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## Documentation

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# Trud interviews Pavlov: 'Let's be realistic'

*Below is the text, in the translation provided by the Foreign Broadcast Information Service, of the Feb. 12 Trud interview with Valentin S. Pavlov. It was entitled, "Firsthand Information: Let Us Be Realistic."*

**Pavlov:** As we know, trade unions take the position of constructive opponent of government. They conduct a demanding dialogue, defend the radical interests of the workers. In this connection it will . . . be of interest to the readers to learn the U.S.S.R. prime minister's position regarding the key issues of economic and social policy. This is especially important today, on the threshold of negotiations between the trade unions and the government and the signing of the contract for 1991, determining the guarantee for the social protection of the workers and the entire population.

**Trud:** Valentin Sergeevich, the monetary reform you conducted so resolutely and suddenly evoked a turbulent and complex response from society. The population was disturbed. The people are asking if there will not be a second, a third, and fourth wave of reform, if there will not be an exchange of the 25-ruble, R10, or even smaller denomination banknotes. Many specialists think that the effect of the reform is minuscule, that it has essentially produced nothing, and it has only undermined confidence in both the government and the state. Was this move really so necessary? And what does the future hold for us?

**Pavlov:** I must say that a report on the government program will soon be submitted to the U.S.S.R. Supreme Soviet, incidentally, and the government still has to be formed as well. Therefore let us not get ahead of ourselves. Now I would like to begin answering specific questions and, above all, apologize to all who have spent nights waiting in lines, especially pensioners and handicapped persons. Obviously some things in the organization could have been anticipated and envisioned beforehand while certain other shortcomings were unavoidable. The more so in the present situation because it is not easily controlled. There was a good deal of indifference, laxity and poor planning in these actions. There was also direct resistance and attempts to undermine the exchange. We knew that it would be difficult to avoid a certain amount of harm to people who did not deserve it. But it was the lesser of two evils. Of course, I am painfully sorry for the older generation. But, strange as it may be, these

people were more understanding than others. Our heartfelt gratitude to them for that.

Believe me, it would have been much more pleasant for me to begin my work with something more popular naturally. But we have a duty to the country and to its population. This duty is to prevent a financial catastrophe. And it is on its way, and it is moving fast. I wish to emphasize the main thing—the money exchange we conducted was not a matter of confiscation but a matter of protection. It is now possible and necessary to open the curtain on what is happening.

We know that plans to channel a large influx of money into the country has been in the making for a long time. This is being done through various means, including buying up R100 and R500 denominations. Banking organizations in our country and a number of private banks in Austria, Switzerland, and Canada joined in on this. I will not name the banks but I know specifically which ones are involved.

**Trud:** But we have issued only R48 billion in large denominations. Where did the Western banks get such immense sums?

**Pavlov:** I do not yet have the right to talk about this or many other things either since the financial war declared against us is continuing and "war is war." You cannot tell your opponent everything you know about him. I can say, for example, that we know about the attempt to resell billions in Soviet money through the Federal Republic of Germany to Switzerland, through Hungary to Luxembourg, the Netherlands, and so forth. Incidentally, here is the difference between me and certain of my opponents. They can shout and make wrongful accusations, thus engaging in outright misinformation and, to put it mildly, language that is not acceptable in polite society. But I have to remain silent. My position forces me to.

**Trud:** Where would such an action on the part of the Western banks lead? What would be the point of it? In what way would it be dangerous for the population?

**Pavlov:** Such an influx of money would be tantamount to a financial catastrophe. If this were to happen pensioners and handicapped people would barely be able to buy a couple of books of matches with their R100. We would all be millionaires, as in 1918 when a million would not even buy you a needle. We are speaking about artificially forced hyperinflation.

**Trud:** But who would stand to gain from this and how?

**Pavlov:** There is nothing extraordinarily original here. Actions like this have been conducted in many regions of the world when people have wanted to change the political structure or get rid of uncooperative political figures. It is simply that President Gorbachov has begun to step on someone's toes. Even if it was not all of a sudden.

One can only guess what this is related to and what the relationship is here between for example this influx of money

and the events in Iraq. One can also imagine how much easier this would make it for the ultra-radicals in a number of republics to solve the problem of changing over to their own currencies, leading to yet another obstacle in economic relations. I am merely repeating that all this trouble is continuing. I can assure you that in this matter time is measured not in days but in hours. We had to keep everything a deep secret and operate at the limits of our capabilities. Let history evaluate everything else, let it decide.

I just want to add that in the event of a financial disaster there could be, for example, this course of events. Advocates of rapid privatization could come into power. They would carry it out under conditions of growing inflation in such a way that our country would be sold at a discount on the auction block. We would be threatened by a loss of economic independence and a kind of annexation, "quiet" and bloodless.

**Trud:** If the financial war continues, where is the guarantee that there will not be more protective measures and another monetary reform?

**Pavlov:** In these chess games they do not go to the same square twice. I wish to assure society that now we will be speaking about fundamentally different things, above all about stabilizing the ruble in the shortest possible period of time. The government will make the ruble partially convertible (make it possible to exchange it for foreign currency). And there must be no social restrictions, that is, all segments of the population should be supplied with convertible rubles. This is our financial strategy. In part (I emphasize this) we intend to adopt China's experience. I can say that in this sense the exchange of R50 and R100 denominations is part of a broad complex of measures.

**Trud:** But when will the ruble become convertible, if only partially? And what does partially actually mean?

**Pavlov:** Partially means that it will be possible to exchange only a certain quantity of rubles. But when—that is a more complicated question, for the growth of political instability is ready to threaten any stabilizing measures, and not only in the financial sphere.

Having worked with finances all my life, I am quite familiar with Sokolnikov's reform in the mid-1920s. It gave the country the hard ruble. And I would like very much for a similar reform to take place in our country now. The foundation of the market reform, its cornerstone, is the convertible ruble, a stable all-Union Soviet chervonets (former monetary and gold coin equal to R10). It is the symbol of the power and stability of the state, its reliability for a business partner. We know how to achieve this. But we are being drawn into a political war. I have in mind certain leaders of republics and political organizations.

If we could quell the political confrontation for only a couple of months and provide civil peace and harmony, people would receive rubles, making it possible both to buy

goods and to travel abroad. All, I emphasize, everyone, and not just the select owners of "green"—of dollars.

The government has a clear-cut strategy. We take no step at random and we do not make spontaneous, arbitrary decision but well thought-out measures. We want to conduct a broad economic reform if only it is not impeded by political intrigues which are threatening to grow into civil strife.

**Trud:** Do you have in mind also the possibility of civil war?

**Pavlov:** Civil war must be excluded from our options. Certain plans for radical transformations presuppose balancing on the brink of civil war, and, incidentally, the mechanism for starting it has already been put in place. The idea of the admissibility of a "low-intensity" civil war as a means of achieving political aims is developing. Study of the question by experts shows that such ideas are absolutely irresponsible, that we will not be able to "recover from a small civil war" under our real conditions—the whole country will burn.

The creation of alternative armed formations and the idea of creating regular republic armies are, I think, a one-way path to civil war.

Our renewed Union must be retained as an independent and self-governing state. Even from a purely practical viewpoint the weakening of our state structure and the loss of our independence would mean predatory exploitation of our raw-material, human, and ecological resources. With all due respect to Western civilization, we should have no illusions about this. Losing independence means the abandonment of hope for the economic and cultural development of our people.

**Trud:** I know that two or three years ago, you spoke to the country's leaders about the danger of a significant reduction of heavy industry and the production sphere not engaged in the output of consumer goods. Has your viewpoint changed?

**Pavlov:** No, it has not changed. Moreover, life has shown that we have made mistakes here. And they have cost us a lot. The industrialization of the country was paid for with the sweat and blood of our older generations. We have a powerful industry, certain branches of which are quite modern, transportation, and science which could be quickly modernized. This is the base with which we can now maneuver. We must be grateful to our fathers and grandfathers for their holy endeavor.

We must not destroy what they created. We must proceed from reality. And it is such that we cannot do without an economic foundation. It is unthinkable and impossible for us to use the standards of consumption in the West as a model today. The situation in the economy is deteriorating sharply. We do not have to go far for example—our exhausted industry, our semi-destroyed railroads, and our telephone networks are on the verge of complete breakdown, and our water and heating systems are on their last legs. Before orienting ourselves in terms of the consumer standards of the West,

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we must "tighten our belts," mend, as it were, our irons and teapots, and use our resources to modernize production, which provides the very foundation of life. This is the truth, although it is hard to tell it and unpleasant to hear it. But in the economy we must proceed from realities and not from speculative, illusory ideas.

Judge for yourself. What kind of improvement in public health can there be when we essentially have no modern industry? Narrowing the sphere of Group A products deprives us of any hope of creating one. What kind of social direction of the economy can there be when we are planning a significant reduction in the output of electric energy and heat, when half the country periodically freezes in winter?

I frequently read statements to the effect that it was simply through stupidity that we outstripped the developed countries in the production of materials and equipment. I must note that during the past 50 years the U.S. has produced more steel than we have. Where is this steel? It is in American highways, buildings, and plants. We are just beginning to build these and they tell us: Reduce your steel production; they are "making less" of it in the U.S. Now they are indeed making less. But what about consumption? Including prepared products as well, they are importing twice as much as we are! The per capita quantity of electric power in our country is half what it is in the U.S. The energy-intensiveness of our production is much bigger, and we will not be able to reduce it quickly.

But the main thing is that the figures for the output of products in the U.S. in general tells us nothing since the "club of developed countries" is fed by products from the entire Third World and we do not have this "source." Those who denounce our "production for the sake of production" can just look in the handbook and find out that in 1980 in the U.S. the proportions of imports in the consumption of the most important materials were: manganese—97%, bauxite—94%, cobalt—93%, chromium—91%, and so forth.

**Trud:** I can certainly not agree with you on everything you say regarding the question of the ratio between products of Group A and Group B. But let us leave our discussion for later. We have now approached economic tactics and strategy in the modern stage. We know of the so-called "Abalkin model" and the "Shatalin-Yavlinsky model" and, finally, the "Basic Directions." Where do we go from here? Or are we going anywhere?

**Pavlov:** That is a fundamentally important question. I see my task as prime minister as carrying out two programs—let us call them "maximum" and "minimum." And if we shift to the language of the times of the NEP, which people like so much to refer to, sometimes not knowing very well what they are talking about, it is necessary to speak of two plans—strategic and operational.

The first task is of extraordinary importance—not to allow ourselves to fall into a disaster. Extraordinary measures are needed for this. We speak a lot about the market today. We must clarify: This is a means of achieving a goal, not the goal itself.

We are undoubtedly proceeding toward the market and we will take the most resolute steps in this direction, for otherwise we have no future. But I emphasize that in addition to the market the country needs a program of forced modernization of industry. Our strategic goal is a highly effective mixed economy. And here we are unified both with our predecessors and with the most radical market advocates. The differences appear when it comes to the question of what to mix with what and how. This is extremely important because it is possible to mix things in such a way that the economic foundation of our state is shaky. Or it is possible to proceed from what we have, save the best and add to it, and fill in the cracks in production. In this respect the key issue has to do with the relationship between governmental and economic levers.

I see the role of the state as creating strategic target programs and carrying out structural changes and modernization of industry without which our economy will not be able to overcome its inadequacy.

In all countries of the world these tasks are carried out by the state. The state and only the state.

Our radicals are calling us to a market like the one at the end of the 19th century or its beginning. In turn, they want to put society through shocks and traumas. And we are categorically opposed to this. We have had enough traumas. We passed through industrialization with immense losses—are we to do this again? It is fine to talk about "shock therapy" at symposiums. But in reality one would have to be very irresponsible to prescribe something like that for our society.

I will give an example. Even in Hungary, according to their announcement, the introduction of the market model is running up against the fact that their private sector is at the level of the 19th century. That is there! But what about here? Let us answer this question: What do we want? Figuratively

speaking, do we want to increase the production of passenger cars and be left completely without buses or do we want to find rational proportions? Understandably, it is better to be "healthy and rich" than "poor and sick." But we must be realistic. Either we increase the number of passenger cars, but then part of the population would have to go to work on foot, or should we proceed from what is real?

Another example. For five years 60% of the boilers at our heat and electric power plants have been in need of replacement. So should we replace them or should we buy jeans and then go home and freeze because we have no heat?

The highest priority for any economy is provision of the fundamental conditions for survival. If it does not have these it has nothing. Then comes structural rearrangement based on the best part of our industry. And along with this comes privatization.

And the shouts, "Give us privatization!" remind me of the shouts "Give us communism!" Excuse me, but there is no difference. They are empty phrases in either case. They are ideology and not economics. The distraught socialist-capitalist language with which everyone is already bored. We need realistic measures, concrete goals, and correct methods of achieving them. And the main thing is to be realistic, I would say, to be pragmatic. And to put a halt to the politics of populist games.

**Trud:** But still is privatization necessary?

**Pavlov:** Undoubtedly. Only a mixed type of economy that combines large and small enterprises is capable of solving our major problem—ensuring the viability of society and the state.

It is another matter, I repeat, when it comes to what to mix, how to privatize, and what to privatize. It is necessary to retain the skeleton of industry and stimulate it to develop. Privatization should proceed around the powerful state "nuclei," filling in the cracks and pores. This is the only effective method under our conditions.

The government is not rejecting the policy of privatization. But there must not be any question of selling out the means of production and fixed capital created by the labor of generations to fat cats and wheeler dealers in shadow businesses. I do not know how Russia, the Ukraine, and the other republics will solve these problems. I think they will be sensible. Incidentally, here it is appropriate to recall once again the beginning of our conversation: Why does a capitalist need rubles if there is nothing he can buy with them and they are not worth anything? . . .

The subject of privatization, in my view, should be the worker for whom all this is being done. And it should be done through people's auctions on the basis of unified state property, part of which is transformed into collective property. It seems to me that this is the only mechanism.

**Trud:** And what can you say about the land reform?

**Pavlov:** Precisely how it is carried out is very important. It

can be done in such a way as to provide for a union of the peasant and the worker, the city and the country, and it can be done in such a way that there will be, frankly, extremely unpleasant things. It cannot be ruled out that if the land reform goes according to the plan envisioned in the decisions in the R.S.F.S.R. parliament, the situation could push us into a civil war.

Privatization of the land is a problem in itself. Here let us take the nervous system and look at the social conflicts over many years. The appearance of landowners, rentiers, farm laborers, and seasonal workers changes the social order and the social spectrum of society.

The discussion of privatization of the land has to do with the agrarian policy and not economics. This is primarily a political issue. The right to buy and sell land leads to confiscating it from the peasants and placing it in the hands of the fat cats. When it comes to buying and selling, money talks and it cannot be otherwise. But it will not be today's *kolkhoz* [collective farm] and *sovkhos* [state farm] workers who win in the open and secret auctions. And if we do not envision a system of protective measures, very soon the land will go to our "dirty" millionaires.

Through buying up land they will be able to wash all of their dirty money and it will be good if the owners take the former *kolkhoz* workers on as laborers. It will be worse if they start to use the land, say, for radioactive waste dumps.

The peasants will not be able to compete on the land market. Therefore we suggest not making the land an object of buying and selling but turning it over to people who wish to work it to be used in perpetuity without charge. And if they decide to quit farming they can return the land and either receive compensation for improving it or pay a fine if it has been neglected.

Let us recall post-revolutionary times. The peasants did not privately own the land; they used it. And had it not been for collectivization, I do not think that there would be any mention of privatization now. Therefore, paradoxical as it may seem, Stalinist collectivization and the current privatization in its "Russian" model are, in my view, simply two stages in the denationalization of the land of the Russian peoples. For some of today's "market promoters," Stalin performed the dirty, bloody part of their work—he took away from the peasants the land given to them by the Revolution, as if "preparing" for privatization.

Speaking of the land reform that must be conducted, it is necessary to answer a number of questions. About turning the land over only through popular auctions, about creating a mechanism for preventing it from being bought up and resold, and about a mechanism that ensures that the person who works the land has the right to it. And, of course, about supporting justified forms of collective land use and agricultural production. These farms are feeding us. And we must not destroy them. The government's main idea is to create. This does not pertain to agriculture alone. It is a general direction: We have had enough destruction, it is time to build.

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**Trud:** From your answers it is clear that you, to put it mildly, are not a big advocate of private property and privatization. Does this mean that the course will change with respect to joint ventures as well, the more so, since a little earlier you spoke fairly harshly about the plans for expansion of international economic structures onto our territory?

**Pavlov:** We certainly do not reject cooperation with healthy forces from both the West and the East. Something else bothers me. The country has been flooded with intermediaries, people who buy things up, and petty speculators who, taking advantage of people's incompetence and frequently their trust, and sometimes using both old and new workers of the industrial and administrative apparatus (in the center and in local areas) cause harm to the state. It is impossible to drop the Iron Curtain again. And this is good. But we need a modern active state policy. Today 90% of the joint enterprises are not carrying out production activity. This is an absolutely anomalous phenomenon. We are in favor of cooperation, but with real people and not with shadow wheeler-dealers from the Western economy for whom the state has no place even in the West itself. Our entrepreneurs must not cooperate with the "rejects" of entrepreneurship who rush here after their own countries have lost confidence in them in order to make a "fortune" in the "New World."

We welcome the influx of foreign capital under the condition that our country stands to gain from it. Today we frequently see sporadic and uncontrolled transactions with outsider firms and sometimes with proxies who are being sought by Interpol.

We are open to respectable partners who have serious goals. We have something to discuss, including the prospects for entering the 20th century.

**Trud:** The country's population is now bothered more by today and tomorrow than by remote prospects. The continuing collapse of the economy, the instability of the political situation, social vulnerability, the total deficit of food and industrial goods, growing prices, the decline of the standard of living—such are the present realities. Social tension in society is growing. What awaits many of us tomorrow? Unemployment? Vegetating on the brink of poverty?

**Pavlov:** I will not try to hide the fact that the situation is serious. But a great deal will depend on the path along which events develop in the near future. We have several variants of programs and predictions. And we have also considered predictions that are very disturbing to us. If the war of laws,

the war of taxes, the war of salaries, and other "wars" do not stop, if the actual, real interests of the country are sacrificed for personal political ambitions, if state officials, instead of doing their work, organizing the production and circulation of goods, and protecting the interests of the population, spend their time at rallies, if, as before, incompetence, nonprofessionalism, and frenetic behavior triumph, the economy will not be able to take it.

Take food. We are now short of feed for the animals and in a number of places they are feeding them food grain when there is a shortage of feed. And yet 5 million hectares of corn were not harvested. There is no vegetable oil. And yet 1 million hectares of sunflowers disappeared "under the snow." In January the drop in production amounted to up to 50% as compared to the preceding year. And this means that last month we lost more than 4% of the annual production. We are not narrowing this gap—by March this decline will be so great that society will be on the verge of destruction.

This is not a political move, it is an economic prognosis. But I do not wish to bore you with figures and complicated calculations; I will say only that with such losses in a half-year we will reach the level of destruction reached during the Civil War period. Perhaps this is to someone's advantage. Why? For those activists in certain republics and regions who think they can survive alone are deeply mistaken. It will be bad for everyone.

**Trud:** And under these conditions, as was reported, it will soon be necessary to carry out a price reform. Is such an action not dangerous?

**Pavlov:** But prices are going up anyway, only without any compensation to the people. In Moscow almost everything is sold at three times the normal price, even those goods which the state does not allow to be sold at contractual prices. The Moscow Soviet Ispolkom (Executive Committee) is conducting its own price policy which, one must say, is quite inadmissible. Right here in *Trud*, you have published photographs from Delicatessen No. 1 as well as other materials.

The price distortions became outrageous long ago. The price level and the level of wages, pensions, and stipends do not correspond to one another either on the whole or in terms of their structure. This makes it impossible for the economy to develop normally; therefore a price reform is extremely necessary. All the republics and Moscow and Leningrad require this. But we think it should be conducted only along with higher incomes for the population, and all the peculiari-

ties of each republic must be taken into account. General criteria and maximum and minimum amounts of increases of prices and wages should be the same for all. The main thing is the principle—additional expenditures by the population, resulting from actions to raise state retail prices for food and basic industrial goods, should be compensated for. And in advance, before hand.

**Trud:** What can you say about unemployment which, judging by official statistics, has already reached 2 million?

**Pavlov:** This is an issue which troubles me a great deal. I am profoundly convinced that our society should avoid snowballing unemployment. Incidentally, ideologists of a “radical” transition to the market economy tolerate and even propagate it. In the course of this, they cite the experience of the West where unemployment has become a customary part of life. However, these are not legitimate comparisons. Russia of the early 20th century did not manage to get used to industrial unemployment, and in the U.S.S.R. generations have grown up in the absence of unemployment, under leveling arrangements. Mass unemployment in our country will be disastrous for the entire society and for its political stability rather than just for the poor.

Nonetheless, I think that temporary joblessness associated with structural transformations and modernization of the economy is inevitable, but this is an entirely different phenomenon. Social-protection measures have already been taken in this sphere. As far as unemployment, which may be caused by the radical privatization of the means of production and the liquidation of unprofitable enterprises, is concerned, we should prevent it also by creating ahead of time a system of small enterprises which would be a social buffer absorbing excess labor in modern economies.

**Trud:** At present, trade unions act as opponents of the government on many scores by making specific demands regarding the socio-economic protection of the working people. The message of these demands is particularly acute under the current calamitous conditions. What is your attitude toward this?

**Pavlov:** Normal; such practices exist throughout the world. Recently, I met with V.P. Shcherbakov, chairman of the General Confederation of U.S.S.R. Trade Unions, and discussed many issues. We reviewed a draft contract between the trade unions and the government. I believe that in the immediate future the U.S.S.R. Cabinet of Ministers and trade union representatives will sit down at the negotiating table. I have no doubt that a constructive dialogue will enable us to find mutually acceptable solutions.

**Trud:** Do you believe that a further decline in the standard of living is unavoidable in the course of overcoming this most difficult crisis?

**Pavlov:** Not at all. If we finally come to an agreement and begin to work normally it will be possible to avoid a decline

in the standard of living, despite certain obvious difficulties. However, given the current disintegration of our economy and stoppages at plants, the living standard will unavoidably reach a level which is worse than critical. The consequences of this for the people would be catastrophic.

**Trud:** Could you name at least some forthcoming measures from the government’s economic program?

**Pavlov:** A number of draft legislative acts have been prepared: on the demonopolization of industry, on supporting healthy entrepreneurship, denationalization arrangements, and others. Their objective is to create all conditions for healthy competition and development of productive forces.

**Trud:** What do you think about the role of the center? Should it be reinforced?

**Pavlov:** There should be a clear-cut division of functions between the center and the republics. Apparently, an economic agreement will be signed very soon which will resolve many issues.

**Trud:** What is the structure of the Cabinet of Ministers going to be? For example, will the Commission for Economic Reform remain?

**Pavlov:** Development of the structure is now being completed. As far as the above commission is concerned, we want to propose that instead of it an Economic Council for Reform be created whose functions would be conspicuously different.

**Trud:** Who would head this council?

**Pavlov:** The prime minister.

**Trud:** Will you retain the post of the minister of finance as well? At any rate, as of today you are both prime minister and U.S.S.R. minister of finance.

**Pavlov:** The issue of the structure and composition of the cabinet has not been resolved yet by the U.S.S.R. Supreme Soviet; therefore, it is premature to discuss these topics.

**Trud:** My final question. What is your relationship with the President of the country? Do you have mutual understanding on all issues?

**Pavlov:** We have a good, businesslike relationship. There are no differences of opinion on economic strategy. Certainly, different approaches are possible on certain issues; this is natural.

In summation, I would like to say that the country has come to a critical line beyond which lies an abyss. It is necessary to grasp this. The peoples should reject everything petty and transient and pool their efforts for the sake of the main objective—saving the country and beginning to vigorously come out of the crisis, as has happened many times in our Motherland in the most dangerous years. We have an opportunity to do so. All we need is accord and good will.