poland devalued the zloty Friday by 14.4% to 11,100 per dollar. A National Bank statement said the currency would from now on be pegged to a basket of Western currencies rather than to the dollar alone. The move marked a sharp reversal in policy, the agency said, noting the government had resisted pressure for a devaluation, because it believed a stable exchange rate was vital to fight inflation. The devaluation was part of a package of measures approved by the cabinet Thursday aimed at speeding up both the privatization of healthy state companies and the liquidation of ailing ones.

Finance Minister Leszek Balcerowicz said pressure to realign the zloty had become irresistible because a major growth of value of the dollar against other currencies in recent months had hurt Polish exports. Balcerowicz said the impact of the devaluation on inflation should be minimal.

### Walesa backs government as talks start

AFP reported from Warsaw that Poland's President Lech Walesa, opening round table discussions Friday on the economy, said conditions in Poland could become dramatic but added he had full confidence in the government. Participants at the two-day meeting, who include Prime Minister Jan Krzysztof Bielecki and Finance Minister Leszek Balcerowicz, are due to discuss the link between stabilization measures and the recession, privatization and structural reform, and social policy, the agency said.

Reuters reported Walesa has been at pains to counter speculation that the meeting amounts to a political trial of Balcerowicz, provoked by growing popular unrest and heralding a major policy shift. A change in the government would be nonsense, Walesa said in an interview. He added, however, he expected corrections to the economic program.

### US may attach conditions to China trade

NYT, pA6, and Reuters reported from Washington that White House spokesman Marlin Fitzwater told reporters Thursday that President George Bush might



## IMF Blue Sheet

Undersecretary David Mulford said Thursday he did not see a need for significant action now to check the dollar's strength.

London stocks were weaker after Thursday's by-election defeat for the ruling Conservative Party pointed to a victory for the opposition Labour Party in a general election that must be held by mid-1992, while in Paris, the CAC-40 index rose after Thursday's news that Pierre Bérégovoy had been re-appointed Finance Minister, with greater powers, by new Prime Minister Edith Cresson (see below).

### Soviet cabinet approves crisis economy steps

dpa, NYT, p1, and Reuters reported from Moscow that Soviet Prime Minister Valentin Pavlov told reporters Thursday the Soviet cabinet has approved a package of economic measures, which he described as a step out of the country's crisis.

First Deputy Prime Minister Vladimir Shcherbakov told reporters the package being discussed with most of the republics is basically completed and should be finalized in the next few days. Intended to lay the foundations for a market economy, the latest anti-crisis plan follows a broader pact signed by Gorbachev and nine republics on April 24.

Few details of the plan were available, but Russian Prime Minister Ivan Silayev said the draft document allowed republics to take responsibility for servicing the Soviet Union's foreign debt, a prospect which analysts said might worry the country's creditors.

Shcherbakov told parliament Thursday that a number of proposals would soon be implemented by presidential decree. Steps such as income indexation and improved welfare payments might be taken to maintain living standards in the face of steep inflation, and a 5% sales tax introduced earlier this year would be abolished, he said. Tass reported the tax has already been canceled on most food items in the Russian republic.

President Mikhail Gorbachev, Shcherbakov added, has signed a decree that prohibits strikes in basic industries until the end of the year in order to stabilize production. Reuters reported the decree, which will affect the vital energy, metallurgical and chemical industries, also introduces production incentives, including giving enterprises unrestricted use of 10% of their output.

Pavlov said he was satisfied with the economic cooperation between the central government and the republics. The Soviet government hopes soon to create the conditions to attract foreign capital by settling questions such as the internal convertibility of the ruble, repatriation of profits, and investment protection.

Progress had been made on outstanding differences with republics at a meeting Thursday of the inter-republican hard currency committee, Pavlov said, adding a commission had been set up to divide the Soviet Union's \$60b foreign debt between the republics, although he disapproved of the idea.

### US agencies see gloomy outlook for USSR

NYT, pA6, and Reuters reported from Washington that a US intelligence report to Congress on the Soviet economy said if the confrontation between the central and republican governments over economic policy continued then



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 FRED LEVY. (1) PLEASE CALL WIVES OF GELB,  
 HOLSEN AND LEVY TO INDICATE WHERE WE ARE  
 AND HOW WE CAN BE CONTACTED.

WE ARE STAYING AT THE HOTEL METROPOL.  
 THE FAX NUMBER FOR HOTEL IS  
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DAVID BOCK SHOULD ADVISE ME SOONEST  
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 ARE TO BE MADE INCLUDING OBMINSKY AND  
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METROPOL DOES NOT YET HAVE OWN TELEX.  
 HOWEVER, MESSAGES CAN BE SENT TO NUMBER  
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*John A. Noh...*

[HOLSEN Room 3393]

Moscow  
 Monday, May 13, 1991

*placed in office  
 Bock 5/15  
 has this been  
 done*



ROUTING SLIP		DATE May 9, 1991	
OFFICE OF THE SENIOR VICE PRESIDENT, OPERATIONS			
NAME		ROOM NO.	
Mr. Sandstrom			
(Thru: Mr. Qureshi)			
cc: Messrs. Thalwitz, Stern, Summers,			
Wapenhans, Cheetham, Kavalsky,			
Isenman, Michalopoulos, Levy			
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Appropriate Disposition		Note and Return	
Approval		Prepare Reply	
Comment		Per Our Conversation	
Full Report		Recommendation	
Information		Signature	
Initial		Send On	
<p>REMARKS</p> <p>Brief for Mr. Conable: Mr. Geraschenko's Visit</p> <p>RECEIVED MAY 10 AM 10:25 R D D R</p>			
<p>FROM</p> <p>David R. Bock <i>[Signature]</i></p>			



Briefing for Mr. Barber Conable

VISIT BY MR. GERASCHENKO

The Soviet delegation visiting you tomorrow is made up of:

Viktor Geraschenko  
Chairman of Gosbank (State Bank of the USSR)

Oleg Mozhaikov  
Managing Director at Gosbank  
International Monetary and Economic Department

Vadim Korolyov  
N.Y. Office of Vneshekonombank  
(Bank for Foreign Economic Affairs)

The initial purpose of the delegation's trip is to meet in New York with Merrill Lynch, Deloitte & Touche and International Information Systems to discuss the development and implementation of a nationwide financial information system. This delegation represents a segment of Soviet officialdom that is apparently serious about moving to a market economy and trying to take practical steps in that direction in the banking and finance sectors.

In Washington, in addition to meeting with you and Mr. Camdessus, they will be seeing Mr. Greenspan at the Federal Reserve and an as-yet-unspecified high level person at the State Department.

Mr. Geraschenko (who is Ukrainian) you already know well from your visit to Moscow.

Mr. Mozhaikov functions as the Soviet Union's eyes and ears on the West's financial world. He is very capable and pragmatic.

Mr. Korolyov is at a much lower level, serving as escort for the delegation.

We understand that the delegation would probably like to hear any advice that the Bank has to offer on practical steps that the Soviets should be taking, particularly in the areas of monetary and fiscal policy, and with respect to the reform of financial institutions. Mr. Geraschenko would also like to discuss the prospects for cooperation between the Soviet Union and the World Bank. The New York Times article today suggests that the U.S. attitude against extending food aid and (possibly) technical assistance to the Soviet Union is softening, although there is no specific mention of the Bank and the Fund. You may want to meet privately with Mr. Geraschenko before the larger meeting to discuss the situation vis a vis the U.S., EC and Japan in greater detail, since he is likely to be one of the key advisers/decision-makers on the membership issue.



In this regard, you may wish to remind Mr. Geraschenko that the main action the Soviet Government could take with respect to the World Bank would be to continue soliciting support for their membership from the Bank's main shareholders--particularly the U.S.--and that once an application is received, the Bank could undertake technical assistance at both the All Union and Republic levels. This could be done even though the processing of the application might stretch out for a year or more. Then you might ask for their opinion on the timing of a Soviet application. With regard to this, we have heard that staff at the Fund believe that the Soviets intend moving fast on membership application. Fund staff also detect some softening of U.S. attitude, which might lead to limited Soviet participation in IMF Institute training courses in the near future.

Most of your discussion might focus on Messrs. Geraschenko and Mozhaïskov's views on the economic situation in the Soviet Union. We know that the Soviets face at least three major problems that must be addressed forthrightly by a stabilization program, regardless of the direction or pace of systemic economic reform. These are:

- a budget deficit that is approaching 20% of Soviet GNP and lurching out of control;
- inflation that may be near 100%, with mounting risks of hyperinflation; and
- an emerging crisis in foreign trade and external payments.

You might ask them to bring you up to date on the anti-crisis program, especially the timing of key measures and the degree of political support for it. To what extent is its effective implementation tied to a new Union treaty? And what are the prospects for an early and durable agreement on this critical "constitutional" issue?

You might note that resolution of the uncertainties regarding the responsibilities of the Union government and institutions relative to the Republics appears critical to the development of a comprehensive reform effort including that of the financial sector. One issue concerning the Central Bank itself is the role and powers of the Gosbank vis a vis the central banks of the Republics which are demanding considerable autonomy.

If time permits, you might ask them to summarize the banking reforms underway and the central banking system that they envision. Here you might express concern for the solvency of the 1,500 new banks established in the past two years, given the lack of a bank oversight capability. In this connection, Mr. Geraschenko had sent you a proposal for a USSR development bank. We have not followed this up due to the



"freeze" on TA, but in any event our experience suggests that priority should be given to improving the financial system and in that framework deciding whether specialized institutions are required and what their role should be.

In your concluding remarks, you might point out that the Bank is very sensitive to the enormous difficulties that the Soviet economy faces, that we have experience and resources that could be of considerable help to them and that we would like to provide that help when their basic political issues--both internal and external--have been clarified so the Bank could proceed on a business-~~like~~ basis. In the meantime, we have dispatched a team (headed by John Holsen) to discuss in Moscow the detailed findings of the Joint Study.



## BIOGRAPHY OF MR. VICTOR V. GERASCHENKO

Born 1937.

1960	Graduated from the Moscow Institute of Finance.
1960 - 1965	Worked at the Bank for Foreign Trade of the USSR in the capacity of Division Head.
1965 - 1967	Director of Moscow Narodny Bank in London.
1967 - 1971	Deputy General Manager, and then appointed General Manager of Moscow Narodny Bank in Beirut.
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1983 - 1985	Appointed Deputy Chairman of the Board, at the Bank for Foreign Economic Affairs of the USSR ("BFEA").
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Sept 1989	Chairman of the Board at The State Bank of the USSR ("Gosbank").
March 1991	Re-appointed by department, Chairman of the Board of the State Bank of the USSR ("Gosbank").

The aim of Mr. V.V. Geraschenko's visit to the United States is to discuss the prospects for cooperation between the Soviet Union and the World Bank.



*Send*  
*Em*  
*Conable*  
*Geraschenko*  
*Apantaku*  
*+ Geraschenko*  
*+ Mozharov*

ROUTING SLIP::		DATE May 9, 1991	
OFFICE OF THE SENIOR VICE PRESIDENT, OPERATIONS			
NAME		ROOM NO.	
Mr. Sandstrom			
(Thru: Mr. Qureshi)			
cc: Messrs. ✓Thalwitz, Stern, Summers,			
Wapenhans, Cheetham, Kavalsky,			
Isenman, Michalopoulos			
<input type="checkbox"/>	To Handle	<input type="checkbox"/>	Note and File
<input type="checkbox"/>	Appropriate Disposition	<input type="checkbox"/>	Note and Return
<input type="checkbox"/>	Approval	<input type="checkbox"/>	Prepare Reply
<input type="checkbox"/>	Comment	<input type="checkbox"/>	Per Our Conversation
<input type="checkbox"/>	Full Report	<input type="checkbox"/>	Recommendation
<input type="checkbox"/>	Information	<input type="checkbox"/>	Signature
<input type="checkbox"/>	Initial	<input type="checkbox"/>	Send On
REMARKS  Brief for Mr. Conable: Mr. Geraschenko's Visit			
FROM  David R. Bock <i>[Signature]</i>			



Briefing for Mr. Barber Conable

VISIT BY MR. GERASCHENKO

The Soviet delegation visiting you tomorrow is made up of:

Viktor Geraschenko  
Chairman of Gosbank (State Bank of the USSR)

Oleg Mozhaikov  
Managing Director at Gosbank  
International Monetary and Economic Department

Vadim Korolyov  
N.Y. Office of Vneshekonombank  
(Bank for Foreign Economic Affairs)

The initial purpose of the delegation's trip is to meet in New York with Merrill Lynch, Deloitte & Touche and International Information Systems to discuss the development and implementation of a nationwide financial information system. This delegation represents a segment of Soviet officialdom that is apparently serious about moving to a market economy and trying to take practical steps in that direction in the banking and finance sectors.

In Washington, in addition to meeting with you and Mr. Camdessus, they will be seeing Mr. Greenspan at the Federal Reserve and an as-yet-unspecified high level person at the State Department.

Mr. Geraschenko (who is Ukrainian) you already know well from your visit to Moscow.

Mr. Mozhaikov functions as the Soviet Union's eyes and ears on the West's financial world. He is very capable and pragmatic.

Mr. Korolyov is at a much lower level, serving as escort for the delegation.

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USSR Commitments / Conclude 5/9.

G: M-L network

US BBC broader fin'l. reform

BBC keep open avenues communication  
so we can anticipate  
how to help you.

G: Price reform. Problem monopolies.  
Hope Helmsen election will bring  
more peace than problems.

How approximate w/in  
membership to be able  
to help

Very hard help non-members.  
Also would take time sort out shared.

G- Why not small capital share

WT - Who is reform thinker?

G - Pawlov.

Will set up committee.  
New Union treaty.  
Others four with time under  
one or another form.  
Waiting to see re Republics.



(2)

New Banks. Too many.  
Republican Ref. Bank.  
Industry Bank. (We sent  
comments.)

Central Banks each republic,  
to within Central Bank system.

G - Bk law he can't be removed  
for < 4 yrs. Could be  
different in practice.

How Rep credit from  
Republican Central  
Banks from financing  
Rep. budget deficits.

Paulov — next step salary  
reform.



The World Bank/IFC/MIGA  
O F F I C E M E M O R A N D U M

DATE: 06-May-1991 05:33pm

TO: Costas Michalopoulos

( COSTAS MICHALOPOULOS )

FROM: Paul Isenman, PRDDR

( PAUL ISENMAN )

EXT.: 33957

SUBJECT: I don't know what Mr. G. is doing here.

Please check with DAvid Bock. (I just noticed that your name was on the distribution list of John's briefing memo for the Aganbegyan visit to Conable tomorrow. I had someone bring it to you.) I assume DAvid will be doing the briefing for the Geraschenko visit. I assume Wilfried should go to the Conable meeting, unless we can arrange something separate with him (which may be a good idea, although he's not a real reformer). Could you check on that as well?

Alan Gelb is checking to see if he has any relevant info.

CC: Patricia Gallagher

( PATRICIA GALLAGHER )

CC: Alan Gelb

( ALAN GELB )



The World Bank/IFC/MIGA  
O F F I C E M E M O R A N D U M

DATE: 06-May-1991 03:21pm EST

TO: See Distribution Below

FROM: Patricia Gallagher, PRESV ( PATRICIA GALLAGHER )

EXT.: 31018

SUBJECT: Meeting with Soviet Delegation - BBC

Please see attached EM from Mr. Qureshi's office. If we should participate or contribute to briefing please let me know and contact appropriate Operations staff.

Please advise if WT should attend. He is scheduled to have a GEF Coordinator's meeting at that time and I would have to reschedule it soon. Thanks.

DISTRIBUTION:

TO: Paul Isenman	( PAUL ISENMAN )
TO: Alan Gelb	( ALAN GELB )
TO: Alexander Shakow	( ALEXANDER SHAKOW )
CC: Esla Blackman	( ESLA BLACKMAN )
CC: Prisce Daniel	( PRISCE DANIEL )
CC: Keith Jay	( KEITH JAY )
CC: John A. Holsen	( JOHN A. HOLSEN )



The World Bank/IFC/MIGA  
O F F I C E M E M O R A N D U M

DATE: 06-May-1991 03:18pm EST

TO: Patricia Gallagher ( PATRICIA GALLAGHER )

FROM: Gillian Butler, OPNSV ( GILLIAN BUTLER )

EXT.: 81116

SUBJECT: Meeting with Soviet Delegation

Patricia,

Further to our telephone conversation, I give below the names of the Soviet officials who will be meeting with Mr. Conable at 4.30 p.m. on Friday, May 10:

Mr. Viktor Geraschenko  
Chairman, State Bank of the USSR

Mr. Oleg Mozhaikov  
Managing Director, International Monetary and Economic  
Department  
State Bank of the USSR

Mr. Vadim Gorunov  
General Manager  
Zurich Office  
State Bank of the USSR

Mr. Vladimir Andrianov  
General Director  
PRAGMA (Affiliate of the State Bank)

Mr. Vadim Korolyov  
New York Office  
Bank for Foreign Economic Affairs  
USSR



OFFICE MEMORANDUM

Date: 3 May 1991

To: Mr. Barber Conable

Through: Mr. Wilfried Thalwitz *W*

From: John A. Holsen *JAH* / PADSS/PRESV

Subject: Proposed Visit by Abel Aganbegyan

1. This note supplements the briefing material prepared at the time of Mr. Aganbegyan previous visit to Washington and expands on the memorandum we sent to you on April 10.
2. Your meeting with Mr. Aganbegyan is scheduled for 9:00 am on Tuesday, May 7. Bank staff coming to the meeting are (1) Paul Isenman from my office, (2) David Bock from Mr. Qureshi's office, (3) Russ Cheetham from the new EMENA department, and (4) Alan Gelb (Division Chief, Socialist Economies Reform Unit, CEC). John Holsen will not be able to join the meeting as he will be attending our Government Borrowers Conference in Madrid, and then traveling on to the USSR for the JSSE follow-up mission which starts on May 13. Mr. Gelb (along with Fred Levy from Operations) will be joining Mr. Holsen on the follow-up mission and is the link between Mr. Aganbegyan's visit and our JSSE team.
3. Mr. Aganbegyan will be accompanied by Denis Kiselyov, a young Soviet economist currently doing post graduate work at Ohio State University who also serves as the U.S. representative for Mr. Aganbegyan's Academy of National Economy. Mr. Kiselyov has been assigned the job of establishing contacts between the Academy and the Bank, and is known to a number of Bank staff.
4. Your meeting is the beginning of a full day of discussions with the Bank. Afterwards Mr. Aganbegyan will be meetings with Mr. Larry Summers (10:00 am), Sir William Ryrie (10:45), Mr. Amnon Golan (11:30, to be followed by a lunch hosted by EDI), Mr. Leigh Hollywood (3:30), and Mr. Moeen Qureshi (4:30). Messrs. Bock and Cheetham will join Mr. Qureshi at the 4:30 meeting.
5. Mr. Aganbegyan is currently the "Rector of the Academy of National Economy." While most of the major think tanks in the USSR



are part of the USSR Academy of Science, Mr. Aganbegyan's organization reports to the USSR Council of Ministers. Thus it is more directly part of the government than the other major think tanks in the increasingly pluralistic Soviet society.

6. JSSE. Mr. Aganbegyan is one of the more senior officials with whom the JSSE mission met last September, and he was also one of the most personally hospitable. He wrote to you on April 18, offering "the use of my Academy's facilities and staff for a discussion of the technical papers from the Joint Study and the recommendations on technical assistance that they contain." He had earlier written Mr. Holsen in response to our sending him copies of the 3-volume background papers (copies of correspondence attached). We have followed up the exchange of correspondence with Mr. Holsen -- which does not make any reference to technical assistance -- and have requested a meeting at the Academy the week of May 13. This will be, however, one of a number of meetings with interested groups and individuals, and in no sense the principal locus of our discussion with the Soviets. (If necessary, Mr. Gelb will be able to talk about plans for our follow-up mission.)

7. Possible links with EDI. Mr. Aganbegyan on previous occasions has suggested that the institute he heads, the Academy of National Economy, would be the natural counterpart for EDI if and when the latter initiates activities in the USSR. The subject of cooperation between EDI and the Academy of National Economy will probably be brought up during the meeting. If so, we should indicate that we see the Academy as a potential counterpart institution, but not to the exclusion of working with others as well; it is premature to make decisions of this sort.

8. Mr. Aganbegyan and Economic Reform: In the past Mr. Aganbegyan has served as personal economic adviser to President Gorbachev, but is now in a less exposed position in the Academy. While Mr. Aganbegyan is strongly for "reform," he has been careful to avoid committing himself to any specific program or point of view. Mr. Aganbegyan played a substantial role in last fall's efforts to work out a compromise between the two reform programs. However, the efforts failed. The Presidential Guidelines that the Supreme Soviet approved in October are too general to be considered a serious compromise program and, in any event, they were never accepted by the republics. You may wish to ask Mr. Aganbegyan if he believes the recent "anticrisis measures" indicate that these difficulties are now being overcome. (A draft "Anticrisis Program" was announced on April 9. This and the "Anticrisis Measures" endorsed on April 23 by President Gorbachev and leaders of nine republics may mean some progress is now being made, but this can be better evaluated after the JSSE follow-up mission has returned.)

9. Additional Background Information: Mr. Aganbegyan, at 59, is one of about a dozen Soviet economists who have been given the title of "Academician of the USSR Academy of Sciences." (Some



of the others are Shatalin, Petrakov and Bogomolov.) During the Brezhnev period he was one of the leaders of the academic community in Novosibirsk -- a liberal think tank in Siberia that became one of the sources of ideas for Gorbachev's initial reforms.

10. He speaks excellent English. By name and birth he is an Armenian (although we were recently told that his father was a Hungarian Jew who died before he was born, and that he took his step-father's name). He is strongly interested in the "modernization" of the USSR and in establishing personal and institutional relationships with the West. We are told that he has arranged for, in the U.S. alone, about 400 fellowships and similar training opportunities for Soviet citizens. He is perhaps the most political of the senior economic advisers to be found in Moscow, i.e., he is more of a political economist (or perhaps a politician economist) than a technical economist. He is also the author of a book on perestroika (which has been published in English). Given his personality and present position, he seems likely to survive most political changes -- and could again become an important figure in Soviet economic policy.

cc: Messrs. Qureshi, Ryrie, Stern and Thalwitz  
Messrs. Summers, Sandstrom, Bock, Cheetham, Golan and  
Hollywood  
Messrs. Isenman, Holsen, Gelb, Knight, Levy & McCulloch  
[S1042603.DOC]



ACADEMY OF NATIONAL ECONOMY  
USSR COUNCIL OF MINISTERS

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*USSR, 117571 Moscow, Vernadski Prospekt, 82  
Tel.(095)4348407, Telex 411626 KARTA SU, Fax:(095)4202266*

Mr. John A. Holsen  
Principal Adviser  
Office of the Vice President  
Development Economics  
Policy, Research & External Affairs  
The World Bank  
Washington, D.C., USA  
Fax: (202) 477 0549

10 April, 1991

Dear Mr. Holsen,

I would like to thank you for sending me a copy of "A Study of the Soviet Economy".

My colleagues and I would be pleased to discuss the analysis and conclusions of the report. This is one of the most interesting and profound investigation of the Soviet economy prepared by a group of prominent experts.

We are kindly requesting you to inform us beforehand the dates of your visit to the USSR.

Yours sincerely,



Academician Abel G. Agnbegyan  
Rector



**The World Bank**

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.  
Washington, D.C. 20433  
U.S.A.

(202) 477-1234  
Cable Address: INTBAFRAD  
Cable Address: INDEVAS

2 April 1991

Mr. Abel G. Aganbegyan, Rector  
Academy of National Economy  
Vernadski Prospect, 82  
117571 Moscow

Dear Mr. Aganbegyan:

Accompanying this letter I am sending you a copy of the main report of the recent joint (IMF/World Bank/OECD/EBRD) study of the Soviet economy. The full report has now been published in three volumes under the title "A Study of the Soviet Economy."

We hope you will find the report both interesting and useful in your own consideration of how to move toward a market oriented economy.

We also hope that, before too long, some of my colleagues and I will have an opportunity to meet with you to discuss our analysis and conclusions. While we will be concerned with the report as a whole, we will be particularly interested in discussing (i) the suggested comprehensive approach that was outlined in the "Summary and Recommendations" volume that was issued last December, and (ii) those chapters in the accompanying Main Report that were prepared by the World Bank's team. The latter include the chapters on "Price Reform," "Enterprise Reform," "Financial Sector Reform" and "Legal Reform" in Volume 2 and also those on "Agriculture," "Manufacturing" and "Housing" in Volume 3.

Sincerely Yours,

John A. Holsen  
Special Adviser, Office of the Senior Vice President  
for Policy, Research and External Affairs  
(and World Bank Team Leader, Joint IMF/Bank/OECD/EBRD Study)



WORLD BANK OFFICE TRACKING SYSTEM  
OFFICE OF THE PRESIDENT  
Routing and Action Transmittal Sheet

RECEIVED

91 MAY -2 PM 5:15

PRDDR

TO: Mr. Thalwitz (D-1202) | DATE: 5/01/91

SUBJECT:

Document From: Denis Kiselyov  
To: bbc  
Dated: 5/01/91

Reference No.: EXC910501008

Topic: BRIEFING: Academy of National Economy - USSR Council of Ministers  
Mtg. with BBC on TUESDAY, MAY 7 @ 9:00 am.

ACTION INSTRUCTIONS:

| DUE DATE: |

\_\_\_\_\_ HANDLE  
\_\_\_\_\_ REVIEW AND RECOMMEND  
\_\_\_\_\_ XXX FOR YOUR INFORMATION  
\_\_\_\_\_ DISCUSS WITH \_\_\_\_\_  
\_\_\_\_\_ AS WE DISCUSSED  
\_\_\_\_\_ PREPARE RESPONSE FOR \_\_\_\_\_ SIGNATURE  
\_\_\_\_\_ FOR YOUR FILES  
\_\_\_\_\_ RETURN TO \_\_\_\_\_  
\_\_\_\_\_ OTHER: \_\_\_\_\_

Remarks: cc: Messrs. Isenman (S 13-145), Gelb (N-6037), Knight (M-7041),  
Sandstrom, Khanna  
J. Volk (FF)

cc Lwb

Muchoborin

5/3





# MIDWEST UNIVERSITIES CONSORTIUM FOR INTERNATIONAL ACTIVITIES, INC.

Executive Office • 66 East 15th Avenue • Columbus, Ohio 43201

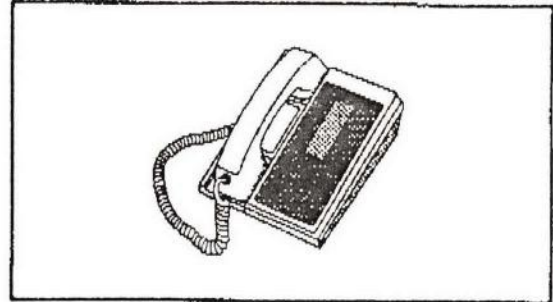
Telephone (614) 291-9646 • FAX (614) 291-9717 • TWX 510 101-0567

## FAX COVER SHEET

DATE: May 1, 1991

TIME: 12:25 pm

PLEASE DELIVER THE FOLLOWING TO:



NAME: Jennifer Volk  
LOCATION: Office of the President, the World Bank  
TELEPHONE NO.: 202/458-1138

FROM: Denis Kiselyov  
LOCATION: MUCIA  
TOTAL NUMBER OF PAGES: 3 (Including cover page)

IF YOU DO NOT RECEIVE ALL PAGES PLEASE TELEPHONE US AT 614/291-9646 AS SOON AS POSSIBLE.

TRANSMITTING FROM A CANON FAX-610 AT 614/291-9717

MACHINE OPERATOR: DK

MESSAGE:

## ACADEMY OF NATIONAL ECONOMY USSR COUNCIL OF MINISTERS

---

*USSR, 117571 Moscow, Vernadski Prospect, 82  
Tel. (095) 4348407, telex 411626 KARTA SU, Fax. (095) 4202266*

### Itinerary

Abel G. Aganbegyan  
Academician  
Rector of the Academy of National Economy  
USSR

### Visit to the World Bank

May 7, 1991

9:00 am Meeting with Mr. Barber B. Conable, President of the World Bank. E12 - Office of President.

#### Coming to the meeting:

Mr. Paul Isenman, Director, Policy and Review Department;  
Mr. Alan Gelb, Chief, Socialist Economies Reform Unit;  
Mr. Peter T. Knight, Division Chief, National Economic Management  
Division, Economic Development Institute.

10:00 am Meeting with Mr. Lawrence W. Summers, Vice-President, Development Economics and Chief Economist. S9035. 473-3774.

11:00 am Meeting with Mr. Amnon Golan, Director, Economic Development Institute. M7021.

12:30 pm Luncheon at the Invitation of Mr. Golan. E - Executive Dining Room 1.

3:30 pm Meeting with Mr. Leigh P. Hollywood, Vice-President, Guarantees, Multilateral Investment Guarantee Agency (MIGA). H6083. 473-6168.



Visit to the World Bank  
Page Two

4:30 pm Meeting with:  
Mr. Moeen Qureshi, Senior Vice-President for Operations;  
Mr. David Bock, Director, Operations Staff;  
Mr. Russel Cheetham, Director, Asia Country Department 5  
Mr. Bock's Office. E1241. 458-2856.

Coordination of the Visit:

Denis Kiselyov,  
Representative of the Academy in the USA.  
MUCIA  
66 East 15th Avenue  
Columbus, Ohio 43201

614/291-9646  
FAX 614/291-9717

The World Bank/IFC/MIGA  
O F F I C E M E M O R A N D U M

DATE: 22-Apr-1991 03:43pm

TO: Paul Isenman

( PAUL ISENMAN )

FROM: Peter Knight, EDIEM

( PETER KNIGHT )

EXT.: 36313

SUBJECT: Invitation to Lunch with Abel Aganbegyan, Tuesday May 7

Paul, by oversight your name was left off distribution for the attached invitation. We hereby apologize and hope you will be able to participate.

Regards

Peter

(Consider our endeavors as an appreciation of the key role of human resource development -- something I heard Anders Aslund call for for our friends to the East at the Smithsonian at noon today. You see, it's just WDR 1980 updated!)

CC: Amnon Golan

( AMNON GOLAN )

*Calendar ab.  
I accepted*



The World Bank/IFC/MIGA  
O F F I C E M E M O R A N D U M

DATE: 19-Apr-1991 05:33pm EST

TO: See Distribution Below

FROM: Amnon Golan, EDIDR

( AMNON GOLAN )

EXT.: 36300

SUBJECT: Invitation to Lunch with Abel Aganbegyan: May 7, '91 12:30pm

I would like to invite you to a luncheon meeting with Academician Abel Aganbegyan, Rector of the USSR Academy of National Economy, on Tuesday, May 7 at 12:30 p.m. in E Building Dining Room E1. Academician Aganbegyan will give a short talk on Prospects for Economic Reform in the USSR.

Please RSVP by EM as seating is limited to a total of 24, including our guests. Your participation will be on a first come, first served, basis.

Thanks,

Amnon Golan

DISTRIBUTION:

TO: Sven Sandstrom  
TO: Larry Summers  
TO: Costas Michalopoulos  
TO: Geoffrey B. Lamb  
TO: John A. Holsen  
TO: Alan Gelb  
TO: David R. Bock  
TO: Fred Levy  
TO: Rest of Distribution Suppressed

( SVEN SANDSTROM )  
( LARRY SUMMERS )  
( COSTAS MICHALOPOULOS )  
( GEOFFREY B. LAMB )  
( JOHN A. HOLSEN )  
( ALAN GELB )  
( DAVID BOCK )  
( FRED LEVY )

EDT -- Amazon

Aggr: 900 Employees

---

KGB -- Bank of enterprise.  
Now Russian KGB.

Trg. priorities: Banking, etc.

Network -- Bank as ~~not~~ central node.



Ryrie -

Impossible to be a long-time  
between systems.

10% decline 1<sup>st</sup> 1/4 '91/'90

Near economic collapse.

Power deferred, limited.

Membership: would need special  
capital increase.

- Transition to mkt economy EEC  
Privatization, banking.

Could do demonstration TA after  
application.

Use private int. code - FDI investors  
can buy even land.

Private property. Shops. Houses. Apartments.

→ 5-7 years for shareholding.

Anti-monopoly law.

"Ruble is not [a] real currency"

Pro Prop. - anti referendum: (not for  
Muslim areas).

Big fall mining  
Storage, distrib. problems.

Larry  
Faulstich

to a lot of things  
in the past  
I have been thinking  
about the things  
that I have done  
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May 1, 1991

EVENT: Yesterday, Boris Yeltsin met leaders of the striking miners.

SIGNIFICANCE: The miners' cautious welcome suggests that they see the Gorbachev-Yeltsin inter-republican agreement as the last chance for reform in the Soviet Union.

ANALYSIS: Russian President Boris Yeltsin claimed yesterday that he had persuaded the leaders of striking miners in Siberia to return to work by May 6. Although some strike leaders remain uncertain, others have clearly realised that they are facing the last possible chance for peaceful reform in the Soviet Union.

Two important developments last week pulled the Soviet Union away -- for the time being at least -- from the brink of an abyss, even though it remains in a situation of economic and political crisis.

-- Gorbachev's agreement with the leaders of nine Soviet republics (including, crucially, Yeltsin) should help them to work together to prevent the complete collapse of the Soviet economy.

-- His convincing victory in the Central Committee of the Soviet Communist Party at a plenary session where Gorbachev overcame fierce criticism from conservative Communists.

The republics. Gorbachev's meeting with the leaders of the Russian republic, the Ukraine, Belorussia, Kazakhstan, Uzbekistan, Azerbaizhan, Tadzhikistan, Kirgizia and Turkmenia was significant in a number of respects:

-- By meeting outside the framework of the Federation Council, Gorbachev was recognising that the republican presidents (or chairman of the republican Supreme Soviets) had to be negotiated with rather than dictated to.

-- The republican leaders, by their presence and acceptance of a joint statement, acknowledged that they were likely to inherit nothing but ruins if they allowed their war with the centre to continue unabated.

-- If the temporary alliance between Gorbachev and Yeltsin can become a longer-lasting coalition, this would greatly increase the chances of the reform course in Soviet politics prevailing.



## SOVIET UNION: Fragile Agreements

-- By meeting without the leaders of six republics -- Estonia, Latvia, Lithuania, Georgia, Armenia and Moldavia -- and by introducing the notion of 'most favoured nation' for those republics which sign the union treaty, Gorbachev has come closer to recognising the real possibility of a nine-republic Soviet Union, with a heavy economic price to be paid for secession.

However it is unlikely that the alliance with Yeltsin will hold. The two men reached an agreement last summer on economic reform which ended acrimoniously after only a few weeks. Yeltsin similarly signed a budget accord with the Soviet government which quickly collapsed. It is possible that this latest agreement could also break down if Yeltsin believes that Gorbachev is blocking or delaying reform, or preventing the full assertion of Russian sovereignty. If Yeltsin wins the Russian presidential election on June 12 -- now a virtual certainty -- he may be tempted to blame the centre for difficulties which may arise in policy implementation.

A further problem may arise in the Ukraine, economically the most important republic after the Russian Federation. The republic is currently governed by reformist Communists, but future elections are likely to bring nationalists to power committed to full independence. Ukrainian secession remains a highly unlikely prospect, but the mere threat of it could provoke a security-service coup that would plunge the country into civil war.

Hardliners. Gorbachev clearly defeated his hardline opponents at the Central Committee plenum of the Communist Party last week; only 13 voted for his resignation, with 322 against, and only 14 abstentions. However, this humiliation for the hardliners, and their inability to win any popular election, means that they will attempt to subvert further reform, and exploit the chaos that will follow if the inter-republican agreement fails.

The miners. The most immediate threat to the agreement remains the miners' strike. If it continues, as seems likely, despite Yeltsin's visit yesterday, industrial output will collapse in all major sectors of the economy, forcing Gorbachev to impose martial law by the end of the summer. Yeltsin, who by then will have won the Russian presidential election, could not alienate his electorate by being party to such police measures. The inter-republican agreement would collapse and with it any pretence at holding the country together.

CONCLUSION: Gorbachev has won a temporary respite; Yeltsin's faith in him is shared neither by the security apparatus nor the striking miners.



**The World Bank**

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.  
Washington, D.C. 20433  
U.S.A.

(202) 477-1234  
Cable Address: INTBAFRAD  
Cable Address: INDEVAS

2 April 1991

Mr. Abel G. Aganbegyan, Rector  
Academy of National Economy  
Vernadski Prospect, 82  
117571 Moscow

Dear Mr. Aganbegyan:

Accompanying this letter I am sending you a copy of the main report of the recent joint (IMF/World Bank/OECD/EBRD) study of the Soviet economy. The full report has now been published in three volumes under the title "A Study of the Soviet Economy."

We hope you will find the report both interesting and useful in your own consideration of how to move toward a market oriented economy.

We also hope that, before too long, some of my colleagues and I will have an opportunity to meet with you to discuss our analysis and conclusions. While we will be concerned with the report as a whole, we will be particularly interested in discussing (i) the suggested comprehensive approach that was outlined in the "Summary and Recommendations" volume that was issued last December, and (ii) those chapters in the accompanying Main Report that were prepared by the World Bank's team. The latter include the chapters on "Price Reform," "Enterprise Reform," "Financial Sector Reform" and "Legal Reform" in Volume 2 and also those on "Agriculture," "Manufacturing" and "Housing" in Volume 3.

Sincerely Yours,

John A. Holsen  
Special Adviser, Office of the Senior Vice President  
for Policy, Research and External Affairs  
(and World Bank Team Leader, Joint IMF/Bank/OECD/EBRD Study)

0/7 Conall's helper Lawyer: Tisha  
Agambeyan: Used spread sheet practice,  
Don't have consulting industry.  
Has big physical set-up. Printing plant.  
→ Buy 1,000 acres near Washington. <sup>computer center</sup>  
Get the money from "commercial"  
activities.

Delegation by Republics to center.  
Lotto Bank!

Foreign  
representatives.

Bank should have direct relations with  
republics.

Conall's - very forthcoming on  
membership etc.

Paul Kemp: Capital share -  
Details of membership.

Also available in PM.

Encourage relationship.



The World Bank/IFC/MIGA  
**OFFICE MEMORANDUM**

DATE: 06-May-1991 07:35pm

TO: See Distribution Below

FROM: Anupam Khanna, EXC ( ANUPAM KHANNA )

EXT.: 81140

SUBJECT: Briefing Mr. Conable for Aganbegyan Visit

Mr. Conable will be ready to be briefed by you at 8:45 am tomorrow -- not 8:30 am as you were advised earlier.

DISTRIBUTION:

TO: Paul Isenman	( PAUL ISENMAN )
TO: David R. Bock	( DAVID BOCK )
TO: Russell Cheetham	( RUSSELL CHEETHAM )
TO: Alan Gelb	( ALAN GELB )
CC: Sven Sandstrom	( SVEN SANDSTROM )
CC: Chitra Perera	( CHITRA PERERA )

cc: Michalopoulos 5/6

Sunday Morning, 5 May 1991

To: Fred Levy  
Alan Gelb  
Paul Isenman

By dint of being in the office at 6:00 am, I was able to get a line to Moscow and a fax through to Bugrov with more information on our desired appointments! I also got something off to Aganbegyan's office and to Moscow State University. Copies of these messages are attached. I was unable to get through to Milner or Petrakov; I trust that Bugrov will do this from Moscow.

I also attach a copy of my itinerary (with attached details on telephone, telex and fax numbers) in case you need to contact me in Madrid or London.

We should hear from Bugrov during the week on where he has made hotel reservations. As you see from my fax, I have asked him to communicate with Fred Levy (as well as with me in Madrid or London).

**Fred:** When word comes in, will you please advise Alan. Also be sure that Paul Isenman and his secretary know, so they will be able to get in touch with me during the mission. Also give the word to Daphne in my office, but this is not sufficient since she will be in the office only occasionally while I am away.

I'm off this afternoon ... see you in Moscow.

  
John A. Holsen

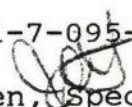


**THE WORLD BANK**  
Office of the Senior Vice President--Policy, Research & External Affairs

-----Telefax 1 (202) 477-0174-----

Date: 3 May 1991

To: Dr. Andrei Ye. Bugrov, Deputy Director  
Department of International Economic Relations  
Ministry of Foreign Affairs of the U.S.S.R.  
Moscow  
Telefax 9-011-7-095-253-90-88

From: John A. Holsen,  Special Adviser, Office of the Senior  
Vice President for Policy, Research & External Affairs

Subject: Additional Information on World Bank Mission

1. Thank you for your assistance earlier this week in making arrangements for the World Bank's follow-up mission. This message gives further information regarding travel arrangements, some of the meetings we would like, and how I can be contacted in Madrid and London. However, please send any communications regarding mission arrangements to Mr. Fred Levy at the Bank's headquarters as well as to me. His phone number is 1-202-458-1947; his fax number is 11-202-477-1569.

2. Travel plans: I will arrive on Saturday, May 11, on BA 872 (and depart on Wednesday, May 22 on PA 31). Mr. Levy will arrive on Sunday, May 12, on LH 1372 (and will also depart on May 22 on the PanAm flight). Mr. Gelb will arrive on Sunday, May 12, on PA 1072 (and depart on Friday, May 24, on PA 1073). Mr. Bock's travel plans are not yet completed, but I expect that he will arrive on Thursday, May 16, and depart on Wednesday, May 22; details will be provided as soon as they are available.

3. We are depending upon your office to make the necessary hotel arrangements in Moscow. However, Tom Wolf has told me that, although the National is closed, the Metropole is now open. We would prefer the Metropole because of its central location and we ask that the Government request rooms for all of us at the Metropole. It should be more convenient than the Mezhdunarodnaya.

4. After we have arrived in Moscow we will discuss with you the desirability of and any necessary arrangements for travel outside of Moscow.

5. Appointments: Tom Wolf tells me that the Fund expects to have a small technical mission in Moscow the week of May 13. As he discussed with you, to avoid duplication of requests to meet with busy officials, the Fund will invite someone from the Bank's team to join those meetings that concern questions of common interest. For our part, we shall follow the same practice and invite the Fund to participate in appropriate meetings arranged for the Bank.

-----  
This message consists of three pages (including this page).



6. We would like to meet with you as early as convenient on Monday morning, May 13. At that time we might discuss the Joint Study, the political and economic measures recently announced, and other matters you might suggest. At the same time we should meet with you or other appropriate person to discuss the appointments that have been made for us. At present the only firm date we have is:

Tuesday, May 21: College of Economics, Moscow State University, is sponsoring a seminar on the Joint Study. (The contact person is Andrei Markov, Vice-Dean, College of Economics, phone 939-34-95 and fax 939-08-77. He should be called to confirm our participation in the seminar as well as to see whether the seminar schedule will leave us free for some other appointments on the same day -- which will be the last full day of the mission for Holsen and Levy.)

7. At the same time we sent the 3-volume report to you, we sent it to a number of others with an indication that we hoped to meet with them to discuss the study. My letters generally said something like:

"We also hope that, before too long, some of my colleagues and I will have an opportunity to meet with you to discuss our analysis and conclusions. While we will be concerned with the report as a whole, we will be particularly interested in discussing (i) the suggested comprehensive approach that was outlined in the "Summary and Recommendations" volume that was issued last December, and (ii) those chapters in the accompanying Main Report that were prepared by the World Bank team. The latter include the chapters on "Price Reform," "Enterprise Reform," "Financial Sector Reform" and "Legal Reform" in Volume 2 and also those on "Agriculture", "Manufacturing" and "Housing" in Volume 3."

8. This May mission, however, will not include our specialists on legal reform (Ms. Reynolds), agriculture (Ms. Brooks) and housing (Mr. Renaud). Consequently the mission will not be able to discuss these subjects in the same detail as is true with the others and we are not at this time requesting specific appointments with the government offices particularly concerned with legal reform, agriculture and housing. Nonetheless, we will welcome comments on these chapters in the report.

9. Messrs. Aganbegyan and Petrakov responded to my letter, indicating that they were waiting an opportunity to meet with us to discuss the report; two others (Messrs. Grigoriev and Milner) have told us the same thing during their visits to Washington. We wish to give priority to fixing appointments with these individuals and their colleagues in their organizations. Specifically, appointments are requested with:

(1) Mr. Aganbegyan, Academy of National Economy. (Mr. Aganbegyan is now in the U.S. and will be visiting the World Bank on May 7. We have talked with Denis Kiselyov, who has told Mr. Aganbegyan that we would like to meet with the Academy during May 13-17. We would appreciate it if you would contact Egor Gaidar (433-25-96) about our visit, as we wish to be sure that he is either included in the meeting with Academy



of National Economy or that we have a separate meeting with him and the Research Institute of Economic Systems. The same applies to Leonid Ivenko (434-11-46), Rector of the Graduate School of International Business.

(2) Mr. Nikolai Petrakov, Institute of Market (129-10-00). However, we have heard that Mr. Petrakov may be out of Moscow during our visit. In this is the case, we have been asked to contact Mr. Evgheny Yasin (with whom we wish to meet in any event). Mr. Yasin has given us his home telephone number (247-36-94) as perhaps the easiest way to get in touch with him.

(3) Mr. Boris Milner (129-02-27) at the Institute of Economics suggested, during a visit to Washington, that the Institute could sponsor a "retreat" to discuss the report (with participants from all four IOs and various USSR offices and institutes). While this does not seem practicable, we would like to meet with Messrs. Abalkin and Milner and any other members of the staff they believe appropriate.

(4) Mr. Leonid M. Grigoriev (210-00-28), Institute of World Economy and International Relations, was in Washington last week to participate in the Bank's annual conference on development economics. We wish to meet with him (accompanied by others he believes appropriate) early in our visit.

10. Four others to whom we have sent copies of the report and with whom we would appreciate appointments are:

(5) Andre Orlov (206-10-35) and Serguey Alexashenko (298-50-16) of the State Commission on Economic Reform, Council of Ministers.

(6) Grigory Yavlinsky (205-57-07) at the RSFSR Center for Economic and Political Research.

(7) Victor Rakov (928-51-13) of the State Bank (and any others with whom we should discuss both our recommendations and recent government actions regarding financial sector reform).

(8) Yuri Ushanov (202-45-18) of the Institute of the USA and Canada, USSR Academy of Science

11. The above appointments will get us started, and it would be appreciated if your office could help arrange these meetings for as early as convenient in our stay. If permitted by the expected length of the appointments, we should try to have two meetings in the morning and another two in the afternoon. The named individuals are, in all cases, urged to invite others to the meetings. However, we prefer small, informal meetings which allow for a frank interchange of views.

12. Contacting Holsen May 5-10. I will be at the Palace Hotel in Madrid on the nights of May 6-8 (Phone 429-7551, TX 22272, Fax 429-8266). I will be at the Cumberland in London on the nights of May 9-10 (Phone 262-1234, TX 22215, Fax 724-4621). Looking forward to meeting with you on Monday, May 13. Again, my appreciation for your helpfulness.

[S1050302]

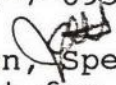
**THE WORLD BANK**

Office of the Senior Vice President--Policy, Research & External Affairs

-----Telefax 1 (202) 477-0174-----

Date: 5 May 1991

To: The Office of  
Academician Abel G. Aganbegyan  
Rector, Academy of National Economy  
USSR Council of Ministers  
Telefax 9-011-7-095-420-22-66

From: John A. Holsen,  Special Adviser, Office of the Senior  
Vice President for Policy, Research & External Affairs

Subject: Visit to Moscow to Discuss "Joint Study"

1. Mr. Aganbegyan wrote me on April 10 indicating his interest in meeting with the World Bank mission that will be visiting Moscow to discuss the recent "Study of the Soviet Economy" done by the Bank in cooperation with the IMF, OECD and EBRD. He also wrote Mr. Conable on April 18 regarding organizing some discussions.

2. I have, through Denis Kiselyov, informed Mr. Aganbegyan that the Bank's mission (consisting of myself, Alan Gelb, and Fred Levy) will be arriving in Moscow on May 11th or 12th and would like to arrange a meeting at the Academy sometime during the week of May 13-17. The office of Mr. Andrei Bugrov, Department of International Relations, Ministry of Foreign Affairs, has been asked to make specific arrangements for the mission's meetings.

3. We have sent copies of the full report to Mr. Egor Gaidar, Research Institute of Economic Systems, and to Mr. Leonid Ivenko, School of International Business. We leave it to the Academy to decide whether it would be better to have separate meetings with each of them, or a single longer meeting with a larger group from the Academy. However, we have a preference for small, informal meetings as they usually permit a more effective exchange of views.

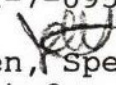
4. As I am leaving the Bank today for Madrid and London, before going on to Moscow, I will not be able to meet with Mr. Aganbegyan during his visit to the Bank on Tuesday. However, Messrs. Gelb and Levy will still be in Washington and will be meeting with him.



**THE WORLD BANK**  
**Office of the Senior Vice President--Policy, Research & External Affairs**

-----Telefax 1 (202) 477-0174-----  
Date: 5 May 1991

To: Mr. Andrei Markov, Vice Dean  
College of Economics  
Moscow State University  
Telefax 9-011-7-095-939-0877

From: John A. Holsen,  Special Adviser, Office of the Senior  
Vice President for Policy, Research & External Affairs

Subject: May 21 Seminar on "Joint Study"

1. As the Government has now agreed to our proposed visit to Moscow to discuss the study of the Soviet economy done by the four international agencies, we can now confirm our participation in the Seminar you have scheduled for May 21. The World Bank's mission will consist, in addition to myself, of Alan Gelb and Fred Levy; David Bock will accompany us for part of the visit. We expect to start work in Moscow on May 13; most of us will leave on May 22, although Mr. Gelb may be able to stay for a few additional days. It is probably that no more than two or, at the most, three of us will attend the seminar since we may divide the mission in order to have a wider range of contacts.

2. As we have found small, informal meetings to be particularly effective for an informal exchange of views, it may be desirable to arrange for one or more additional meetings at the College of Economics. I would appreciate your advice regarding such meetings. We would be particularly interested in discussing issues related to enterprise reform ("commercialization" and privatization), price policies, financial sector reform, and the possible need for special measures to ease the transition process (e.g., the "stabilization fund" described in last October's Presidential Guidelines). We would also like to exchange views on the desirability and feasibility of a "radical" and comprehensive reform program such as that advocated in the Joint Study.

3. We have asked the office of Mr. Andrei Bugrov, Department of International Economic Relations, Ministry of Foreign Affairs (phone 241-28-98), to assist us in making arrangements for our visit. I expect that his office will be in touch with you, or you may wish to call them. Please feel free to schedule one or two small, additional meetings if you believe they would be mutually useful.



# Record Removal Notice

<b>File Title</b> Soviet - General - May to July 1991		<b>Barcode No.</b>  30382301		
<b>Document Date</b> May 3, 1991	<b>Document Type</b> Invoice/Itinerary			
<b>Correspondents / Participants</b> To: Mr. John Holsen From: American Express				
<b>Subject / Title</b> Invoice/Itinerary				
<b>Exception(s)</b> Personal Information				
<b>Additional Comments</b>		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.</p> <table border="1"><tr><td><b>Withdrawn by</b> Shiri Alon</td><td><b>Date</b> September 05, 2019</td></tr></table>	<b>Withdrawn by</b> Shiri Alon	<b>Date</b> September 05, 2019
<b>Withdrawn by</b> Shiri Alon	<b>Date</b> September 05, 2019			



Updated On:Friday, May 3, 1991

Palace Hotel Hri

Hotel Code	MAD12
Address	PLAZA DE LAS CORTES 7 28014 MADRID, SPAIN
Telephone	(34-1) 429-7551
Telex	(831) 22272
Fascimile	(34-1) 429-8266
Single Rate	Local Min.: 18000.000 Max.: 25840.000 USD Min.: 166.95 Max.: 239.66
Double Rate	Local Min.: 22240.000 Max.: 31840.000 USD Min.: 206.27 Max.: 295.31
Rates Include	All Prices Valid Until 31-DEC-91; 1 ESB = 0.0092750 USD
AMEX Card	-
Free Sale	Yes
Remarks	PRADO MUSEUM
Advisory	

More Rates On Next Page

Cumberland Hotel Thf

Hotel Code	LON03
Address	MARBLE ARCH, LONDON W1A 4RF,
Telephone	(44-71) 262-1234
Telex	(851) 22215
Fascimile	(44-71) 724-4621
Single Rate	Local Min.: 69.570 Max.: 69.570 USD Min.: 118.89 Max.: 118.89
Double Rate	Local Min.: 89.130 Max.: 89.130 USD Min.: 152.32 Max.: 152.32
Rates Include	All Prices Valid Until 31-AUG-91; 1 GBP = 1.7090000 USD
AMEX Card	-
Free Sale	Yes
Remarks	No
Remarks	ON OXFORD ST AT MARBLE ARCH.
Advisory	

More Rates On Next Page

# OFFICE MEMORANDUM

RECEIVED

91 MAY -3 PM 5:09

PRDDR

DATE: May 3, 1991

TO: Mr. Lawrence H. Summers

FROM: Peter T. Knight *PK*

EXTENSION: 36313

SUBJECT: Interview with Aganbegyan and Article by Yavlinsky/Zhadornov/Michaylov

Attached is an interview with Aganbegyan which reveals something of his views, at least as of end-1990. He calls for a move to a market economy "as quickly as possible", with prices being determined by supply and demand. But he is cautious about privatization of land (most people are against it and "Gorbachev represents the opinion of the majority of people."). On federal issues,

"In the future there will no longer be a central power in the present form, that is to say a single center of power within the state." ... "The government of the union will only have limited functions, functions the republics voluntarily cede to the central government."

In a personal conversation with me he tried to put the best possible interpretation on the various elements of the Pavlov stabilization effort (currency reform, wage controls, price reform), but severely criticized Pavlov's blaming foreign bankers for supposedly undertaking a speculative attack on the ruble. Aganbegyan said "we are destroying our economy, not the foreign banks, who are trying to help us."

I also include an article by Yavlinsky, Zadornov, and Mikhaylov published in *Ivestiya* on January 3, 1991, which is extremely critical of Ryzhkov, the former Prime Minister, and by extension of the entire official government reform strategy.

Attachment

cc: Messrs. Isenman, Michalopoulos (PRDDR); Holsen (PADSS); Gelb (CECSE); Golan (EDIDR)



In addition to Moscow KRASNAYA ZVEZDA is printed in 36 other cities in the country. It is transmitted via phototelegraph to Alma-Ata, Arkhangelsk, Baku, Vilnius, Vladivostok, Volgograd, Dnepropetrovsk, Donetsk, Irkutsk, Kazan, Kiev, Kishinev, Krasnodar, Krasnoyarsk, Kuybyshev, Leningrad, Lugansk, Lvov, Mineralnyye Vody, Minsk, Nizhniy Novgorod, Novosibirsk, Odessa, Omsk, Perm, Rostov-na-Donu, Saratov, Sverdlovsk, Simferopol, Tashkent, Tbilisi, Frunze, Kharkov, and Chelyabinsk. Original dies of the issues are delivered by aircraft to Khabarovsk and Chita.

In 1991, as in previous years, KRASNAYA ZVEZDA will have two editions. This is so that in remote regions the newspaper as a rule reaches readers on the day of publication and also by the production potential of the decentralized press centers.

Work on the first edition ends at 1645 and the second is signed off at 2230. Part of the up to date information coming in through various channels in the afternoon is published in a later issue of the first edition than in the second.

In 1991 the first edition of KRASNAYA ZVEZDA will be published in 860,155 copies and the second in 199,200 copies. The second edition is published in Moscow, Donetsk, and Krasnoyarsk. This year KRASNAYA ZVEZDA has subscribers in 83 countries.

#### Mailmen Fail to Deliver 1 January Newspapers

PM0301105791 Moscow PRAVDA in Russian  
3 Jan 91 Second Edition p 3

[Article by S. Oganyan under the "What Happened?" rubric: "The Newspapers Didn't Arrive"]

[Text] V. Leontyev, director of the PRAVDA publishing house, showed me an unusual document yesterday. It is called "Information on the Dispatch of Newspapers for 1 January 1991." On the morning of the first day of the New Year, subscribers in such towns as Nizhniy Novgorod, Zaporozhye, Karaganda, Novosibirsk, Riga, Chelyabinsk, and many others (including to some extent Moscow and Leningrad, too) discovered that their mail boxes were empty.

On the day that this information was produced, the newspapers for 1 and 2 January were still at the printing press. What is going on? And did this happen so unexpectedly? I put these questions to the publishing house director.

"I find it hard to understand what is going on," Vyacheslav Petrovich said. "It is well known that as of this year the cost of postage has doubled. It would seem that mail workers ought to be working, if not better than last year, then at least no worse. Yet just before New Year the USSR Communications Ministry began sending us "warning" telegrams signed by deputy minister Ye. Manyakin. At first they reported that there would be no deliveries on Sundays or state festivals

declared to be public holidays. A week later they promised that there would be deliveries after all. And in between these two reports came a telegram from V. Antonov, chief of the Moscow Main Administration for the Distribution of Printed Matter: Please do not allocate editions of newspaper for retail sale in Moscow on public holidays...

"And Antonov kept his word. Our drivers toured Moscow on 1 January and brought their newspapers back to the printing houses. It seems that Manyakin is not to be believed. There is no one to sue either: The Communications Ministry transferred all its rights to local communications organs no longer under the ministry's jurisdiction. You can have the best equipped printing press in the world but it will not stand up to such a godless attitude."

The publishing house director invoked the name of God with good reason: Christmas Day [7 January] is approaching—a day declared a holiday. On that day, too, subscribers will probably be left without their newspapers...

#### Economic

##### Aganbegyan on Economy, Future Form of State

AU0301202591 Vienna PROFIL in German  
31 Dec 90 p 40

[Interview with economic expert Abel Aganbegyan by Artem Ohandyanian in Moscow; date not given: "The People's Anger Threatens Everybody"]

[Text] Abel Aganbegyan, 57, was Gorbachev's closest economic adviser in the first stage of perestroika. Between 1961 and 1985, the Armenian economic expert worked at the Siberian branch of the Academy of Sciences in Novosibirsk, where he studied the introduction of market elements into the Soviet system. For a certain time, Mikhail Gorbachev favored Stanislav Shatalin, a radical supporter of the market economy, yet Aganbegyan's compromise plan was adopted in the fall. As rector of the Moscow National Economy Academy at the USSR Council of Ministers, the Armenian is observing the economic decline of the USSR.

[Ohandyanian] Mr. Aganbegyan, as early as in September you explained to the Soviet Congress of People's Deputies that the economic situation is much more serious than one would imagine. What do you say now?

[Aganbegyan] The situation has become even more serious, because the strings of the economy are breaking apart at breakneck pace. I expected that we would change over to the market economy beginning November. We destroyed the old administrative system and thus also the central supply system, which worked badly, yet without creating a new system. To act like this is very dangerous. We must change over to the market economy



as quickly as possible. Yet there has been no progress in this direction yet. All we do is indulge in endless discussions about it.

[Ohandyanian] You also said that "we will be in for great trouble" if things continue like this. "What is this "great trouble" for you?

[Aganbegyan] This is chaos, the decline of the standard of living and the production decrease of 30 to 40 percent. This has created social unrest, strikes, and chaos, both on an economic and social level—exactly the same as happened in Poland.

[Ohandyanian] Can this "great trouble" also mean the seizure of power by the military?

[Aganbegyan] I hope not. However, this question does not belong to my field. I am an economist and I deal with economic questions. Nevertheless, I shall remain an optimist. The destruction of the economic relations is bad for all political forces of our country. The anger of the people threatens to wipe out everything. This dangerous state has created a situation where within the individual republics and their leading strata—irrespective of political ideology—a common interest has emerged, calling for stability, law, and order. I hope that Gorbachev knows how to take advantage of this situation, and that the deputies of the People's Congress can consolidate their power and create a political atmosphere that paves the way for economic reform.

[Ohandyanian] Gorbachev has failed to implement perestroika in six years. Is it conceivable that he himself will call in the military?

[Aganbegyan] Perestroika does not only mean economic reform but also changes in domestic policy: democracy and freedom of expression; perestroika wants social reconstruction. As far as military support is concerned I cannot say anything, because it is not my field. I do not deal with politics. Ask me questions that are related to the economy.

[Ohandyanian] Why was it not possible to implement perestroika?

[Aganbegyan] The reason is that there is no political power. The reason that there is no political power is that simultaneously with the perestroika movement a process of introducing a new order in the republics is taking place in the USSR. However, this process is developing in an unordered way and has gotten out of control, which has paralyzed the government and deprived it of its power.

[Ohandyanian] It has been said that this year there has been a good harvest and production is sufficient; nevertheless, there are supply problems. Why?

[Aganbegyan] Because the system of supply administration has been destroyed, because there is no working market, and because the value of the ruble is declining on a daily basis.

[Ohandyanian] The USSR has asked foreign countries for food aid. Would technological assistance not be more effective?

[Aganbegyan] Ignoring the current difficult situation—yes. However, considering the current—although temporary—yet critical situation, we realize that it was a necessary step. We had no other alternative.

[Ohandyanian] How will the prices be worked out in the new market system?

[Aganbegyan] The changeover to the free market economy implies the creation of a mechanism to motivate the people. Prices will be determined by supply and demand. Well, this is how a free economy works.

[Ohandyanian] How will the question of the privatization of land be solved?

[Aganbegyan] This depends on the individual republics. Their laws must determine the way their land is used.

[Ohandyanian] Gorbachev rejects the privatization of land.

[Aganbegyan] He rejects a general law for the entire USSR because, in reality, most people are against it. Gorbachev represents the opinion of the majority of people. However, at the same time the president's program stipulates that the land reform be determined by the individual laws of the republics.

[Ohandyanian] In what form will foreigners be given the opportunity to invest in the USSR in the future?

[Aganbegyan] There will be a presidential decree and a new law, enlarging the possibilities for investment with capital from the outside. Thus, it will be possible to acquire shares of enterprises. It will then also be possible for foreign investors to establish enterprises with 100 percent of their own capital. In addition, it will be possible to get long-term leases for land and natural resources of the country.

[Ohandyanian] What guarantees will such investors be given?

[Aganbegyan] The guarantees are contained in the new law and also in the presidential decree. If these are not sufficient one can also conclude bilateral agreements, which is what we do with several countries that provide mutual guarantees.

[Ohandyanian] Will the central power continue to exist at all?

[Aganbegyan] In the future there will no longer be a central power in the present form, that is to say a single center of power within the state. We will be a union of republics. There will be another center—the central government of the union of sovereign republics. The supreme authority will be the council of the federation, made up of the presidents of the republics. The central



government of the union will only have limited functions, functions the republics voluntarily cede to the central government.

#### Yavlinskiy, Others Hit Ryzhkov Economic View

PM0301155091 Moscow IZVESTIYA in Russian  
 3 Jan 91 Union Edition p 3

["Expert report" by Grigoriy Yavlinskiy, Mikhail Zadorov, and Aleksey Mikhaylov: "Perestroyka and a 'Breathing Space'"]

[Text] Against the background of heated debates about the Union treaty, E. Shevardnadze's resignation announcement, warnings of an incipient dictatorship, and arguments over the need for referendums, the head of government's speech at the Congress may not have made much of an impact. But it was no ordinary speech, in fact it was by way of being a program speech.

In this article we want to propose a different view of the problems of perestroyka and the causes of the economic crisis, and to evaluate the proposed measures for emerging from the crisis.

#### Perestroyka

The starting point for the speech was this: "Perestroyka, in its conceived form, has not been implemented"; there has been "political and ideological wrecking of the process of transformations." A very serious statement—both in its premises and in its conclusions.

If you look at perestroyka as a measure conceived by a group of leaders as some kind of limited "reform from above," whose aims and intentions were known in full only to its organizers, then they are best placed, so to speak, to see whether or not it has been wrecked. But if you see perestroyka as a profound, objectively necessary process reflecting society's real needs and expressing the potential for change that has accumulated in society over many decades, then the thesis of the wrecking of perestroyka is unfounded.

Hence the differing attitudes to what is happening in the country. In the first case, a panicky feeling that society is being "destroyed" and convulsive efforts to "save" it; in the second, conscious participation in perestroyka as a painful but inevitable process of reforms, coupled with efforts to facilitate these transformations.

The processes that began five years ago are continuing, but there has been a major change—as is only natural—in the sources and motive forces of these processes. In the first two years actions "from above" were necessary to resurrect people's sociopolitical and economic activity. And society did indeed become reanimated and began itself to act as initiator of transformations (this is the watershed mentioned in the head of government's speech). Many of the leaders who began perestroyka were unable or unwilling to understand and accept this new, most important stage in it. They began—deliberately or

unwittingly—to delay further transformations, propose dead-end decisions, and postpone essential steps, taking these steps only under pressure from society.

From this standpoint it is also only natural to find the explanation that has now been put forward as to why perestroyka was wrecked—the "influence of destructive forces" and the "breakdown of established structures in both state and party."

Who are these destructive forces? How did they manage, in a short space of time, to ruin the economy of a huge country? Who was responsible for the antialcohol campaign, or at least the strange idea of "regional economic accountability"—the prototype of today's territorial separatism—or the incompetent organization of the cooperative sector, causing a natural sense of irritation in people? Was it not the government that insisted on the adoption in December 1989 of a program that did not take account of political and economic realities obviously failing three months later? Let us recall: The proposed price increases were announced seven months beforehand, which caused panic and speculation on the consumer market. Was it not the government that followed the principle of a "gradual" and "considered" approach—resulting in "neither plan nor market"? After all, did not the building of a realistic plan always depend on a government capable, as they always used to assure us, of "seeing an integrated picture of the existing situation and its possible consequences"?

There can be only one answer: These destructive forces are incomprehension and incompetence.

The inability or unwillingness to understand the processes taking place in the economy gives rise to a new thesis—that of "political warfare under the banner of the market, lacking any serious economic content." All who insist on a different approach from the government's to economic reforms—republics calling for sovereignty, economists proposing different programs for the transition to the market—are declared to be virtually political enemies who are ruining the country.

Now for the "breakdown of state structures." It may be asserted confidently that none of these structures has been destroyed in the years of perestroyka: Neither legislative nor executive organs of power have been disbanded; the militia, the courts, and the prosecutor's office remain whole. Party structures have also survived, in the main. Numerous and, as it turns out, futile mergers and divisions of ministries and sector organs of management have been carried out by the government's own decisions. The ineffectiveness of these structures' operations is the direct consequence of unskilled leadership, organizational impotence, gross personnel blunders...

Why was a "political-ideological" explanation of the wrecking of perestroyka needed? This explanation is a way of evading responsibility for the economic crisis and shifting the blame to those who determined the policy of



the country as a whole. But this too is a position leading to a reluctance to change the means and methods of state economic policy.

### The Economy

Explaining the economic crisis in terms of political-ideological factors, rather than in terms of the "exacerbation of internal contradictions in the production sphere," means that everything is fine in the economy, and as soon as order is imposed in the political sphere, society's progressive development will resume. But in that case, why did they begin the transformations in 1985, when political stability was not in doubt?

The crisis afflicting our economy is determined by two main factors. The first lies in the deformed economic structure that we inherited, along with the absence of serious incentives for labor; the second lies in the major mistakes made in economic leadership in recent years.

✓  
no of shape discipline  
The course of "acceleration," making the structure of the national economy even more cumbersome, together with the attempt to pursue broad social programs, sharply exacerbated the inflationary potential in the economy. The transition to so-called self-financing without the simultaneous creation of a credit and finance market led to the exacerbation of the state's shortage of funds for fulfilling its programs—the budget deficit increased rapidly. This shortfall began to be covered more actively with money that was not backed up by goods. Since that time this "inflationary pumping" of the economy has acquired the nature of a financial disaster. Also the growth in enterprises' monetary funds has sharply aggravated the existing shortage of all types of resources, and also predetermined an increase in monetary payments to the population, immediately pouring into the consumer market. There was no substantial restructuring of the foreign economic sphere—the fall in hard currency revenue arising from the fall in prices for energy sources was covered by means of accelerated growth of the foreign debt and the sale abroad of an increasing quantity of gold.

These examples alone are more than enough to refute the thesis that there are no economic causes for the present crisis.

✓  
It is state policy (and not mythical destructive forces) that is today driving the market "into the shadows," simply by depriving it of a place "in the sun." A "wild," uncontrolled transition to the market is taking place, not because it is uncontrollable in principle, but because the state is not creating the conditions to facilitate this transition. On the contrary, it is in effect resisting the development of market relations by continuing to pursue, in the main areas, that same policy that led to today's results.

Thus, while the head of government thinks that the cause of the economic difficulties are political and ideological in nature, in our view exactly the reverse is true: It was economic factors that largely predetermined both the

present acute political situation and the paralysis of vertical management structures that has begun to set in. Just as the proclamation of sovereignty by the republics, the fragmentation of the all-union market and the introduction of internal customs, and the crisis of confidence in the government are not deliberate actions on someone's part, but an objective reflection of the existing economic situation, a kind of defense against erroneous decisions. We must treat not the external manifestations of the disease in the sphere of politics and ideology, but the economy itself.

What methods of treating it are proposed?

### Breathing Space

The measures proposed by the government head should be viewed from his thesis on the "failure of transformational processes" and the formation of the future cabinet's program.

The content of the economic policy in the new year should be viewed in terms of "emergency blocking of the mounting crisis," it is proposed. The term "stabilization" is no longer strong enough...

The measures proposed for blocking the crisis include abandoning the "primacy of laws in its primitive form" (?), a moratorium on strikes and ecological movements, and so on.

The actual economic part of the "crisis blocking" policy includes the introduction of numerous new taxes and various means of confiscating financial resources.

A sales tax, stabilization currency deductions, higher social insurance contributions, regulating taxes on consumption fund growth and a new income tax based on earning capacity, confiscation of part of the depreciation allowance, excise duty, rent, freezing of some economic incentive fund resources, utilization of some of the revenue from privatization and destatization, and so on. The most futile fiscal measures the government is using in its efforts to balance the budget have been removed from the collection of potential stabilization measures.

Whereas before, various methods were used to conceal the budget deficit of tens of billions of rubles, this will be practically impossible next year—as expected, the deficit will be as much as R4 trillion—hence the need for new taxes. The vast proportion of enterprises' income will be centralized in various state funds—the border between the budget and nonbudget funds (pension and stabilization funds) will be rather arbitrary.

But the main emphasis in economic policy will continue to be placed on controlling the flow of materials, although the forms of control will change: Hopes were formerly pinned on state orders, quotas, stocks and state plan supplies; now the chief instrument is the freezing of old economic links and the cancelation of new ones.

But economic processes have acquired such an inertia that the planned sanctions for breaking contracts are



unlikely to be taken seriously by managers. Moreover, the switch to wholesale contract prices itself torpedoed the idea of freezing links—after all, crucial conditions of their observance are changing.

The purpose of the proposed measures is clear—to come to a halt and try to freeze the situation, by using entirely traditional, very familiar methods. Alas, they are naive hopes. For the umpteenth time a system of measures is being proposed that does not fit the conditions that obtain. That is why the potential for a mighty crisis has built up in the economy: Next year will see a further decline in production, the rapid growth of prices and incomes will lead to a steeper inflation spiral, and the structural imbalance and shortages will get even worse. Enterprises, despite all the bans, will seek and establish links that benefit them, thousands of small new enterprises and banks will appear, people's desire to become entrepreneurs will increase, and the quest for foreign economic contacts will not cease.

State regulation, attempting to block these processes, will not only be unable to counter them, but will lead to market relations' assuming increasingly distorted forms and heading deeper and deeper "into the shadows." The new economy will increasingly acquire monstrous, semi-criminal features. This will be the price of the latest attempt to obstruct the objective processes we sparked off in the first place.

You cannot announce the failure of perestroika and on that pretext try to return to measures that in principle can no longer provide positive results. We must act without a pause, supporting, controlling, and organizing the new processes, expanding the sphere of market methods of regulation, actively implementing destatization and privatization, creating commodity and stock exchanges, demonopolizing production, reducing the budget deficit, gradually freeing prices, developing employment and social protection services...

The main thing is finally to ensure the redistribution of economic power between the center and the republics, not by the tug-of-war method, but by genuinely political, treaty means, which would not weaken, but, on the contrary, would intensify control of the economic situation in the country.

We were told of the failure of the course the country has followed over the past five years and we were told to stop, under the banner of "emergency crisis blocking."

A pause in the political and ideological reforms, in economic transformations and cadre renewal, and in perestroika is far more dangerous than movement forward.

#### Arbatov Gives Recipe for Economic Success

PM0301172991 Copenhagen BERLINGSKE TIDENDE in Danish 1 Jan 91 (special supplement) p 6

[Article by Soviet presidential adviser Georgiy Arbatov, head of the USSR Academy of Sciences United States

and Canada Institute: "The Soviet Union Cannot and Will Not Catch Up With the West"]

[Text] Moscow—I have been asked to write on the question: "What is the likelihood of the East European (including the Soviet Union) countries' catching up with the West?"

I have changed the question a little. For two reasons. First, I do not think that it is fitting for me to speak on behalf of the East European countries—that would be in line with the imperialist traditions that we have definitely abandoned. Second, I do not know enough about the situation in those countries, moreover they are very different. It is clear, for example, that the GDR finds itself in a special position, just as Poland is different from Czechoslovakia, and Hungary from Romania.

At the same time I would like to stress that I have no doubts at all that the East European countries will make progress and secure a worthy place for themselves in Europe and the world at large. However, the road to economic and political reform will not be easy; we in the Soviet Union probably realize this better than others, since we are facing similar challenges and running into similar problems and difficulties.

But now to the heart of the above question. I must admit that I am not too keen on the expression "catch up with." This is not just because a desire to catch up implies that you have fallen behind. We are actually a long way behind—we were actually behind long before the revolution. We were also far behind after the revolution. It is particularly worrying that the gap has increased in the last few years. It would be self-delusion not to admit this.

There is something else about the expression that I am not too keen on. In the past we have for far too long been too eager to set ourselves the goal of "outdoing and overtaking" the West; in doing so we demanded colossal sacrifices of our country and people, while we compared our progress with that of the West, with that of the United States, and in the process failed to implement other, more basic measures.

#### We Shall Not Follow the West

Are we to follow the West in all we do—and should we do so? This is the first question to be answered. My answer is "no." Despite all its technological and economic achievements the West has also suffered setbacks. We are living through a difficult and critical period in our development. But once we are through it, I think that we will have to carefully define our requirements and goals in a new way, taking account not only of our own possibilities and needs, but also the experience which has been accumulated in the world.

Also, the "catch-up-with-your-neighbor" criterion does not square with the new understanding of the mutual dependence and integration of countries. In my view, the challenge facing the Soviet Union today is not to catch up with the West but to solve its economic, social, and

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Mtg. with BBC on TUESDAY, MAY 7 @ 9:00 am.

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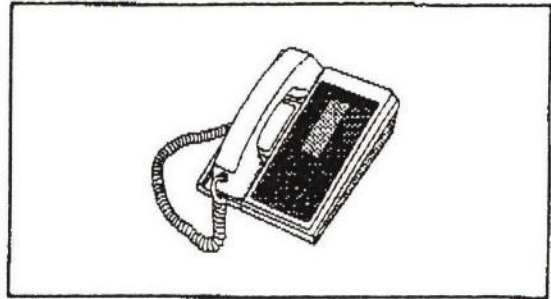
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*USSR, 117571 Moscow, Vernadski Prospect, 82  
Tel. (095) 4348407, telex 411626 KARTA SU, Fax. (095) 4202266*

## Itinerary

Abel G. Aganbegyan  
Academician  
Rector of the Academy of National Economy  
USSR

Visit to the World Bank

May 7, 1991

9:00 am Meeting with Mr. Barber B. Conable, President of the World Bank. E12 - Office of President.

Coming to the meeting:

Mr. Paul Isenman, Director, Policy and Review Department;  
Mr. Alan Gelb, Chief, Socialist Economies Reform Unit;  
Mr. Peter T. Knight, Division Chief, National Economic Management  
Division, Economic Development Institute.

10:00 am Meeting with Mr. Lawrence W. Summers, Vice-President, Development Economics and Chief Economist. S9035. 473-3774.

11:00 am Meeting with Mr. Amnon Golan, Director, Economic Development Institute. M7021.

12:30 pm Luncheon at the Invitation of Mr. Golan. E - Executive Dining Room 1.

3:30 pm Meeting with Mr. Leigh P. Hollywood, Vice-President, Guarantees, Multilateral Investment Guarantee Agency (MIGA). H6083. 473-6168.

Visit to the World Bank  
Page Two

4:30 pm Meeting with:  
Mr. Moeen Qureshi, Senior Vice-President for Operations;  
Mr. David Bock, Director, Operations Staff;  
Mr. Russel Cheetham, Director, Asia Country Department 5  
Mr. Bock's Office. E1241. 458-2856.

Coordination of the Visit:

Denis Kiselyov,  
Representative of the Academy in the USA.  
MUCIA  
66 East 15th Avenue  
Columbus, Ohio 43201

614/291-9646  
FAX 614/291-9717



The World Bank/IFC/MIGA  
O F F I C E M E M O R A N D U M

*done 7/30*  
*[Handwritten signatures]*

DATE: 30-Apr-1991 06:59am

TO: David R. Bock  
TO: Russell Cheetham

( DAVID BOCK )  
( RUSSELL CHEETHAM )

FROM: John A. Holsen, PADSS

( JOHN A. HOLSEN )

EXT.: 33719

SUBJECT: BBC's Meeting with Mr. Aganbegyan

Mr. Conable will be meeting Mr. Abel Aganbegyan at 9:00 am on Tuesday, May 7. Mr. Aganbegyan is Rector of the Academy of National Economy, the major economic think tank and training institute that reports directly to the USSR Council of Ministers. His letter to Mr. Conable closes with: "I look forward to meeting you and to discussing the Joint Study's background papers and the vast technical assistance needs of the Soviet Union with the experts from the World Bank."

I suggest that both of you, if you possibly can, participate in the meeting with Mr. Conable. However, this meeting will last only about 40 minutes, and I expect that it will also be attended by Messrs. Isenman and Gelb from the PRE side. Consequently, I believe it would be desirable for you to have a separate "Operations" meeting (with Mr. Qureshi if he is available). I have suggested this to Denis Kiselyou, who is Mr. Aganbegyan's representative in the U.S. (and also one of the bright young Soviet economists; who is currently doing post graduate work at Ohio State University). Kiselyou will probably be calling one or both of you sometime today regarding setting up an appointment. I understand that it could be either late on May 6 or on May 7. (Mr. A. will also be meeting with MIGA at 9:45 and EDI at 11:00 on the 7th.)

Mr. Aganabegyan was at one time President Gorbachev's economic adviser, but has sought shelter from the current fray in the Academy. He is more an economic politician than a professional economist and, partly because he has avoided "taking sides" in the recent debates, may have an important future. He speaks excellent English. There is an English language edition of his book on Periostoika.

I am preparing a briefing note for Mr. Conable on his meeting with Mr. Aganbegyan. Please let me know if you will be able to join the meeting.

CC: Paul Isenman

( PAUL ISENMAN )

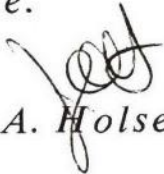
30 April 1991

*To: Patricia Gallagher*

*The attached does not require further action. As you know, arrangements have been made for a meeting with Mr. Conable on May 7. Participants are expected to be Isenman and Gelb from PRE and Bock and Cheetham from Operations (these last invited but not yet confirmed).*

*I have been in touch with Denis Kiselyov (who is Aganbegyan's representative in the U.S.) regarding the rest of Mr. A's schedule. It includes MIGA (Hollywood at 9:45) and EDI (Golan at 11:00; he is, in addition, hosting a lunch for Mr. A). Also Messrs. Bock, Cheetham, and Levy are expected to have a separate meeting with Mr. A.*

*The revised briefing note (from Thalwitz to Conable) will be sent to you as soon as Bock and Cheetham have confirmed their participation in the meeting with Mr. Conable.*

  
John A. Holsen



12

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Document From: Abel Aganbegyan, VERNADSKI PROSPEKT, 82, 117571 MOSCOW

To: bbc (HOLSEN FOR ACTION)

Dated: 4/18/91

Reference No.: PPR910422001

Topic: Summary and Recommendation of the Joint Study of the Soviet  
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To: bbc

Dated: 4/18/91

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Barber B. Conable  
President  
The World Bank  
Washington, D.C., USA  
Fax: (202) 477 6391

April 18, 1991

Dear Mr. Conable,

The Summary and Recommendation of the Joint Study of the Soviet Economy by the IMF, IBRD, OECD and EBRD is widely discussed now among Soviet officials and economists. We are looking forward to a lively discussion on the technical background papers with the participants to the Joint Study Project and to the beginning of a technical assistance program that would be mutually beneficial to the Soviet Union, its constituent republics and the World Bank.

Our relationship with the European Community is going forward, including a substantial technical assistance program of more than \$500 million. Since the members of the European Community are also members of the World Bank, I see the need to expand our contacts with the World Bank.

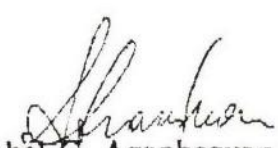
I would like to offer the Bank the use of my Academy's facilities and staff for a discussion of the technical papers from the Joint Study and the recommendations on the technical assistance that they contain.

I'll be in the United States towards the end of April and could specially come to Washington to meet with you and key members of your management and staff on May 7.

I think that the economic reforms underway in the Soviet Union are of concern to the entire world and, thus perhaps, very relevant to the World Bank. Moreover, the World Bank has experience that enable it to provide technical assistance that would be superior to that of other donors.

I look forward to meeting you and to discussing the Joint Study's background papers and the vast technical assistance needs of the Soviet Union with the experts from the World Bank.

Respectfully,

  
Academician Abel G. Aganbegyan  
Rector

c.c. Mr. Denis Kiselyov  
MUCIA  
Columbus, Ohio, Fax: (614) 291 9717

Mr. Karl William Viehe  
Attorney at Law  
Tighe, Curhan, Viehe & Rogala  
Washington, D.C., Fax: (202) 393 0363

The World Bank/IFC/MIGA  
O F F I C E M E M O R A N D U M

DATE: 29-Apr-1991 02:53pm

TO: See Distribution Below

FROM: David R. Bock, OPNSV

( DAVID BOCK )

EXT.: 82856

SUBJECT: Potential Bank Involvement in EC TAP for the Soviet Union

Wilfried,

This must be the season for surprises as I was surprised by your note to Moeen. The intent of my memo was not to reopen the PC decision but to get clarification on how far we can safely go in discussions with the EC at this time, recognizing that we would need to be non-committal and circumspect in any event. In re-reading the memo, I realize that the reference to yet another PC discussion was a mistake. As a practical matter, all that is required is a bit of guidance from the President based on his conversations with ministers this week.

The wide distribution of the memo stems from the fact that I was writing on behalf of the group that has been drawn together to coordinate the planning of possible TA to the USSR. As Operations is not the only complex interested in this subject, I thought it best to copy my report to you and others.

David

DISTRIBUTION:

TO: Wilfried Thalwitz  
CC: Moeen A. Qureshi  
CC: Ernest Stern  
CC: William Ryrie  
CC: Ibrahim Shihata  
CC: W. A. Wapenhans  
CC: Sven Sandstrom  
CC: Russell Cheetham  
CC: Rest of Distribution Suppressed

( WILFRIED P. THALWITZ )  
( MOEEN QURESHI )  
( ERNEST STERN )  
( WILLIAM RYRIE )  
( IBRAHIM SHIHATA )  
( W. A. WAPENHANS )  
( SVEN SANDSTROM )  
( RUSSELL CHEETHAM )

USSR  
mtg  
RCE



The World Bank/IFC/MIGA  
O F F I C E M E M O R A N D U M

DATE: 29-Apr-1991 01:23pm

TO: See Distribution Below

FROM: Wilfried Thalwitz, PRESV ( WILFRIED P. THALWITZ )

EXT.: 36860

SUBJECT: Mr. D. Bock's memo of April 26 re Potential Bank Involvement  
in EC Technical Assistance Program for the Soviet Union.

I was a bit surprised to see the wide distribution of David Bock's memo to you on the USSR, since it does not seem to have taken account of the PC discussion only two days earlier. Rather it seems to be dealing with some detailed aspects of the "high option", while at the PC we were talking of the "low option". In fact, we had assumed, evidently incorrectly, that the purpose of David's meeting with his committee was to inform them of the current state of play at the PC.

As agreed at the PC, let's see what signals we get from shareholders on this. As suggested by Ibrahim, we can certainly respond informally to the EC that while it is premature for us to use their funds at this point that the situation would be likely to change if our shareholders urge us to become more active. We could indicate, in this context, that if we were to move ahead, one key issue would be how to do so without reducing funding available for existing borrower countries; in this context EC funding would be quite helpful.

I understand the enthusiasm that lies behind David's memo. Like him, I think that the Bank has a great deal to contribute to economic reform in the Soviet Union, but at the proper time.

DISTRIBUTION:

TO: Moeen A. Qureshi	( MOEEN QURESHI )
CC: Ernest Stern	( ERNEST STERN )
CC: William Ryrie	( WILLIAM RYRIE )
CC: Ibrahim Shihata	( IBRAHIM SHIHATA )
CC: W. A. Wapenhans	( W. A. WAPENHANS )
CC: Sven Sandstrom	( SVEN SANDSTROM )
CC: Russell Cheetham	( RUSSELL CHEETHAM )
CC: Amnon Golan	( AMNON GOLAN )
CC: Rest of Distribution Suppressed	

The World Bank/IFC/MIGA  
O F F I C E M E M O R A N D U M

DATE: 29-Apr-1991 09:02am

TO: John A. Holsen ( JOHN A. HOLSEN )

FROM: Peter Knight, EDIEM ( PETER KNIGHT )

EXT.: 36313

SUBJECT: Briefing on Aganbegyan -- Some suggestions

You may want to add something like the following to your excellent briefing notes.

Abel G. Aganbegyan, 59, holds the title of Academician of the USSR Academy of Sciences since 1974. This is the highest scientific post in the country (there are about a dozen Academicians in Economics in the USSR including Shatalin, Petrakov, Bogomolov, and others).

Until 1986, during the difficult period of Brezhnev's rule, he was one of the leaders of the academic community in Novosibirsk -- a liberal think tank in Siberia -- where he worked with leading sociologist Tatania Zaslavskaya on what became the background for Gorbachev's first reform.

In 1987 Aganbegyan was called to Moscow and appointed as the chairman of the Economics Division of the Academy of Sciences, a position he held for two years until he was appointed as Rector of the Academy of National Economy in order to renew this well-established apex training institution which reports to the Council of Ministers.

Academician Aganbegyan is a long distance runner who has clout with the top Soviet leadership and knows how to navigate in troubled waters. An Armenian, he is one of the few non-Russians in a top position in the Soviet policy-making structure. He has survived many twists and turns in the reform process, and now heads the most likely partner institution for EDI. Throughout his career, Aganbegyan has protected and advanced the careers of bright young economists and other social scientists, and today he is consciously following this tradition.

Aganbegyan has selected Egor Gaidar, formerly economic editor of Pravda, about 35 years old, to head the new Institute of Economic policy housed within the Academy of National Economy. Gaidar and Aganbegyan have managed to attract some 100 professionals to this new institute, mostly economists, including some of the best-trained younger ones from the state planning agency, Gosplan. They are now working on stabilization issues and short-term economic forecasting, and Gaidar seeks to learn more about stabilization programs in such countries as Argentina,



Brazil, Mexico, Chile, Israel, and Turkey.

Another young economist working for Aganbegyan is Denis Kiselyov, 26, a Ph.D. from Moscow State University's Central Institute of Mathematical Economists who represents the Academy here in the United States and will be accompanying Aganbegyan during his Washington visit. Dr. Kiselyov is now at Ohio State University doing some postdoctoral training in economics. The Midwest Universities Consortium for International Affairs (MUCIA) Executive office is providing him with an office and telecommunications facilities. In addition to his studies, Aganbegyan has given Kiselyov two major responsibilities: establishing contact with the World Bank and organizing a network of Soviet graduate students in economics, political science, and sociology in the U.S. The objective is to provide a recruiting ground for replacing some of the dead wood in the Academy, which still has quite a few people who are not likely to be able to adapt to the needs of a market economy, even though Aganbegyan summarily dismissed a number of those who taught Marxism-Leninism. To replace these elements, Aganbegyan wants bright young Soviets with U.S. and European training, and he has established relationships with a large number of universities and business schools in Europe and the United States for the Academy.

CC: Paul Isenman  
CC: Alan Gelb  
CC: Patricia Gallagher  
CC: Amnon Golan

( PAUL ISENMAN )  
( ALAN GELB )  
( PATRICIA GALLAGHER )  
( AMNON GOLAN )

The World Bank/IFC/MIGA  
O F F I C E M E M O R A N D U M

DATE: 29-Apr-1991 08:17am

TO: John A. Holsen

( JOHN A. HOLSEN )

FROM: Fred Levy, EAS

( FRED LEVY )

EXT.: 81947

SUBJECT: RE: Draft Briefing Note for BBC on Aganbegyan's Visit

John:

The note is almost purely biographical and nonsubstantive. I assume this is intentional. Is it also intentional, however, that there is to be no Operations representation in the meeting? I find that rather strange. I would think that David Bock or I should be there, if only to hold the flag.

Fred

CC: David R. Bock  
CC: Alan Gelb  
CC: Paul Isenman

( DAVID BOCK )  
( ALAN GELB )  
( PAUL ISENMAN )

*John,  
I agree Bryn-m-h.  
Please ask David  
if Russ C. should  
attend as well as  
David or Fred.  
P*

*✓  
4/29*



The World Bank/IFC/MIGA  
OFFICE MEMORANDUM

DATE: 26-Apr-1991 06:36pm

TO: Paul Isenman  
TO: Alan Gelb  
TO: Fred Levy

( PAUL ISENMAN )  
( ALAN GELB )  
( FRED LEVY )

FROM: John A. Holsen, PADSS

( JOHN A. HOLSEN )

EXT.: 33719

SUBJECT: Draft Briefing Note for BBC on Aganbegyan's Visit

There follows a draft of a memorandum which I suggest Mr. Thalwitz send to Mr. Conable in response to a request for a further briefing note for BBC's meeting with Mr. Aganbegyan. May I have your comments so it can be put in final on Monday. Thanks. --John

The World Bank / IFC / MIGA  
OFFICE MEMORANDUM

Date: 29 April 1991 (DRAFT TO BE SENT ON MONDAY  
AFTER COMMENTS & REVISIONS)

To: Mr. Barber Conable  
Through: Mr. Wilfried Thalwitz  
From: John A. Holsen, PADSS/PRESV

Subject: Proposed Visit by Abel Aganbegyan

1. This note supplements the briefing material prepared at the time of Mr. Aganbegyan previous visit to Washington and expands on the memorandum I sent to you on April 10.

2. Your meeting with Mr. Aganbegyan is scheduled for 9:00 am on Tuesday, May 7. Bank staff coming to the meeting are ~~the~~ Paul Isenman from my office, (2) Alan Gelb from ~~CEC~~, and (3) ~~Peter~~ ~~Ammon~~ ~~Knights~~ from ~~EDI~~. John Holsen will not be able to attend as he will be attending our Government Borrowers Conference in Madrid, and then traveling on to the USSR for the JSSE follow-up mission which starts on May 13. Mr. Gelb (~~Division Chief, Socialist Economies Reform Unit, CEC~~) will be joining Mr. Holsen on the follow-up mission and is the link between Mr. Aganbegyan's visit and our JSSE

Golan,  
Director, IOI

Chief of the Socialist  
Economies Unit in  
CEC,

John  
Here are my  
comments  
4/28  
Do we want  
to be the major  
partner in the  
major  
Ammon on a long  
term, not to W.

Pls Xerox done  
an "dark"  
V hard deliver  
all 3 copies

who has  
coordinating  
PHE  
activities  
of the  
Soviet Union  
for me  
and so



team. Mr. Knight (Division Chief, National Economic Management, EDI) has been EDI's representative on David Bock's committee concerned with technical assistance to the USSR. Both Messrs. Gelb and Knight have met with Mr. Aganbegyan previously.

3. Mr. Aganbegyan is currently the "Rector of the Academy of National Economy." While most of the major think tanks in the USSR are part of the USSR Academy of Science, Mr. Aganbegyan's organization reports to the USSR Council of Ministers. Thus it is more directly part of the government than the other major think tanks in the increasingly pluralistic Soviet society.

4. JSSE. He is one of the more senior officials with whom the JSSE mission met last September, and he was also one of the most personally hospitable. He wrote to you on April 18, offering "the use of my Academy's facilities and staff for a discussion of the technical papers from the Joint Study and the recommendations on technical assistance that they contain." He had earlier written Mr. Holsen (copy attached) in response to our sending him copies of the 3-volume background papers; we have informed his office of the expected dates of the JSSE follow-up mission and expect to meet with him and some of his colleagues during the follow-up (May 13-24). Mr. Gelb will be able to discuss the plans for the JSSE follow-up mission.

5. Possible links with EDI. Mr. Aganbegyan on previous occasions has suggested that the institute he heads, the Academy of National Economy, would be the natural counterpart for EDI if and when the latter initiates activities in the USSR. The subjects of technical assistance in general, and cooperation between EDI and the Academy of National Economy in particular, will probably come up during the meeting. If you wish, Mr. Knight will be able to describe the kind of activities EDI has carried on in China and Eastern Europe and which, under the appropriate circumstances, could be adapted to the USSR's needs and implemented as part of a program of training and technical assistance for the Soviet Union.

6. Additional Background Information: In the past Mr. Aganbegyan has served as personal economic adviser to President Gorbachev, but is now in a less exposed position in the Academy. While Mr. Aganbegyan is strongly for "reform," he has been careful to avoid committing himself to any specific program or point of view. Mr. Aganbegyan played a substantial role in last fall's efforts to work out a compromise between the two reform programs. However, the efforts failed. The Presidential Guidelines that the Supreme Soviet approved in October are too general to be considered a serious compromise program; in any event, they have never been agreed to by the republics.

7. Mr. Aganbegyan speaks excellent English. By name and birth he is an Armenian (although we were recently told that his father was a Hungarian Jew who died before he was born, and he took his step-father's name). He is much interested in the "modernization" of the USSR and in establishing personal and

Do we agree  
Mr. Gelb  
can respond  
striking a  
balance between  
what we could  
do and  
the how possible  
approach  
decided  
the PC  
discussed on  
April 24



institutional relationships with the West. We are told that he has arranged for, in the U.S. alone, about 400 fellowships and similar training opportunities for Soviet citizens. He is perhaps the most political of the senior economic advisers to be found in Moscow, i.e., he is more of a political economist (or perhaps a politician economist) than a technical economist. He is also the author of a book on perestroika (which has been translated into English). Given his personality and present position, he seems likely to survive most political changes -- and could again become an important figure in Soviet economic policy.

cc: Messrs. Isenman, Holsen, Gelb and Knight  
[S1042603.DOC]

---

CC: Wilfried Thalwitz  
CC: Patricia Gallagher

( WILFRIED P. THALWITZ )  
( PATRICIA GALLAGHER )

The World Bank/IFC/MIGA  
O F F I C E M E M O R A N D U M

DATE: 22-Apr-1991 03:12pm

TO: See Distribution Below

FROM: Patricia Gallagher, PRESV

( PATRICIA GALLAGHER )

EXT.: 31018

SUBJECT: BBC Meeting with Mr. Aganbeygan, May 7 at 9am

Mr. Conable is meeting with Mr. Aganbeygan on May 7 at 9 am.  
Please let me know who should attend the meeting. Both of you or  
just Holsen?

DISTRIBUTION:

TO: Paul Isenman  
TO: John A. Holsen  
CC: Prisce Daniel  
CC: Daphne Minott  
CC: Patricia Gallagher  
CC: Esia Blackman

( PAUL ISENMAN )  
( JOHN A. HOLSEN )  
( PRISCE DANIEL )  
( DAPHNE MINOTT )  
( PATRICIA GALLAGHER )  
( ESLA BLACKMAN )

Holsen is out of the  
country. He suggests P. Knight (ED)  
and Gubb. (see his Em).  
I'll put forth all three of you to Jennifer.  
Thanks. Pg.

OK if there's room.  
Order should be: me, Gubb &  
Knight if there's  
not.

PA 4/23

→ Patrick,  
I'd like to  
attend.  
room for X  
it should only  
be 2 or 3  
John?



The World Bank/IFC/MIGA  
O F F I C E M E M O R A N D U M

DATE: 22-Apr-1991 03:12pm

TO: See Distribution Below

FROM: Patricia Gallagher, PRESV ( PATRICIA GALLAGHER )

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DISTRIBUTION:

TO: Paul Isenman	( PAUL ISENMAN )
TO: John A. Holsen	( JOHN A. HOLSEN )
CC: Prisce Daniel	( PRISCE DANIEL )
CC: Daphne Minott	( DAPHNE MINOTT )
CC: Patricia Gallagher	( PATRICIA GALLAGHER )
CC: Esla Blackman	( ESLA BLACKMAN )

The World Bank/IFC/MIGA  
O F F I C E M E M O R A N D U M

DATE: 22-Apr-1991 03:26pm

TO: Patricia Gallagher  
TO: Paul Isenman

( PATRICIA GALLAGHER )  
( PAUL ISENMAN )

FROM: John A. Holsen, PADSS

( JOHN A. HOLSEN )

EXT.: 33719

SUBJECT: BBC's Meeting with Mr. Aganbeygan

Unfortunately, I am leaving on mission on May 5 (first to talk about the Soviet Union at the Government Borrowers Forum in Madrid and then to go on to the USSR for JSSE follow-up talks). Consequently I will not be able to attend Mr. Conable's meeting with Mr. Aganbeygan on Tuesday, May 7.

I believe that it might be a good idea for Peter Knight (EDI) and Alan Gelb (CEC) to joint the meeting with BBC. Both have met Mr. Aganbeygan before. And both will no doubt be seeing him later in the day, at least at Mr. Golan's lunch for Aganbeygan. Knight is EDI's main man on the Soviet Union and is particularly relevant because Mr. A has proposed that his Academy of National Economy be EDI's counterpart in any training effort. Gelb is relevant, not only as head of the Social Economies Reform Unit, but as a task force leader in the JSSE team that (hopefully) will be joining me in the USSR the following week.

CC: Prisce Daniel  
CC: Daphne Minott  
CC: Esla Blackman

( PRISCE DANIEL )  
( DAPHNE MINOTT )  
( ESLA BLACKMAN )



WORLD BANK OFFICE TRACKING SYSTEM  
SVP POLICY RESEARCH EXTERNAL AFFAIRS  
Routing and Action Transmittal Sheet

TO:

Mr. Holsen

DATE:

4/22/91

SUBJECT:

Document From: Abel Aganbegyan, VERNADSKI PROSPEKT, 82, 117571 MOSCOW

To: bbc (HOLSEN FOR ACTION)

Dated: 4/18/91

Reference No.: PPR910422001

Topic: Summary and Recommendation of the Joint Study of the Soviet  
Economy by the IMF, WBank, OECD and EBRD.

Incoming Reference Number: EXC910418014

Incoming Action Requested: FOR YOUR INFORMATION

Requested Due Date:

ACTION INSTRUCTIONS:

DUE DATE:

\_\_\_XXX\_\_\_ HANDLE

5/07/91

\_\_\_ REVIEW AND RECOMMEND

\_\_\_ FOR YOUR INFORMATION

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\_\_\_ AS WE DISCUSSED

\_\_\_ PREPARE RESPONSE FOR \_\_\_\_\_ SIGNATURE

\_\_\_ FOR YOUR FILES

\_\_\_ RETURN TO \_\_\_\_\_

\_\_\_ OTHER: \_\_\_\_\_

Remarks: cc: Messrs. Qureshi, Stern: WT

WORLD BANK OFFICE TRACKING SYSTEM  
OFFICE OF THE PRESIDENT  
Routing and Action Transmittal Sheet

AK  
SS

TO: Mr. Thalwitz (D-1202) DATE: 4/18/91

SUBJECT:

Document From: Abel Aganbegyan

To: bbc

Dated: 4/18/91

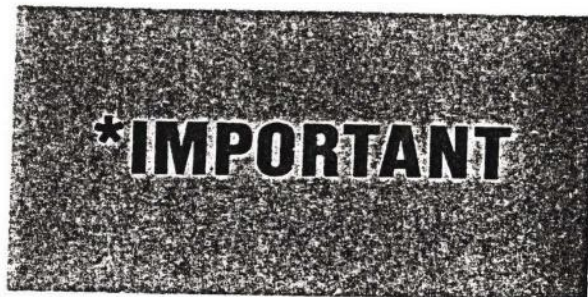
Reference No.: EXC910418014

Topic: Summary and Recommendation of the Joint Study of the Soviet  
Economy by the IMF, WBank, OECD and EBRD.

ACTION INSTRUCTIONS:

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DISCUSS WITH  
AS WE DISCUSSED  
PREPARE RESPONSE FOR SIGNATURE  
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OTHER:



Remarks: cc: Messrs. Qureshi and Stern

TV



ACADEMY OF NATIONAL ECONOMY  
USSR COUNCIL OF MINISTERS

*USSR, 117571 Moscow, Vernadski Prospekt, 82  
Tel:(095)4348407, Telex 411626 KARTA SU, Fax:(095)4202266*

Barber B. Conable  
President  
The World Bank  
Washington, D.C., USA  
Fax: (202) 477 6391

April 18, 1991

Dear Mr. Conable,

The Summary and Recommendation of the Joint Study of the Soviet Economy by the IMF, IBRD, OECD and EBRD is widely discussed now among Soviet officials and economists. We are looking forward to a lively discussion on the technical background papers with the participants to the Joint Study Project and to the beginning of a technical assistance program that would be mutually beneficial to the Soviet Union, its constituent republics and the World Bank.

Our relationship with the European Community is going forward, including a substantial technical assistance program of more than \$500 million. Since the members of the European Community are also members of the World Bank, I see the need to expand our contacts with the World Bank.


I would like to offer the Bank the use of my Academy's facilities and staff for a discussion of the technical papers from the Joint Study and the recommendations on the technical assistance that they contain.

I'll be in the United States towards the end of April and could specially come to Washington to meet with you and key members of your management and staff on May 7.

I think that the economic reforms underway in the Soviet Union are of concern to the entire world and, thus perhaps, very relevant to the World Bank. Moreover, the World Bank has experience that enable it to provide technical assistance that would be superior to that of other donors.

I look forward to meeting you and to discussing the Joint Study's background papers and the vast technical assistance needs of the Soviet Union with the experts from the World Bank.

Respectfully,

  
Academician Abel G. Aganbegyan  
Rector

c.c. Mr. Denis Kiselyov  
MUCIA  
Columbus, Ohio, Fax: (614) 291 9717

Mr. Karl William Viehe  
Attorney at Law  
Tighe, Curhan, Viehe & Rogala  
Washington, D.C., Fax: (202) 393 0363

WORLD BANK OFFICE TRACKING SYSTEM  
SVP POLICY RESEARCH EXTERNAL AFFAIRS  
Routing and Action Transmittal Sheet

TO:

~~NO EXTERNAL AFFAIRS~~

DATE:

4/09/91

SUBJECT:

Document From: Karl Viehe, TIGHE, CURHAN, VIEHE & ROGALA, DC

To: jv/bbc (MR. E . STERN IS HANDLING)

Dated: 4/05/91

Reference No.: PPR910409004

Topic: Request to see Mr. Conable on April 12 for Mr. Armands Plaudis  
Trade Minister for the Republic of Latvia.

Incoming Reference Number: EXC910408002

Incoming Action Requested: TO REVIEW AND RECOMMEND

Requested Due Date: 4/08/91

ACTION INSTRUCTIONS:

DUE DATE:

\_\_\_\_\_ HANDLE

\_\_\_\_\_ REVIEW AND RECOMMEND

\_\_\_XXX\_\_\_ FOR YOUR INFORMATION

\_\_\_\_\_ DISCUSS WITH \_\_\_\_\_

\_\_\_\_\_ AS WE DISCUSSED

\_\_\_\_\_ PREPARE RESPONSE FOR \_\_\_\_\_ SIGNATURE

\_\_\_\_\_ FOR YOUR FILES

\_\_\_\_\_ RETURN TO \_\_\_\_\_

\_\_\_\_\_ OTHER: \_\_\_\_\_

Remarks: cc: MESSRS. THALWITZ, HOLSEN FOR INFO.



WORLD BANK OFFICE TRACKING SYSTEM  
OFFICE OF THE PRESIDENT  
Routing and Action Transmittal Sheet

TO: Mr. E. Stern (E-1227) | DATE: 4/08/91 |

SUBJECT:

Document From: Karl Viehe

To: jv/bbc

Dated: 4/05/91

Reference No.: EXC910408002

Topic: Request to see Mr. Conable on April 12 for Mr. Armands Plaudis  
Trade Minister for the Republic of Latvia.

ACTION INSTRUCTIONS:

| DUE DATE: |

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XXX REVIEW AND RECOMMEND  
FOR YOUR INFORMATION

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       AS WE DISCUSSED

       PREPARE RESPONSE FOR        SIGNATURE

       FOR YOUR FILES

       RETURN TO       

       OTHER:       

4/08/91

Remarks: cc: Mr. Thalwitz

**EXPEDITE**

# TIGHE, CURHAN, VIEHE & ROGALA

A Partnership Including Professional Corporations

ATTORNEYS AT LAW  
1760 PENNSYLVANIA AVENUE, N.W.  
WASHINGTON, D.C. 20006

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TELEFAX (202) 393-0363

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30 FEDERAL STREET  
BOSTON, MASS. 02110  
(617) 461-0308

KEVIN P. TIGHE (D.C., MASS.)  
ALLAN R. CURHAN (D.C., MASS.)  
KARL WILLIAM VIEHE (D.C.)  
FRANCES F. ROGALA (D.C., MD.)  
JERALD D. BURWICK (MASS.)  
PAUL M. HARRIS (MASS.)  
KEVIN D. MCINROY (D.C., VA., N.J.)  
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ROBERT V. EBERLE (MASS., CO.)  
PAULETTE R. MARIE (MASS.)  
RICHARD J. SHEA (MASS.)  
ELLEN BORKUM SCULT (MASS.)  
SAUMEL B. MANNOS (MASS.)

The Honorable Barber Conable  
President, The World Bank  
c/o Ms. Janice Volk  
The World Bank  
1818 H St., N.W. (E 1277)  
Washington, D.C. (20433)

Tel.: 458-1134  
FAX: 477-1305

5 April 1991

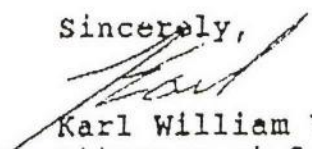
Dear Ms. Volk:

In our last conversation, I indicated that I would let you know when Dr. Abel Aganbegyan planned to return to Washington. From information which I have received recently, Dr. Aganbegyan will be in Washington from 27 April 1991 through 3 May 1991. He will return to Washington in late June, 1991.

In addition, this coming week, I will have as my guest, Friday April 12th, Mr. Armands Plaudis, the Trade Minister for the Republic of Latvia. Would it be possible for Mr. Plaudis to meet with Mr. Conable at some time on Friday, 12 April, at the convenience of the Bank?

Thanking you for your consideration of this request and hoping all is well; I remain;

Sincerely,

  
Karl William Viehe  
Attorney at Law



WORLD BANK OFFICE TRACKING SYSTEM  
SVP POLICY RESEARCH EXTERNAL AFFAIRS  
Routing and Action Transmittal Sheet

350ff  
RECEIVED  
91 APR 22 AM 7:30  
PRDDR  
4/23

TO:

Mr. Holsen

DATE:

4/19/91

SUBJECT:

Document From: Karl William Viehe, TIGHE, CURHAN, VIEHE & ROGALA, DC

To: BBC (HOLSEN FOR ACTION)

Dated: 4/15/91

Reference No.: PPR910419004

Topic: INFORMATION: meeting to be scheduled with Rector Abel G.

Aganbegyan - Academy of Nat. Economy USSR Council of Ministers

Incoming Reference Number: EXC910415013

Incoming Action Requested: TO HANDLE

Requested Due Date: 4/26/91

ACTION INSTRUCTIONS:

DUE DATE:

XXX HANDLE

4/26/91

REVIEW AND RECOMMEND

FOR YOUR INFORMATION

DISCUSS WITH

AS WE DISCUSSED

PREPARE RESPONSE FOR SIGNATURE

FOR YOUR FILES

RETURN TO

OTHER:

Remarks: please prepare additional briefing by due date.

cc: Messrs. Qureshi and Stern: THALWITZ & ISENMAN

JVolk (follow file)

WORLD BANK OFFICE TRACKING SYSTEM  
OFFICE OF THE PRESIDENT  
Routing and Action Transmittal Sheet

AK  
SS

TO: Mr. Thalwitz (D-1202) DATE: 4/15/91

SUBJECT:

Document From: Karl William Viehe

To: BBC

Dated: 4/15/91

Reference No.: EXC910415013

Topic: INFORMATION: meeting to be scheduled with Rector Abel G.  
Aganbegyan - Academy of Nat. Economy USSR Council of Ministers

ACTION INSTRUCTIONS:

DUE DATE:

☒ XXX HANDLE  
☐ REVIEW AND RECOMMEND  
☐ FOR YOUR INFORMATION  
☐ DISCUSS WITH \_\_\_\_\_  
☐ AS WE DISCUSSED  
☐ PREPARE RESPONSE FOR \_\_\_\_\_ SIGNATURE  
☐ FOR YOUR FILES  
☐ RETURN TO \_\_\_\_\_  
☐ OTHER: \_\_\_\_\_

4/26/91

Remarks: please prepare additional briefing by due date.

cc: Messrs. Qureshi and Stern

✓JVolk (follow file)



# TIGHE, CURHAN, VIEHE & ROGALA

A Partnership Including Professional Corporations

ATTORNEYS AT LAW

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SAUMEL B. MANOS (MASS.)

BOSTON, MASSACHUSETTS OFFICE  
80 FEDERAL STREET  
BOSTON, MASS. 02110  
(617) 451-0306

The Honorable Barber Conable  
President, The World Bank  
c/o Ms. Janice Volk  
The World Bank  
1818 H St., N.W. (E 1277)  
Washington, D.C. (20433)

Tel.: 458-1134  
FAX: 477-1305

5 April 1991

Dear Ms. Volk:

This morning I received the attached FAX from Abel Aganbegyan indicating that he will be arriving in Washington on the evening of May 6, 1991 and will be available for meetings all day on May 7, 1991. Because I had received uncertain information from the organization handling his visit outside of Washington, I believed that he would be here on May 3, 1991. Will it be possible to reschedule the meeting with Mr. Conable planned for the 3rd to the 7th? I apologize for the inconvenience.

For your further information, please note that I am one of six American lawyers working with a joint Soviet-American task force to develop a regime of securities laws for the Soviet Union and each of its constituent republics. The chair of the task force is Richard Bernard, Counsel to the New York stock exchange. The letter attached from Egor Gaidar, Director, Institute of Economic Policy, indicates that the work of the group is being enthusiastically received and recognised as authoritative. If anybody within the bank would have interest in knowing more about this project, please let know.

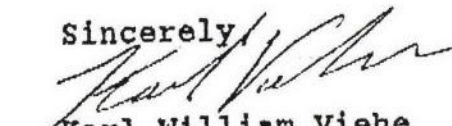
The second attachment is a program of "short course" training seminars which is being developed for GOSBANK, the Soviet central bank, in conjunction with the American Bankers

## TIGHE, CURHAN, VIEHE &amp; ROGALA

Association. Please pass it on to anyone to whom it might be of interest.

Thanking you for your consideration of these thoughts and hoping all is well; I remain;

Sincerely,



Karl William Viehe  
Attorney at Law



ACADEMY OF NATIONAL ECONOMY  
USSR COUNCIL OF MINISTERS

---

USSR, 117571 Moscow, Vernadski Prospekt, 83  
Tel.(095)4348407, Telex 411626 KARTA SU, Fax:(095)4202266

Mr. Karl William Vlehe  
Attorney at Law  
Tighe, Curhan, Vlehe & Rogala  
Washington D.C., USA  
Fax: (202) 393 0363

April 12, 1991

Dear Mr. Vlehe,

Thank you for your fax March 29. Please excuse my late reply. But I have just returned from my visit to Europe.

I am planning to be in the United States from April 26 through May 8. I would be glad to come to Washington on May 6, evening and stay there the whole day of May 7. I am very interested in a meeting with the representatives of the World Bank and also with the Editorial Board of the *Wall Street Journal*.

Unfortunately I am not coming to the U.S. in June.

Yours sincerely,



Academician Abel G. Aganbegyan  
Rector

Richard P. Bernard  
Milbank, Tweed, Hadley & McCloy  
New York  
USA

FAX: 212-530-5219

Dear Mr. Bernard:

Thank you for your fax message of March 15, 1991 and the enclosed materials which are of an utmost importance for us. Let me assure you that it was a pleasure for the Soviet working group to make a few comments on your "Outline of a Recommended Securities Law".

Your responses to each of the points raised in our letter concerning your outline of securities have considerably clarified your position and gave us an additional valuable material for our further research.

We agree with you that specific points concerning the operations of stock exchanges should be left at their discretion. For that reason one of the variants suggested by us is to prepare a draft of the statute of the stock market and attach it to the package of legislative acts.

Referring to your consideration on the necessity to separate economic and juristic issues we do also agree with it. The questions of the regulation of the extension of credit for purchase of securities, principles of tax policy regulating the functioning of shareholding companies and stock exchanges deserve further elaboration accounting for the contemporary economic situation in the country. Nevertheless the opinion of securities lawyers concerning this issue is also of extreme importance.

Unfortunately it is impossible to discuss all these points in a short letter like this. Undoubtedly the condition of the

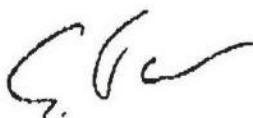


most productive dialogue of education and explanation is face-to-face conversation.

Concerning our future collaborative research I would like to suggest the following. The Soviet working group of 4 specialists is ready to come to New-York at your earliest convenience. The only possible limitation that we can foresee is to finance transportation and accomodation expenses in hard currency. Unfortunately the number of tickets to New-York sold for rubles is limited and we are currently unable to make the necessary reservations. We would also like to offer our hospitality to the members of your working group.

Finally, let me express my belief that our future collaborative research will be of a special value for us in our efforts to stabilize the Soviet economy and implement the transition towards the market.

Sincerely yours,



Egor T. Gaidar  
Director  
Institute of Economic Policy  
USSR Academy of National Economy

GOSBANK U.S.S.R.  
PROFESSIONAL TRAINING SEMINARS  
COMMERCIAL BANKING OPERATIONS

© Karl William Viehe 1991

**I. THE ECONOMICS OF BANKING OPERATIONS**

**I-A. A MACROECONOMIC ANALYSIS OF BANKING OPERATIONS**

This seminar will explore the role of the banking industry in the American economy. It will focus on the extent to which banking operations affect the aggregate variables which constitute the economic structure of the United States. **THREE DAYS**

**I-B. A MICROECONOMIC ANALYSIS OF BANKING OPERATIONS**

This seminar will explore the economic theory of banking operations and will analyze the extent to which the practical problems which must be solved by bank managers are at variance with the theoretical structure. The study will include an analysis of the procedures to evaluate risk in the context of banking operations. The seminar will also consider, as appropriate, mathematical models which are applicable to the banking industry. **THREE DAYS**

**I-C. STRATEGIC PLANNING OF BANKING OPERATIONS**

This seminar will analyze the emerging trends in domestic and international banking operations, in order to facilitate the formation and the creation of a strategic plan for twenty-first century financial institutions.

**I-D. MARKETING OF BANKING SERVICES**

Building upon the strategic plan, this seminar will provide an overview of the marketing strategies employed by western financial service institutions. **TWO DAYS**

**II. REGULATORY STRUCTURES IN THE BANKING INDUSTRY**

**II-A. FEDERAL REGULATORY STRUCTURES**

This seminar will analyze the role played by the major federal regulatory



institutions such as the Federal Reserve, the Department of Treasury, the Federal Deposit Insurance Corporation, the Federal National Mortgage Association, and the Resolution Trust Corporation. **TWO DAYS**

## **II-B. STATE REGULATORY INSTITUTIONS**

This seminar will review the role of state regulatory institutions and discuss the interaction between the federal regulatory authorities and those of the several states. **ONE DAY**

## **III. ISSUES AND OPERATIONAL MANAGEMENT**

### **III-A. OPERATIONAL MANAGEMENT--EFFICIENT ADMINISTRATIVE STRUCTURES**

This seminar will discuss the developments in bank management which provide for efficient administrative operations. **THREE DAYS**

### **III-B. OPERATIONAL MANAGEMENT--CLEARING HOUSE PROCEDURES**

This seminar will discuss the role of the Federal Clearing House Operations and the nature of the relationship between the individual banks and the Federal Clearing House. **TWO DAYS**

### **III-C. OPERATIONAL MANAGEMENT--ELECTRONIC DATA PROCESSING**

This seminar will discuss the more modern electronic data processing techniques which have been implemented by the more efficient American banks. **TWO DAYS**

### **III-D. OPERATIONAL MANAGEMENT--CORRESPONDENT BANKING**

This seminar will discuss the concept of correspondent banking and its role in facilitating banking transactions in the United States. It will review the factors which are relevant to establishing correspondent relationships. **TWO DAYS**

### **III-E. OPERATIONAL MANAGEMENT--INTERNATIONAL TRANSACTIONS**

This seminar will discuss the practical aspects for banks participating in international transactions from an administrative viewpoint. Included will be study of foreign currency transactions and non-traditional financing such

as counter trade, counter purchase, buy-backs and offsets. **FOUR DAYS**

**IV. DEPOSIT MANAGEMENT**

**IV-A. DEPOSIT MANAGEMENT--DEMAND DEPOSITS, TIME DEPOSITS (CERTIFICATES OF DEPOSIT) AND BROKERED DEPOSITS**

This seminar will analyze the institutional forms required to enable a bank to receive the various types of deposits named above, and the administrative structures necessary for effective management of those deposits. **TWO DAYS**

**IV-B. DEPOSIT MANAGEMENT--CASH AND CASH EQUIVALENTS**

This seminar will evaluate the methods by which a bank manages its cash deposits and cash equivalents, that is, demand deposits. **TWO DAYS**

**IV-C. DEPOSIT MANAGEMENT--OPERATIONAL ASPECTS**

This seminar will analyze the administrative structures that a bank uses in order to effectively manage its deposit operations. **TWO DAYS**

**V. LENDING OPERATIONS**

**V-A. LENDING OPERATIONS--PROJECT EVALUATION**

This seminar will discuss the guidelines employed in effective bank management for the evaluation of loan proposals submitted to the bank by private sector borrows. **FIVE DAYS**

**V-B. LENDING OPERATIONS--LOAN AGREEMENTS**

This seminar will analyze the structure of loan agreements, in particular loan agreements in the form of promissory notes, short, intermediate and long-term loan documents. **THREE DAYS**

**V-C. LENDING OPERATIONS--LOAN SYNDICATIONS**

This seminar will study the structure and function of loan syndications which enable banks with less than adequate capital to fund a particular loan to obtain the participation of other banks in order to aggregate sufficient funds



to fund the proposal. **TWO DAYS**

**V-D. LENDING OPERATIONS--LETTERS OF CREDIT**

This seminar will study the use of letter of credit in financing both domestic and international transactions. **TWO DAYS**

**VI. INTERNATIONAL FINANCIAL INSTITUTIONS**

**VI-A. WORLD BANK**

This program will study the operational characteristics and credit facilities of the World Bank. **THREE DAYS**

**VI-B. NATIONAL EXPORT-IMPORT BANKS**

This program will study the role of national export-import banks in facilitating trade and development with particular focus on the U.S. Export-Import Bank and the Japanese Export-Import Bank. **TWO DAYS**

**VI-C. INTERNATIONAL CLEARING HOUSE AGREEMENTS**

This program will study the procedure by which the Bank of International Settlements and collateral organizations effect clearing house operations on international payments and transfers. **TWO DAYS**

Mr. Paul Isomson  
ACADEMY OF NATIONAL ECONOMY  
USSR COUNCIL OF MINISTERS

USSR, 117571 Moscow, Vernadski Prospekt, 82  
Tel: (095) 4348407, Telex 411626 KARTA SU, Fax: (095) 4202266

91 APR 30 AM 10:37

PRDDR

Barber B. Conable  
President  
The World Bank  
Washington, D.C., USA  
Fax: (202) 477 6391

cc Lents ✓  
4/30  
M. Chaloyalos

April 18, 1991

Dear Mr. Conable,

The Summary and Recommendation of the Joint Study of the Soviet Economy by the IMF, IBRD, OECD and EBRD is widely discussed now among Soviet officials and economists. We are looking forward to a lively discussion on the technical background papers with the participants to the Joint Study Project and to the beginning of a technical assistance program that would be mutually beneficial to the Soviet Union, its constituent republics and the World Bank.

Our relationship with the European Community is going forward, including a substantial technical assistance program of more than \$500 million. Since the members of the European Community are also members of the World Bank, I see the need to expand our contacts with the World Bank.


I would like to offer the Bank the use of my Academy's facilities and staff for a discussion of the technical papers from the Joint Study and the recommendations on the technical assistance that they contain.

I'll be in the United States towards the end of April and could specially come to Washington to meet with you and key members of your management and staff on May 7.

I think that the economic reforms underway in the Soviet Union are of concern to the entire world and, thus perhaps, very relevant to the World Bank. Moreover, the World Bank has experience that enable it to provide technical assistance that would be superior to that of other donors.

I look forward to meeting you and to discussing the Joint Study's background papers and the vast technical assistance needs of the Soviet Union with the experts from the World Bank.

Respectfully,

  
Academician Abel G. Aganbegyan  
Rector

c.c. Mr. Denis Kiselyov  
MUCIA  
Columbus, Ohio, Fax: (614) 291 9717

Mr. Karl William Viehe  
Attorney at Law  
Tighe, Curhan, Viehe & Rogala  
Washington, D.C., Fax: (202) 393 0363



OFFICE MEMORANDUM

Date: 10 April 1991

To: Mr. Barber Conable

Through: Mr. Wilfried Thalwitz

From: John A. Holsen, PADSS/PRESV

Subject: Proposed Visit by Abel Aganbegyan

1. This note supplements the briefing material prepared at the time of Mr. Aganbegyan's previous visit to Washington.

2. Mr. Aganbegyan is currently the "Rector of the Academy of National Economy of the USSR Council of Ministers." This is one of the major think tanks in the Soviet Union. He is one of the more senior officials with whom we met during the JSSE missions, and he was also one of the most personally hospitable.

3. In the past he has served as personal economic adviser to President Gorbachev, but is now in a less exposed position in the Academy. While Mr. Aganbegyan is strongly for "reform," he has been careful to avoid committing himself to either the "Shatalin 500 Day" or Abalkin economic reform program. (Mr. Abalkin was head of the USSR Commission on Economic Reform until a few months ago when he, too, returned to one of the think tanks. While the Abalkin program was more gradualist than the Shatalin program, the main difference was political; the Abalkin program maintained a strong role for the Union while the Shatalin program transferred major powers and responsibilities to the republics.) Mr. Aganbegyan played a substantial role in last fall's efforts to work out a compromise between the two reform programs. However, the efforts failed. The Presidential Guidelines that the Supreme Soviet approved in October are too general to be considered a serious program; the subsequent deterioration in both the economy and in Union-Republican political relations have made the situation increasingly difficult.

3. Mr. Aganbegyan speaks excellent English. He is much interested in the "modernization" of the USSR and in establishing personal and institutional relationships with the West. He is perhaps the most political of the senior economic advisers to be found in Moscow, i.e., he is more of a political economist than a technical economist. He is also the author of a book on perestroika (which has been translated into English). Given his personality and present position, he seems likely to survive most political changes -- and could become more important than in the past.

COPY

cc: cm  
✓ Jamb.  
4/17

(Note given to Susan & BBC on Friday)

12 April 1991

RECEIVED

91 APR 16, PM 3:39

PRDDR

Follow-Up on the Joint Study:

The Fund and the OECD, as well as the Bank, are considering sending small (3 people) "technical level" missions to the USSR for (i) follow-up discussion on the JSSE reports and (ii) to update information on what is going on.

The Fund hopes to go the last week in April. The OECD would go the first week of May and the Bank would go the second week in May. (However, as of yesterday, none of us had as yet received definite invitations from the Soviets.) Other commitments of staff make combining missions impossible, but we have agreed to minimize duplication by (i) sharing information and (ii) specialize in what we try to cover in the USSR. (Anyway, large joint missions have serious drawbacks.) The follow-up discussions will naturally focus in large part on the background papers done by each organization. The Fund's updating will concentrate on fiscal and other macro concerns; the Bank will be looking more at systemic reform issues -- price policy, enterprise management, privatization, etc.

Technical Assistance

The Fund, like the Bank, is no doubt receiving an invitation from the European Community to act as executing agent for part of the ECU 400 million in technical assistance that the EC is now discussing with the Soviet authorities. It all has to be committed this year -- and the EC is unsure what to do. (David Bock's recent E-Mail on this is attached.) Is this something in which we should get involved? My reaction is a clear "yes," but there is a need to coordinate with the Fund. Assuming we want to do it, how should our Boards be approached? Should we wait a few weeks (until after the Interim and Development Committee meetings) when the signals from the G-7 may be clearer?



David - Beck, Cheatham, Kohli etc.

5/31

- Draft letter - Premature to discuss w/ EC.

~~> David's trip~~

Amnon's lunch

Russ: Need wait for application for membership.

May be OK on TA.

~~David's trip:~~

DG-17: Energy Director General.

Sign something end of map.

US June.

> Who pays?

> Do what?

David's trip?

Pressure on EDs.

System reform etc.

David's trip: ?

→ Subcontracting?

→ Exchange views; learn

→ Subcontract??

Harvard, David, Amnon.

THE WORLD BANK/IFC/MIGA

## OFFICE MEMORANDUM

DATE: May 3, 1991

TO: Distribution

FROM: David R. Bock *DRB*

EXTENSION: 82856

SUBJECT: Soviet Union: Financial Assistance from European Economic Community

*Cc: CM  
for 2:15 meeting  
Today*

The purpose of this afternoon's (brief) meeting is to touch base on the SUTA issue, and I thought that it would be useful for the Directors most directly involved to be of one mind about how to deal with the EC. I understand that Mr. Conable is still considering whether to "close the window" altogether for the time being.

In the event we do go ahead with further discussions with the EC, they will need to be carefully qualified. The attached letter has been drafted with that objective in mind.

I would appreciate your comments. The letter will also need to be appropriately cleared before sending.

Attachments

Distribution

Messrs. Cheetham, Golan, Isenman, Kavalsky, Kohli, Lynn



DRAFT  
May 3, 1991

Mr. Jean-Louis Cadieux  
Director General Adjoint  
European Economic Community  
Brussels  
Belgium

Dear Mr. Cadieux:

Early this year, Mr. Qureshi and Mr. Delors discussed the European Community's ECU 400 million program of technical assistance for the Soviet Union. Following up on this when I visited Brussels about six weeks ago, we discussed in principle the idea of using the World Bank as an executing agency for part of that program. You asked me to get back to you for detailed discussions at about this time and that is the purpose of this letter.

We have given much thought to the question of technical assistance to the Soviet Union and the individual republics because of their obvious and massive requirements, but primarily because of the many technical assistance recommendations in the Joint Study of the Soviet Economy. As you know, the Bank had been preparing its own program as a follow on the Joint Study but that has been in abeyance since January. Nevertheless, Bank management would like to discuss informally with you the composition of the EC's program in order to stay abreast of events, as well as consider the possibility of the Bank acting as executing agency for specific components should that prove to be in everybody's best interest and acceptable to the Bank's Board of Directors.

I will be in Moscow in mid-May at the same time as a small Bank mission holds discussions with Soviet officials and advisors on the technical background papers to the Joint Study. This mission will no doubt be brought up to date on Soviet thinking about technical assistance priorities as part of the exchange of views on the background papers. I propose to stop in Brussels for a day or two on the way back from Moscow to exchange views. [Mr. Golan, Director of EDI, and Mr. Kohli, Director of the EMENA Technical Department, are also planning to be in Brussels at the same time and would join our discussions.]

I understand that a draft proposal dealing with training has already been given informally to Mr. \_\_\_\_\_, and I am enclosing a copy for your reference as an illustration of the type of projects that we would hope might be of mutual interest to the EC, the Soviet Union and the World Bank.

More generally, we believe the selection and design of components in such a cooperative program should be based on:

- high priority need for the Soviets to bring about their economic restructuring
- an area where the Soviets have already indicated that they would like the Bank to become involved
- an area where the Bank has a strong comparative advantage, and, of course
- an activity which fits into the categories that the EC has selected for its technical assistance program.

If this timing suits your convenience, I will contact you before my departure to Moscow to agree on the time for our discussions.

With best regards.

Sincerely,

David R. Bock  
Director, Operations Staff  
Office of the Senior Vice President, Operations



cc: CM 5/6

-----Facsimile Transmittal from-----

**THE WORLD BANK**  
Office of the Senior Vice President--Policy, Research & External Affairs

RECEIVED

MAY -3 PM 5:08

-----Telefax 1 (202) 477-0174-----

PRDDR

Date: 2 May 1991

To: Mr. Jean Pisani-Ferry  
Commission of the European Communities, DGII  
Brussels  
Telefax 9-011-322-235-8981

From: John A. Holsen, *[Signature]* Special Adviser, Office of the Senior  
Vice President for Policy, Research & External Affairs

Subject: World Bank Mission to Soviet Union

1. Thank you for your telefax of April 25. In view of the postponement of the meeting of the EC-URSS macroeconomic group, and also the May 9-10 holiday for the Commission services, I will not plan on stopping in Brussels on my way to Moscow.

2. A small Bank mission (Fred Levy, Alan Gelb, and I) will be in the Soviet Union from May 12 to about May 25; David Bock will join us for the latter part of the mission. Thus we will overlap with the EC technical mission if, in fact, your people are there the week of May 13. In this case, it would be interesting for us to get together while we are all in Moscow. We will, in any event, contact your office in the Hotel Mezhdunarodnaya, and make arrangements to meet with Messrs. Emerson and Lohan. (We do not yet know our own hotel, as we are still waiting word from the authorities who are making the arrangements for us.)

cc: Messrs. Bock, Isenman, Levy and Gelb

-----  
This fax message consists of one page only.  
[S1050201.DOC]

25.04.91 /II/02410



COMMISSION  
DES COMMUNAUTÉS  
EUROPÉENNES

Direction générale  
des affaires économiques et financières

To: Mr John Holsen, Special Adviser, Office of the Senior Vice President for  
Policy, Research and External Affairs

From: J. Pisani-Ferry, EC Commission, DG II

Subject: Your visit to Brussels on May 10

1. Thank you for your fax of April 22 and for your proposal for a meeting in Brussels.
2. The date you suggest for this meeting is not very convenient because May 9 and 10 are holidays for the Commission services. It might happen that some of my colleagues will be present, but I can make no commitment. Joan Pearce, who is on mission until May 2, will inform you if she is available.
3. The meeting of the joint EC-URSS macroeconomic group was postponed at the demand of the Soviet authorities. It should normally take place on May 30-31. A technical mission may also be sent to Moscow in the week of May 13 in order to gather data and information on the economic situation.
4. I therefore suggest that the Bank mission could stop by Brussels when returning from Moscow. Contacts could also take place in Moscow if our two missions stay there at the same time.
5. I inform you that the Commission has now a permanent delegation in Moscow. The head of delegation is Mr. Michael Emerson, and Mr. Helmut Lohan is in charge of economic and financial affairs. The provisional address of the delegation is:

Hotel Mezhdunarodnaya-1,  
12 Krasnopresnenskaya Nab.,  
123 610 Moscow -URSS

Room 1347/1348 - tel. 7-095-253.99.77/78  
(Chef de la délégation)  
Telefax : 7-095-253.99.84

Copy: MM.

Ravasio  
Braga de Macedo  
Ms. Pearce

Cadieux (DG I)

Emerson (Delegation)