

**Personal Message from President Mikhail S. Gorbachev to Heads of State or Government
Attending the G7 Meeting in London
12 July 1991**

Estimable President (Prime Minister),

May I express to you my appreciation for supporting the idea of arranging a meeting between the G7 Heads of State or Government and the USSR President.

I am pinning high hopes on the upcoming meeting in London. There is every reason to believe that it may mark a turning point in the efforts to bring about the Soviet Union's organic incorporation into the world economy.

Over the past few years, through our joint efforts, we have succeeded in making a radical shift away from confrontation to understanding, from suspicion to trust based on the recognition of the primacy of universal human values and the quest for a balance of interests. We have succeeded in putting an end to the Cold War and in extinguishing the flash points of a number of international conflicts and armed clashes. The process of disarmament has got to an effective start. Much has been done to develop a situation that would rule out aggression as a political means.

But the sphere of economic relations has seen no noticeable change. We feel time is at hand to make resolute steps and take concerted action to develop a new type of economic interaction whereby the Soviet economy with its huge production, research and human potential, its extremely rich natural resources and a boundless internal market could be integrated in the world economic system. This, in turn, would help reinforce positive political developments in international relations.

This view is not motivated by time-serving considerations; nor does it stem from the economic hardships currently experienced in our country. Instead, it serves to reflect our vision of contemporary realities. It is not my intention to cite many arguments to prove that movement toward developing a single, truly world-wide economy would meet our common interests. In this day and age, this is self-evident.

Our approach to the idea of getting the Soviet economy organically integrated in the world economic system is based on the following assumptions:

above all else, we look forward to mobilizing our efforts and resources to stabilize our economy and have it incorporated in the world economic system;

we feel it essential to secure "accommodation" between the USSR and the G7 countries so that major economic reforms and opening up the Soviet economy to the outside world can be backed by accommodating measures to facilitate the process;

we urge that economic cooperation focus primarily on direct market relationships between firms and banks coupled with appropriate government-extended guarantees and the granting of MFN regimes;

we believe it essential to combine bilateral economic relationships with Soviet vigorous participation in the existing system of multilateral links and activities involving international financial and other institutions.

At the coming London meeting, we could state our commitment to the principles of equitable and mutually advantageous cooperation and our willingness to make accommodating steps toward getting the Soviet economy integrated in the world economic system as well as reach agreement on maintaining working-level contacts to deal with those issues.

The Soviet leadership is aware that successful integration and a qualitatively higher level of interaction would depend, in large measure, on the extent of ongoing changes in the Soviet Union and whether or not they are made irreversible. In this connection, I find it advisable to set out my assessment of the current developments and prospects for political and economic reform in the USSR.

ONE. Even in the current highly complex situation, the Soviet leadership stands firmly behind the course at renewing the society, consistently democratizing its every sector and pursuing radical political and economic reforms. What is called for is as follows:

recognition that the individual's rights and freedoms, including economic freedom, constitute the highest social value;

radical renovation of the state system and the structure of federal relations;

transition to a mixed economy and a socially-oriented market system.

The ongoing Soviet reforms have not been imposed from without, nor have they resulted from someone's pressure. They reflect the choice we have made following a critical scrutiny of our past and the prospects of the evolution of Soviet society toward a new civilization as well as the exploration of ways to renew it. At the same time, we feel it is in keeping with some of the basic international developments.

Initially launched from "the top" and developed by a relatively small group of political leaders and intellectuals, the call to reforms has now been caught up by an overwhelming majority of Soviet people.

Major headway has been made to reform every aspect of the Soviet society. A process to establish a multiparty system has begun. Glasnost has become a reality of life, an irreversible accomplishment of perestroika. The country's legislation on human rights essentially has been brought in line with international legal standards. The demilitarization of the economy and conversion of defense industries have got underway.

Between 1988 and 1991, arms procurement spending dropped by 29 percent in real terms. Over the same period, the output of tanks was reduced by 2.1 times, combat aircraft — 1.8 times, artillery — 2.9 times, AFVs and APCs — 4.2 times.

On the fundamental reform-related issues, there is an increasing measure of agreement among the constituent republics accounting for upwards of 90 percent of the country's population and its leading socio-political forces and movements ... [several words missing — ED.] results of a series of "9+1" meetings and a broad-based support they enjoy among Soviet people. Conversely, most people have spurned the attempts to stem the tide of developments and scuttle the ideals of perestroika.

All this has opened the door for further movement along the chosen path, for political accord and consolidation.

As I discuss the perestroika's accomplishments, it is far from my intention to oversimplify the problems or belittle the difficulties we have yet to overcome. But we are firmly resolved to finish the work we have begun.

TWO. The signing of a new Union treaty will be of crucial importance for the country's subsequent development. Work on the treaty is all but completed.

It has been agreed that a new Soviet constitution is to be drafted and enacted within six months following the signing of the treaty and that several months thereafter the supreme organs of state power and control are to be formed in accordance with the newly enacted constitution.

A new Union treaty will reflect the will [of] an overwhelming majority of Soviet people expressed at the time of the March 17, 1991 nation-wide referendum to see the USSR preserved as a single federal state. At the same time, the treaty will give fuller expression to the sovereignty of individual constituent republics in line with the declarations and laws they previously have passed.

The Union treaty will clearly define the rights and powers of the Union authorities ceded to them voluntarily by the constituent republics as well as the areas of competence shared by the Union and republican authorities.

The Union and the republics will pursue a single foreign, defense and foreign economic policy as well as a single financial, credit, monetary, tax and price policy based on a single currency. They will oversee the operation of the energy system and the railroad, air and sea transport infrastructures, enact basic legislation governing nature use and conservation, implement nation-wide programs and carry out fundamental research.

One may ask what will happen to the republics that have refused to sign the new Union treaty. It is our intention to address whatever problems may arise in accordance with law and the constitution and instead of resorting to force, to act through democratic methods, taking into account the freely expressed will of the population. Economic relations with them, defense, property ownership and other matters will be regulated by agreement, with due regard for the standards and principles accepted in international practice.

THREE. Having put doubts and apprehensions behind us, we are firmly pursuing the goal of a radical economic reform. Work to develop a legal foundation for a market economy is close to completion. The process of destatization, privatization and price liberalization has got underway. A network of commercial banks, commodity exchanges and other market infrastructure institutions is being set up.

Aware of the historic responsibility before its people and the world at large, the Soviet leadership feels duty-bound to step up the pace of radical economic transformations.

At the same time, we cannot afford to take unwarranted risks and have to weigh carefully every move we make. We must take into account:

public mood in the country;

the fact that broad sectors of the population are not prepared to embrace the market economy;

the existence of a heavily monopolized national economy hobbled by cumbersome and deformed structures, with advanced technologies and highly skilled personnel concentrated predominately in military industrial complex sectors;

a backward communications system, an underdeveloped service sector and badly neglected agro-industrial complex sectors.

Holding up the progress of economic reform are a serious recession and rising inflation.

In the last six months of this year, produced national income dropped 11 percent, industrial output — by 5.8 percent, consumer goods production — by 4 percent and retail trade by 12.2 percent in real terms. There is a critical shortage of food, children[']s items and medicines.

The financial and credit system is in disarray, the state budget deficit is growing, export trade and currency earnings have gone down.

Despite the fact that between May and June further production decline was halted, we still face the risk of further recession. The ensuing hardships likely to befall the population may prove too heavy a burden fraught with major social conflicts and pose a threat to democratic transformations.

The situation called for the elaboration of a special anti-crisis program intended to stabilize the country's economy. Its drafters firmly rejected recommendations that transition to market economy be delayed indefinitely and that some other ways to cope with the crisis be tried instead. It is our strong feeling that the crisis can be overcome if we make a radical shift toward market economy, carry out destatization and privatization of property, remove multiple bans and constraints, stimulate work effort and business activity, support and foster entrepreneurship.

What I wish to stress emphatically is that the program has resulted from a joint effort of the Cabinet of Ministers and the governments of 13 constituent republics. If implemented, it would arrest further collapse of the national economy and normalize the situation, primarily in those sectors that are critically important for the population. The program includes such major steps as: macroeconomic stabilisation, improvement of the financial and currency situation; price liberalization, consumer market normalization; production destatization, privatization and demonopolization; implementation of land reform; opening the economy to world markets.

The program of joint action of the USSR Cabinet of Ministers and the constituent republics is an open-ended and flexible document. Although it is geared essentially to the use of the country's internal potential, the program can be made much more radical under appropriate conditions, especially as we move to attain a higher level in our interaction.

Synchronization of our common efforts would largely facilitate the solution of accumulated problems, ease social upheavals stemming from transition to a market economy and reinforce the gains achieved in the course of democratization. To that end, joint research groups of experts and representatives of international financial institutions could be formed to consider relevant problems and draft appropriate recommendations.

FOUR. Macroeconomic stabilization of the financial and currency situation is a major top-priority task to be addressed in the immediate future.

Until now, for a number of reasons, the situation in this area has remained unsatisfactory. In the first half of this year, the country's budget deficit has by far exceeded the target limit.

To improve the financial and currency situation, a set of measures is to be carried out, among them:

introduction, as of July 1, of a more stringent regime to finance budget spending, real-term reduction of funding of defense-related and other state expenditures and cancelation of individual social programs;

cutting the number of investment programs, halting construction of projects that are a long way from completion and concentration of resources on major projects in the basic sectors, including consumer goods production facilities;

measures to reinforce the budget's income base, including a higher tax on factory profits that increased dramatically as a result of the price reform and an excise tax on gasoline and natural gas as well as redistribution of budget-generated incomes to ensure budget-expenditure funding;

budget deficits are to be covered through the issue of bonds to be floated at market cost among enterprises and individual citizens and also through funding by enterprises of privatization-related costs;

in 1992, a tax reform is to be carried out by agreement with the constituent republics, designed to define Union and republican competence in matters of taxation, raise the number of taxable

subjects and introduce a value added tax, additional excise taxes and custom levies; in 1992, total budget deficit is not to exceed 5 to 6 percent of the country's GNP.

The prime rate will be raised to 12 percent and the size of reserve funds commercial banks are required to keep on State Bank accounts will go up to normalize currency circulation. Simultaneously, a ceiling will be imposed on bank credits extended to finance budget deficits.

Trade liberalization, including retail price decontrols will help promote further macroeconomic stabilization.

Already this year, the share of prices in the country's total trade turnover that are not subject to government controls will rise to 70 percent from the current 40 percent mark. Price liberalization will entail significant cuts in budget subsidies.

At the same time, we intend to impose more stringent constraints on people's incomes, regulate wages through agreements between government and labor unions and carry out partial indexation of incomes to offset rising retail prices.

To provide a social safety net mainly for low-income population groups, rationing may be introduced to cover a limited number of basic-necessity items.

Under current conditions, a large-scale price liberalization scheme cannot succeed unless there is "infusion of goods" intended to arrest excessive price hikes, curb panic buying, and stabilize the consumer market. To that end, we will attempt to muster all internal resources that are available. Apparently though, they alone will not suffice, and deliveries from abroad could prove very helpful.

FIVE. The complex economic and financial situation in our country is due, in many respects, to the growing problem of foreign debt.

Although its total amount calculated in freely convertible currency (upwards of 65 billion dollars as of mid-1991) is not excessively high given the country's size, the fact that short and medium term high-interest loans account for almost half of the external debt is a matter of serious concern. Coupled with a reduced export base, this situation has resulted in more than half of our hard currency export earnings being channelled toward debt-servicing. The fact that we have been compelled to reduce our imports has led to a significant drop in production in the light and food industries, machine-building, oil and gas production as well as the chemical industry.

Unless we address the external debt problem, it will be extremely difficult for us to pull the country out of the economic crisis, achieve macroeconomic stabilization, and undertake major action involving transition to a market economy. Similarly, we would be hard put to normalize economic relations in all areas with East European countries.

We proceed from the assumption that it is primarily through our own efforts that we will have to address our currency and financial problems. We have moved to increase our export trade. Work is under way to make a more rational use of our imports. Measures are being taken to form a currency market, set a realistic exchange rate for the rouble, and make it convertible.

Whether or not we shall pay back our debts is not at issue. We will meet all our obligations involving debt repayment and credit servicing. On this, we see eye to eye with the constituent republics. At the same time, we look forward to the G7 leaders and the international financial institutions taking a favorable stance on proposals designed to consolidate and restructure our external debt.

We are also prepared to consider other options with a view to resolving the external debt problem, including the idea of counting a part thereof against foreign capital invested in Soviet territory.

SIX. We believe that destatization and privatization of property as well as demonopolization of the economy are of crucial importance in terms of transition to a market economy. The Soviet Union is making extensive use of the experience of other countries that have either completed, or are about to complete transition to a market economy. In the process, we of course take into account our specific conditions and historic traditions.

We have made our choice — we stand for a mixed economy and equality of state, private and all other forms of property ownership. All of them are now protected by law, have been granted equal opportunities, and are in a position to engage in free market competition.

The immediate goal is to carry out minor privatization through the sale of state-run shops, restaurants, catering services, small enterprises and businesses to individuals, cooperatives, work collectives, joint ventures and foreign companies. The state intends to promote this process.

By the end of 1992, it is intended to privatize, in some form or another, nearly 80 percent of the total number of retail outlets, public catering establishments, services and a number of enterprises in other sectors.

Major privatization will be conducted primarily through transforming large and medium-size enterprises into stock-holding societies, various joint-stock companies, and collective enterprises. Soviet and foreign physical and juridical persons will be eligible to take part in the privatization process.

In the coming months, we intend to launch commercialization of enterprises. We understand this term to mean the removal of state-run enterprises from the chain of direct administrative command, allowing them to operate on a commercial basis. As a result, the enterprises and businesses enjoying other ownership status will be made fully accountable for their financial performance under market economy rules.

Destatization and privatization will run in parallel with promotion of entrepreneurship, demonopolization of the economy, and increased competition.

Under the Law on Entrepreneurial Activities, passed by the USSR Supreme Soviet, juridical persons and individuals will be eligible to engage in such activities. Employment of hired labor by privately owned businesses has been legalized.

The USSR Supreme Soviet is considering draft basic anti-monopoly legislation expected to be enacted this month.

Free market exchanges will steadily grow in scope as the volume of state orders steadily diminishes. The remaining orders will be placed with enterprises on favorable terms and at contractual prices.

In the process of privatization, we also count on foreign capital participation. Foreign companies, firms and commercial banks could contribute financially to the program of destatization and privatization by acquiring shares, securities and property in the Soviet Union. We would welcome the creation of foundations to promote privatization and support Soviet businesses, including small businesses. We are prepared to agree to having these foundations jointly managed by Soviet and Western banks.

SEVEN. Land reform and radical changes in ownership status and agricultural production methods are high on our agenda. What counts most is that people will be free in making their choice of a particular ownership status. They are free to decide on their own whether they want to continue working on a profitable collective or a state farm, or to go private and work their plot of land.

Tracts of land will be made available for a sum of money or leased on preferential terms for unlimited use with inheritance rights to individual families or small farming cooperatives. Agricultural banks are being set up to provide support and low-interest credits.

I wish to make a special mention of the fact that conditions of land tenure in our country differ greatly depending on what region you are dealing with. On the one hand there are republics with a well-engrained farmstead tradition while on the other hand there is Central Asia with its high density of rural population and irrigation agriculture. Each republic will decide through the expression of will of its population whether land reform will lead to a transition to a long-term lease of land with the right to inherit it, or private ownership of land will be introduced.

International assistance in this field may take the form of consultative assistance, sale of equipment for small farms and agricultural produce processing manufactories [sic] on preferential terms and establishment of special funds to support and assist farmers.

EIGHT. The Soviet leadership proceeds on the understanding that transition to market economy and alleviation of the current difficulties would not be possible unless our economy opens up, foreign trade relations are liberalized, and goods, manpower and capital move freely. We have made certain steps in that direction. Although the process is not yet running smoothly, it is our firm intention to pursue the course at opening up [the] Soviet economy.

We are going to pursue our current efforts to attract foreign capital. The currently enacted Law on Foreign Investments envisages statutory norms generally recognized in the world community, such as the right to buy shares, 100 percent foreign-owned enterprises, long-term lease of land and natural resources, and concessions. The Law has removed many obstacles which existed previously. A preferential regime is being established for investment in [the] Soviet economy.

In the longer term, we propose a number of major projects related to changing the structure of [the] Soviet economy, which may be of interest to Western companies and banks. Taking into account the Soviet Union's national requirements and the interests of our partners, we propose programs of cooperation in the following areas:

- conversion of defense industries;
- fuel and energy;
- food;
- market infrastructure;
- environmental protection;
- research and development;
- personnel training and education.

In this case we are talking about a wide-scale mutually beneficial cooperation with foreign capital. If implemented, the above-mentioned programs may strengthen the participants' positions on domestic and international markets and help ensure a stable use of production capacities and considerable profits. Therefore we expect that private corporations and banks will show commercial interest.

As to the governments of the Soviet Union and the countries interested in implementing the above programs, they could support such large-scale projects on the basis of the norms applicable in the world community.

NINE. One major avenue of our integration into [the] world economy is rouble convertibility. As a first step along that road we envisage introduction of a partial convertibility in a move away from the existing centralized system of the distribution of currency reserves to a free currency sale and purchase at a single market rate — a scheme that would also cover profit repatriation.

As to a timeframe for such measures, I will tell you frankly that here, too, we are contemplating two possible scenarios.

Under the first scenario the rouble is to be made partially convertible without reliance on foreign financial support. In that event, the transition will depend on the rapidity and success of domestic market changes in the economy and on efforts to overcome the crisis situation. Experts believe that this may take several years. This will clearly slow down further steps toward transition to a market economy.

Under the second scenario the rouble will be made convertible with international financial support. In that event partial convertibility of the rouble may be introduced and a foreign trade regime may be liberalized at an accelerated rate beginning with 1992. That form of support might be extended through the setting up by international financial institutions of a special stabilization fund which would be used, as necessary, to maintain an economically acceptable rouble rate and regulate any fluctuations in currency demand and supply. Making the rouble convertible would introduce qualitative changes in the economic mechanism and export major influence on the internal price-setting and price liberalization process. Therefore, I would suggest the establishment, through participation of experts from international financial institutions and the USSR, of a council to monitor transition to rouble convertibility.

TEN. One component of the process of involving [the] Soviet economy in [the] world economy is participation of the Soviet Union in the activities of international economic organizations. We take a positive attitude to the fact that our country has been granted an observer status in GATT and has become a founding member of the European Bank for Reconstruction and Development.

In the last few months there have taken place vigorous contacts related to the potential Soviet membership in the International Monetary Fund and the World Bank. We realize that membership in the two organizations, which play a key role in the world financial system, will require that we take some major steps.

We are prepared to provide even now to the IMF the economic information required by international norms, involve foreign experts in efforts to rebuild our economy, and together with Union republics offer unconditional guarantees to foreign investors.

In connection with transition to a market economy the development of relations between the Soviet Union, including its constituent republics, and the Organisation for Economic Cooperation and Development (OECD) is acquiring particular importance.

We view as very promising the road of developing contractual relations between the USSR and the European Community. We believe that such cooperation is a pivotal element in sharing a future united Europe.

Another priority objective of our foreign economic policy is cooperation with states and regional economic organizations of Asia and the Pacific.

That concludes my comments about the prospects for a political and economic reform in the Soviet Union and possible areas of international efforts to promote them.

The concept I have described constitutes the synthesis of the results of a broad debate both in the Soviet Union and abroad and the conclusions and estimates of a number of official and independent programs.

In addition to the Program of joint action of the USSR Cabinet of Ministers and republican governments, the concept takes into account the conclusions and recommendations adopted in parliamentary debate in the USSR Supreme Soviet and republican Supreme Soviets, conclusions of experts from the IMF, IBRD, OECD, EBRD and the Commission of the European Communities; a program formulated by a group of Soviet economists with the participation of Harvard scholars; documents of the recent conference of the Council for Interaction (Schmidt, Trudeau, Giscard d'Estaing, Kissinger, Callaghan and others), and conclusions drawn from the

discussion of perestroika problems at various levels with prominent foreign statesmen and public figures.

The concept was approved by the top leaders of the nine union republics, and I have been given a mandate, as it were, to conduct negotiations with the G7 leaders.

In conclusion, I wish to express the hope that the relationship established between us over the last few years, our personal contacts and a frank exchange of views will enable us to find reasonable and acceptable approaches to the issues under discussion. As to specific solutions, they could be prepared by groups of experts and specialists and subsequently formalized in intergovernmental and other agreements.

Annexed to this message you will find a package of proposals dealing with economic, scientific and technological cooperation programs, and a list of Soviet legislative acts related to the transition to market economy and observance of human rights and freedoms.

With sincere and profound respect,

President of the USSR M. Gorbachev

Source: <http://www.g8.utoronto.ca/summit/1991london/personal.html>