

## PRIVATIZATION SOLVES ALL

*Paul Craig Roberts*

Both proponents and opponents of privatization emphasize its difficulties. This emphasis is wrong. It is far easier to give people property than to take it away from them. The Bolsheviks seized property all at once. They did not debate endlessly or demoralize themselves by emphasizing the difficulties. No one said, "Oh, the Soviet people, they have no experience with communism." If the Soviet people can endure 70 years of communism, they can certainly endure privatization and the end of bread lines.

The Communist party of the Soviet Union wasted the 20th century trying to do the impossible: to organize production without markets and private property. This ideological effort has failed at great cost, and now pragmatic leaders are attempting to create the conditions for economic success. They have put forward the Shatalin 500-Day Plan.

The Shatalin Plan calls for privatization and market prices; it even sets timetables. But this remarkable document suffers in two ways. It does not say how to achieve privatization, and it is unclear which comes first, privatization or market pricing.

### *Private Property and Price Liberalization*

Reformers are bewildered about how to proceed. They realize that without market prices and capital markets there is no basis for valuation. At what prices, then, are assets to be sold? This problem leads many people to conclude that prices must first be freed to find out what things are worth, but without private property you cannot know.

When prices are freed, some will go up and others will go down. Falling prices will cause unemployment or large deficits, and higher

---

*Cato Journal*, Vol. 11, No. 3 (Winter 1992). Copyright © Cato Institute. All rights reserved.

The author holds the William E. Simon Chair in Political Economy at the Center for Strategic and International Studies.

prices will produce complaints of profiteering and inflation. Both conditions will demand remedies and deflect the program from privatization. Moreover, these prices will not be accurate indications of asset values; without private property, resources are not free to be reorganized and moved from uses with low values to uses with high values. The result may be to undervalue resources that are locked into low value uses and to overvalue resources where prices are high.

I conclude that property rights will have to be given to the people before those rights can be sold and capital markets established.

### Assigning Property Rights

Before property rights can be given to the people, a political decision must be made as to where the rights now reside. Mayor Anatoly Sobchak of Leningrad has asserted the city council's rights over state property in Leningrad, and Mayor Gavriil Popov has taken a similar position in Moscow. Conversely, Russia's President Boris Yeltsin has asserted the republic government's power over state property in its territory, which includes both cities. Meanwhile, the Soviet government has not formally relinquished its own claims.

For the government to have clear authority to convey clear titles, *de jure* privatization, in contrast to the *de facto* privatization under way, will have to begin with an act of nationalization at either the all-union or the republic level. If Gorbachev had moved quickly, he could have privatized on an all-union basis and strengthened the Soviet Union against the political disintegration that is now taking place.

After establishing a legal basis for conveying titles, the government should transform Soviet firms into stock companies and issue shares. Next, it should assign less than a controlling interest of the shares individually to managers and workers to avoid the problems of workers' control and the tendency to disinvest by paying out profits and depreciation in current wages. Then it should assign a percentage of the shares to a mutual or social fund that, in turn, issues shares assigned individually and equally to the population. Finally, it should reserve a percentage of shares for sale to Soviet and foreign investors, and assign a percentage of shares (less than a controlling interest and, of course, nonvoting shares or bond equivalents) to various levels of government.

Land must be assigned to individual peasants and agricultural workers (who would receive a correspondingly smaller share in the social fund), and apartments must be assigned to individual tenants.

This distribution would accomplish many goals, and the precise percentages would reflect decisions about individual and government responsibility. For example, a relatively large percentage could be assigned to the social fund and a portion of that could be made a mandatory holding so that each person would have his or her own social insurance, safety net, and retirement system. The percentages assigned to government would provide income, in lieu of taxes, to finance services provided by government.

Sales to foreigners attract talent and foreign exchange. Sales to citizens accommodate people who have accumulated wealth and financial balances from de facto property rights.

Once property rights are assigned, prices can be freed and markets will establish values for the shares that have been assigned, thus creating a priced market for sale of remaining shares. Changes in the level and relation of prices will be reflected in share values and earnings, and the social fund will provide a cushion to protect the population from inflation and unemployment. Losses and gains will be widely distributed and equally shared through the social fund.

Privatizations based on the assignment of rights are much more politically effective and rapid than sales based on complicated valuations that tend to be insider deals. Privatizations in which everyone is given a fair stake result in a convergence of interests rather than in social division.

### **Privatization and Ruble Convertibility**

Privatization is the first step of reform, not the last. The ruble cannot be a convertible currency until it can purchase capital. If the ruble cannot purchase the real resources of land, labor, plant, and machinery, it has no basis for conversion into other currencies. Linking the ruble to a commodity, such as gold, before privatization would result in a flight from the ruble to gold. It is the capability of a currency to purchase productive assets that makes it convertible.

### **No Markets without Property**

There cannot be markets without property, and prices cannot be free before resources are free to follow the prices. Investments must move in the direction of profits and away from losses. This movement cannot happen unless property rights are assigned. Economists and bureaucrats cannot perform the functions of owners. Once rights are assigned, attitudes and activities will be completely reoriented. People will scramble to ensure that their property has value, and the result of their efforts and incentives will be a successful economy.

## Spontaneous Privatization

In the West, private property rights did not result from a political program or from the application of an ideology to society. They evolved over time. De facto rights became de jure rights, and use rights became exchange rights. Historically, people who controlled resources became the owners of resources. This process is already under way in the Soviet Union. The distribution system has largely been privatized, and there is a system of de facto private property rights exercised by black marketeers, gangsters, and people in positions to divert state resources to private uses. The Communist party is now supposedly privatizing buildings and means of production by declaring itself or collections of its members as the owners. These rights are not sanctioned by law and are resisted by the new politicians whose power rests on their responsiveness to the people. This ongoing process of spontaneous or de facto privatization has made reformers and democratic forces suspicious of Gorbachev's indecision. He fiddles while the old order steals the property.

At the heart of many conflicts in the Soviet Union is the conflict over property. It remains to be seen whether democratically elected politicians can prevent powerful interests from plundering the country and whether private property will emerge from a process similar to the enclosures or from a plan based in law.