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Review of *Perestroika and the Economy: New Thinking on Soviet Economics* by Anthony Jones and William Moskoff

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demand management policies. That Keynes advocated that role for an educated elite may be obtained from a perusal of his articles, books and correspondence. That Keynes argues for the socialization of investment is evident in his comments set forth in the pamphlet entitled *The End of Laissez-Faire* [1926]. That Keynes advocated the implementation of demand management policies is the thesis of the *Treatise* [1930] and the *General Theory* [1936]. All of this is well documented by Perelman.

The second aspect is the role of the q-ratio in Keynes's monetary theory of production, the theoretical basis for his demand management policies. Perelman argues that early formulations of a q-theory of investment with its emphasis on asset prices can be seen in Keynes's monetary theory of production. These formulations, however, are incomplete. Tobin's q-ratio, the ratio of the stock market valuations of existing capital relative to its replacement value [p. 69], while better than Keynes, does not satisfy Perelman. Perelman, therefore, develops his own definition for the q-ratio: the ratio of used to new capital good prices *times* the ratio of used capital on the equity market to the real value of used capital goods [p. 193]. The q-ratio is intended to be a guide for the investment process, the key component of which, according to Perelman, is replacement investment, the act of scraping old capital and replacing it with more efficient plant and equipment.

The third aspect of the explanation is the suggestion by Perelman that depressions serve a useful function. By forcing down the marginal q-values, businesses should be forced to initiate the process of replacement investment. Demand management policies, on the other hand, are designed to counteract the adverse effects of depressions. Thus, demand management policies have the unintended consequence of maintaining marginal q-values at artificially high levels which encourage businesses to install new investment along side of existing facilities instead of replacing existing investment with more efficient plant and equipment [p. 173] which should happen in the absence of the implementation of such policies. The ageing of the capital stock follows logically.

Three distinct problems detract from Perelman's explanation of the unintended consequence of demand management policies. First, the text is filled with typographical errors: inaccurate references, incorrect punctuation, and misspellings. Second, having provided the reader with a plausible explanation for the ageing of this nation's capital stock, Perelman fails to develop a solution for this problem. I hope that he is not suggesting that what this nation needs is a "good depression" (unaccompanied by the implementation of demand management policies) which would decrease marginal q-values and force businesses to scrap old investment and to install new investment. I am sure that this is not the case.

Third, perhaps the failure to adopt all of the components of Keynes's belief as opposed to the unintended consequence of demand management policies per se which may account for the ageing of the capital stock. Chalmers Johnson [*MITI and the Japanese Miracle*, 1982] and Karel van Wolferen [*The Enigma of Japanese Power*, 1989], in their review of the history of Japanese industrial policy suggest that in Japan an educated elite, the bureaucrats, oversee the socialization of investment and the implementation of demand management policies. As evidence of this they cite the inner workings of two key ministries: Finance and MITI. This system of public-private cooperation represents a compromise between the system of industrial self control and state control, the same compromise which Keynes sought and which is embodied in his belief. Perhaps the United Kingdom and the United States were unable or unwilling to make such a compromise.

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Perestroika and the Economy: New Thinking in Soviet Economics.
Edited by Anthony Jones and William Moskoff. New York: M. E. Sharpe Inc., 1989. *Pp. xxi, 277. $45.00.*

This book aims to survey the current state of knowledge about perestroika that has been developing in the Soviet Union since the mid-1980s. By this formidable standard the book appears to be successful. It brings together nineteen separate papers by Soviet economists articulating their ideas on the Soviet economy, on what needs to be done, and why. It provides a sampling of some of the evolving new thinking about the Soviet economy. The discussion in these papers pay explicit attention to the social and political preconditions of economic change, and also to the broader consequences of change. A unifying theme of these papers is a growing understanding of the complexity of economic policy making and the need for a more sophisticated analysis of the functioning of the economy.

The book is divided into six general subject areas: general economic issues, plan and market, price reform, labor incentives, property and social justice, and barriers to reform. In the first essay in the section on general economic issues, Leonid Abalkin explains the reason why restructuring is essential for the Soviet economy. In his opinion, economic and social progress was being hindered by the organization of the economy. The system had become a self-perpetuating rather than a productive system. Radical changes in political, social, and cultural life is necessary in order to break this cycle. The issues of democratization and self-management of the consumer is vital for the success of perestroika.

In the next essay, Kurashvili suggests that the fate of perestroika will be decided at the level of the enterprise. Korostelev, on the other hand, argues that Soviet predilection for forming large organizations has created monopolies in the economy resulting in economic stagnation and insensitiveness to the needs of the population. These same themes are developed in the next two essays by Palterovich and Torkanovskii. They question one of the major assumptions of the Soviet Marxian economic theory that once private ownership of productive property is abolished, people will derive their self-fulfillment by working voluntarily in order to contribute to the common good. They make the case for democratizing the work place, arguing that enterprises should provide more scope for initiative and more autonomous roles for workers.

One of the fundamental issues facing perestroika is the question of plan versus market, command versus demand. In the second section of the book, Popkova raises the issue that plan and market are absolutely incompatible and cannot be mixed. Market economy can be introduced only at the expense of planning and, therefore, socialism. This absolutist formulation of the problem is criticized in separate essays by Pozdniakov, Latsis, and Valovaia. They essentially argue that all-or-nothing views are simplistic and the Soviet economy should be radically restructured based on the integral combination of plan and market.

Given the way that wholesale and retail prices are set in the Soviet Union, and then strictly preserved, it can be argued that economic reform cannot succeed without accompanying price reform. The essays in the third section of the book discuss the weaknesses of Soviet price formation and suggest how to improve the situation. They generally argue for a "one-time" adjustment of consumer goods prices that can then be fine-tuned to respond to changes in supply and demand.

In the next section, an argument is made that the labor shortage problem in the Soviet Union is imaginary, and that the real problem is inefficient use of the existing labor force. In order to remedy this situation, it is suggested that a clear distinction must be made between wage differentials and social consumption funds. The former provides incentives while the latter plays a role in distributive justice.

Section five looks at one of the most sensitive issues in the Soviet system—property ownership and social justice. Recent official Soviet policies on private ownership have been the most tolerant since the 1920s. However, new entrepreneurs, such as, cooperatives, private businesses, and peasant markets are operating in a risky environment and without a secure legal status. The economic reforms are already having an effect on income distribution in the society. The essays included in this section highlight the complexity of the human issues involved in perestroika.

The essays in the final section provide an objective evaluation of the reforms and their progress. Aven and Shironin are critical of present-day Soviet planners and economists. They argue that the reforms have not been properly thought out and, consequently, a clear understanding of the operation of the economy is absent. This prohibits the formation of an effective reform strategy. In separate essays, Seliunin and Shmelev argue that instead of measuring economic performance in terms of aggregate growth rates, the planners should aim to increase the amount of goods that people can actually buy and use.

American policy audiences will find the discussion of the evolving economic thinking of Soviet academician, scholars, and policy makers especially revealing. We can see how difficult it is to effect change. Even in the face of boldest challenge to the Soviet model of centralized planning, the system has kept its hold. The essays in the book do not challenge the premises of perestroika, but limit themselves to the discussion of specific aspects of restructuring.

The book provides an objective, comprehensive survey of the new economic thinking that has been developing in the Soviet Union in the last decade. My major criticism is that I would have preferred that the editors select fewer topics and discuss them in greater depths. This book is aimed at a general audience and I think it succeeds in attaining that goal. However, it is well worth reading by both academicians and policy makers.

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