Khrushchev in Power: Unfinished Reforms, 1961–1964

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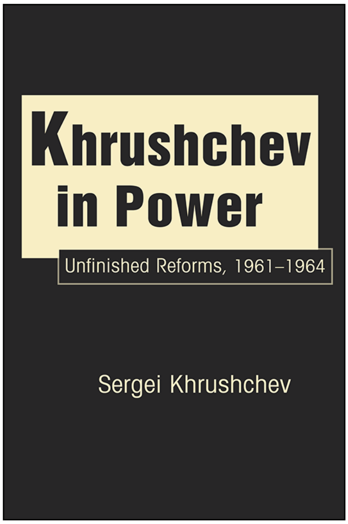

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The New Ruble

On January 1, 1961, a new kind of money appeared.

As early as May 5, 1960, newspapers had announced the forthcoming exchange of currency, scheduled for the beginning of the next year: one new ruble for ten old rubles, as had been done in the monetary reform of 1947 under Stalin. Unlike 1947, however, any amount of money could be exchanged, without restriction.

It should be recalled that in 1947 people were allowed to exchange some rubles on a one-to-one basis—but only in insignificant amounts. Sums of up to three thousand rubles, it seems, could be exchanged at a rate of three old rubles for one new ruble, and any amount above that was at the rate of ten to one. In 1947, moreover, store prices had remained the same as before the monetary reform. Thus the 1947 reform was purely confiscatory. Rubles that had been printed during World War II, not secured by any real value, were thus removed from circulation.

In 1947, the explanation for the excess quantity of rubles circulating before the reform was that the German invaders had printed and circulated counterfeit rubles. But the real source of the inflation in the Soviet Union and the consequent reform of 1947 was that our own printing presses for paper money had been working full blast.

Preparations for the 1947 reform proceeded under the strictest secrecy, because the authorities rightly feared that if people heard about it, they would rush to the stores to get rid of their "old" money and strip the shelves bare. But now, in 1960, the exchange of rubles was announced in advance. The government tried to convince the people that the reform would not hurt anyone, that they could exchange their money without any restrictions. They could bring as much as they wanted to the exchange offices with no questions asked.

Of course, inexplicably large sums, in the millions, would not go unnoticed. One's rubles would be exchanged, but the "rich people" whose existence was thus disclosed would come under the thumb of police and prosecutors. However, during the half-year between the announcement of the reform and the actual beginning of the exchange of rubles, the "rich" had time to get organized. Their money was exchanged for them in small amounts by "friends" whose means were modest—in some cases this was done as a personal favor, but more commonly in return for a commission.

Despite the government's claims that the operation would be harmless, the exchange of currency caused a massive amount of confusion. People wondered: Why go to all this bother if there really is no change in the value of the ruble? Well, they thought, the government must be pulling a fast one, keeping us in the dark. No one doubted they were being deceived, but exactly how? In what way? There was no end to the gossip and rumors. Naturally I too pestered Father with questions: "Why this escapade with the exchange of rubles?"

He explained that the reason was purely technical. The monetary reform was the brainchild of Father's new deputy premier, Aleksei Kosygin, who was in charge of finances. He liked things to be orderly; I would even say he idolized order, Bureaucracy (with a capital *B*), with everything numbered and catalogued and filed neatly on the shelves. The "old" ruble annoyed him. It was unsuited for operating with a budget in the hundreds of billions, and soon to be in the trillions. There was more and more trouble trying to reconcile debit and credit. I remember that in those days the keepers of financial records couldn't even dream of computers. They clicked their abacuses and pressed the handles of their adding machines. Twelve digits were almost beyond the capacity of equipment like that. Either the calculating machines had to be redesigned or—more practically—the large numbers, which were already rounded off, should be rounded off further. But that could cause unjustifiable losses, and also abuses. In that era of mechanical accounting equipment, an extra digit meant a great deal. Kosygin decided that the last digit had to be removed. Only one digit. More than that was impossible. If two digits were removed, the prices for bread and other basic products would go sky high. It would be necessary to calculate in terms of kopecks, and even the long-forgotten half-kopeck coins. Removing "only one digit" seemed to Kosygin the ideal solution. The work of the financial record keepers would become easier, and the exchange of old banknotes for new ones would not be a problem for most people. They wouldn't even notice it. In fact, they would benefit from it. The old paper rubles—which were inordinately large, making pockets bulge—would be replaced by new, miniature bills. It would be easy to fit them into any wallet. The government would also benefit from the smaller size of the paper money. It would require less of the costly special paper used for printing currency.

Kosygin cited the example of France. In March 1960, he had accompanied Father on a visit to France and had lengthy discussions with the financial people there. On January 1, 1960, they had introduced the "new franc," worth a hundred times more than the old one. That had also been done for purely "technical" reasons, although considerations of prestige entered into it somewhat.

The French example definitely convinced Father that revaluation of the ruble was no threat to us. Capitalists never ventured into anything that might be harmful to themselves. He gave his "okay" for the monetary reform. On January 1, 1961, lines formed at the local offices of the State Bank, but dissipated very quickly. Simultaneously, new and ridiculously low prices appeared in the stores. The illusion that everything had become cheaper lasted until the first payday. The pay that people received was also ridiculously low. The former thousand-ruble bill was now a hundred-ruble bill. People had to get used to counting not in rubles, but in ten-kopeck pieces.

Another curious detail. The original plan had provided not only for an exchange of paper money but also for the minting of new coins. The zealous Kosygin proposed to economize on copper. Before the reform, kopecks were worth almost nothing; the same was true of two-kopeck and three-kopeck pieces. If you dropped one of those coins, no one bent down to pick it up. The decision was made to keep these coins in circulation, but not to announce this in advance. But it did not remain a secret for long. Small coins instantly stopped circulating. Yesterday's good-for-nothing one-kopeck piece would soon be worth ten. It was good for a box of matches. And in the pay phones on the street you could now use a two-kopeck piece instead of the old fifteen-kopeck coin.

When Father received word that small change had disappeared, he took it calmly. In terms of the budget, this was only a drop in the bucket. The cost of minting new coins would be greater than the possible loss resulting from their being withdrawn from circulation. It was also true that from mere kopecks no one could make wrongful gains worth millions of rubles. So things were left unchanged. After the old rubles had been traded for new ones, kopecks quickly reappeared in the cash registers at the stores.

I don't know how it was in France, but in our country the ten-for-one exchange of currency did not happen without difficulties. It was not just that the government "fudged a bit," taking advantage of the currency reform to round off prices to the next highest number, whenever there was a fraction of a kopeck at the "tail end" of an old price. The "market" sector of the economy, which was not under direct government control, ignored the reform. The little old ladies at the peasants' markets, who sold parsley for ten kopecks a bunch, continued to sell at that price, even though a kopeck was worth ten times more.[1]

Kosygin had not taken this factor into account, had simply paid no attention to it, since it "didn't affect the weather" concerning monetary turnover for the country as a whole. From his bureaucratic standpoint he had evaluated everything correctly. The only problem was that in the personal budgets of Soviet citizens the "peasants' market" factor played a significant role. You couldn't buy a bunch of parsley in the government stores, even for one kopeck. They didn't have any. But you couldn't haggle with the "grandmothers" at the peasants' markets. If you want it, pay the price. If not, go without. In Kosygin's view, the government ought to control prices not only in the stores; it should also ensure the implementation of its decrees in the peasants' markets. But you can't assign a policeman to check up on every little old lady. That's why they were called "markets."

After Father had retired and was on a pension, some chance visitors got into conversation with him. They complained that the monetary reform of 1961 opened the way to inflation. He was sincerely puzzled by this accusation. As he saw it, the state commercial system was obliged to follow the rules set by the government. As for the "peasants' markets," Father justified himself by saying that the authorities had failed to take them into account. A kopeck for a bunch of parsley was one thing, but meat or fruit costing rubles—that was something else altogether. The prices in the peasants' markets did go down after prices dropped in the government stores, not ten times lower, to be sure, but to whatever level the sellers felt comfortable with. In other words, prices had risen after all. But in Father's opinion, they had been rising even before 1961. "They would change the color [of the packaging] or make some other insignificant change and then raise the price," my father-the-pensioner explained to the especially insistent pensioners who were talking with him. "In my time we caught many people doing this, especially in local industry. They were trying to increase income for local budgets. We punished local leaders for doing this. This is an abuse of power. It discredits the Soviet government. . . . Any increase in prices has nothing to do with [the revaluation] of the ruble."[2]

Father's interlocutors did not agree with him then, and today people who write about economics don't agree with him either. The hidden inflation, they say, must be dated from January 1, 1961. Both Father and his opponents are right in their own way. Father was blamed not so much for his own mistakes as for those of his successors. The hidden inflation reached its peak in the period after his retirement, coinciding with increased military spending. At that time the top leadership no longer regarded playing tricks with prices as "an abuse of power" that "discredits the Soviet government." But in the minds of ordinary people, it was Khrushchev who had carried out the revaluation of the ruble. Therefore he was to blame for everything.

A final comment. The great monetary reform was preceded by a mini-reform. On November 15, 1960, the ruble-to-dollar ratio was changed. They changed the exchange rate of four old rubles to the dollar to parity—that is, one ruble for one dollar, or to be more exact, ninety kopecks for a dollar. For most of the population this mini-reform had practically no significance. Soviet citizens simply did not exchange dollars for rubles or vice versa.

To me it's a mystery how people could calculate the real value of different types of currency in the absence of free exchange. An acquaintance of mine, the economist Viktor Belkin, considers this possible if one uses "the Gilbert-Kravis method, which conceives of a parity between the currencies of the United States and the Soviet Union based on calculations of gross national products of those two countries."[3]

After the 1947 reform, Belkin and his associates, on the basis of this method, calculated fourteen rubles to the dollar. They submitted this estimate to Stalin, but according to Vladimir Starovsky, who headed the Soviet government's Central Statistical Administration, which had done the work on this problem, and who delivered the documents to the Kremlin, Stalin took a blue pencil and crossed out the number "1" in the "14." Thus it came about that four rubles equaled one dollar. That was all the science he applied.[4]

In March 1950, this four-to-one rate was officially announced. Foreign diplomats began to grumble, but this change in the ruble-to-dollar rate affected practically no one but them. At the Soviet Foreign Ministry they simply laughed at the diplomats: "Serves the capitalists right!" This "Stalin" rate of exchange had no effect whatever on the miserly amount of foreign trade. Trade was calculated not in rubles, but in gold, and not on the basis of an exchange rate, but of weight.

When after Stalin's death there was a cautious beginning of increased travel across the "Iron Curtain," it turned out that the four-to-one exchange rate of rubles to dollars actually did approximate to reality. In 1957, a special exchange rate of ten rubles to the dollar was introduced for "noncommercial operations"—that is, for tourists and diplomats. To make the ruble even cheaper was considered politically incorrect, "the work of the devil." In 1961, the exchange rate was mechanically "brought into line." That is, ten old rubles were replaced with one ruble as being equal to a dollar. But then, the rate was changed to ninety kopecks for a dollar. Why was that? It's completely beyond me, something I simply don't understand.

2

"If You Don't Oversee It Yourself . . ."

As soon as all the fuss over New Year's was past, Father set off to travel around the country again. The experience of the previous two years had convinced him: do it yourself, or you'll get no results, and "don't let the grass grow under your feet."

What counted was not to keep trying to rouse the party's province committees from a distance, while trying to spur on the grain-procurement agencies and whip the Moscow bureaucrats into action, because immediately after such efforts all those people slacked off again. The harvests were brought in just any old way, without any firm supervision, and officials at all levels replied to inquiries from the central government with answers that were written for form only. In other words, entropy was spreading irresistibly.

At this point I should give an explanation of the concept of "entropy," because I will return to it a number of times in this book.

The *American Heritage Science Dictionary* defines *entropy* as "a measure of the amount of energy in a physical system not available to do work. As a physical system becomes more disordered, and its energy becomes more evenly distributed, that energy becomes less able to do work. For example, a car rolling