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Stockholm Studies in Economic History

**SEVEN YEARS THAT SHOOK SOVIET ECONOMIC AND SOCIAL THINKING
REFLECTIONS ON THE REVOLUTION IN COMMUNIST ECONOMICS 1985 -1991**

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The subject of this thesis is the development of theoretical economic thought in the Soviet Union during Michail Gorbachev's rule from 1985 to 1991.

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In my opinion, stationary structures are important in Russian history, which points to the necessity of a comprehensive view on history. In this context, Russian cultural history also provides useful perspectives on the main subject of this thesis. I am grateful to my teacher, Professor Per-Arne Bodin of the Department of Slavic Languages at the Stockholm University, for stimulating insights in this field. I am also grateful for the inputs that I have received from the higher seminars of the Department of Eurasian Studies at Uppsala University and the Department of Economic History at Umeå University.

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December 2008

PART 1. INTRODUCTION

1.1 Aims

In 1991 the Soviet Union was dissolved. Therewith the socialist society in its Soviet version and the socialist planned Soviet economy disappeared. However, in spite of a change in the direction of a market economy in Russia from 1991, the Soviet heritage is still today - in 2008 - very much alive. A significant part of the Russian economy is still run by government-controlled companies, in particular after the wave of “restatefication” under the presidency of Vladimir Putin. Also, the mainstream media are to a large extent controlled by the state. In addition, serious doubts about the functioning of the legal system have been reported. Corruption seems to continue to be a difficult problem. The linear transition from a socialist-planned economy to a modern well-functioning market economy failed. What were the reasons for this failure?

The main theme of this thesis is to analyse the Soviet economic theoretical debate in the period 1985 - 1991 in order to investigate if the reason for this failure can be traced to the academic debate among professional economists. A central point of departure is thus to analyse whether the prevalent economic theories in this period contributed to the collapse of the Soviet economy, and thereby paved the way for a more market-oriented economy. When Michail Gorbachev became secretary general of the Communist Party in 1985 it opened up possibilities for a more open debate, albeit within certain limits.

The ambition of the new leadership of the Soviet Union in 1985 was to reconstruct (*perestroit'*) the Soviet economy. Thus Michail Gorbachev, the new secretary general and later the first and last president of the Union, increased the possibilities of a more open discussion on several issues including the academic debate on economic theory. The concept describing this ambition was “*glasnost*”, from the word voice *golos* in Russian and *glas* in Church Slavonic.

The perestroika period has been the subject of research concentrated on economic, social, and political changes. Some of these findings will be presented in this thesis as contextual background. However, no studies have addressed the academic economic theoretical debate *per se*, and its possible driving force for change in the Soviet economy.

The purpose of this thesis is threefold. First and foremost, the purpose is to analyse the Soviet economic theoretical debate in the period 1985 to 1991. There are a number of central questions at issue in this context. Which were the themes and aspects of market economics that were of interest to the economists? Was the theoretical thinking among Soviet economists influenced by market economics and

experiences from other reforming socialist countries in Eastern Europe? Did they use the theoretical tools offered by market economics?

Secondly, the purpose is to analyse if this economic debate played an important role in the transition from a socialist planned economy to a more market-oriented economy. Did the economic debate have a stabilizing or de-stabilizing effect on the dominating socialist theory? Is it possible to consider the period 1985 to 1991 as constituting the “formative years” for the transition to a market economy? A possible indication of this can be found in the G7 report from 1991, which argued for such a transition through an *inter alia* programme for macroeconomic stabilization.

Thirdly, in the research on Russian history many scholars have emphasized the importance of economic and cultural stationary structures that could be dated back to the medieval Russian culture. Examples of such historical structures include the personalisation of economic exchange, the role and importance of the state and the authorities, i.e. autocracy, the lack of democratic traditions, the collectivist attitudes of large strata of the population, and the rift between the elite and the masses. These stationary structures (e.g. “*la longue durée*”, path dependence) also influence modern Russia. According to certain scholars, they can be interpreted as socio-cultural dispositions (“mental maps”) which make people think and act within the framework of the context to which they belong. In this line of thought, the logic of such structures makes it difficult, if not impossible, to think and act outside such socio-cultural and economic contexts.

The result of the reform process initiated by Gorbachev and the swift transition to a market-oriented economy by Yeltsin in the last year of the period (1991) has been called “wild capitalism” (*dikiĭ kapitalizm*), with a decreasing standard of living for the majority of Russians, widening economic disparities, and the emergence of a class of “oligarchs.” In 1991 “shock therapy” versus gradual transition had become an issue as a result of the recommendation of the G7 report. The debate was to a large extent structured around questions of a special Russian socio-economic context. The central question that was debated in this respect was whether Russia could and should, bearing in mind its unique cultural and historic traditions, pursue a socio-economic solution inspired from the western world, or if the Russians ought to follow their own Slavonic traditions.

In this context, the third purpose of this thesis is to analyse to what extent it is possible to identify such stationary structures in the Soviet economic theoretical debate in the period 1985 to 1991.

1.2. Sources

During the period 1985 to 1991, there was a lively economic discussion in the Soviet printed media in newspapers such as *Izvestiya*, *Argumenty i fakty*, *Pravda*, *Moskovskie novosti* and *Komosmol'skaya pravda*. However, as the centre of gravity of this thesis is economic theory, such journals are not of primary interest.

Therefore my sources have been chosen according the following criteria:

1. Given the circumstances, the sources should represent an accepted scientific and professional standard in the Soviet Union.
2. They should represent different opinions, and differing political and cultural perspectives

The following “thick journals” (*tolstye zhurnaly*) dealing with economic analyses and debate on an academic level have been chosen:

Kommunist. The journal was the official theoretical journal of the Central Committee of the CPSU. Lenin’s portrait adorned the first page. The journal was open to more “liberal” ideas.

Svobodnaya mysl' (“The free thought”). The first issue appeared in September 1991, as a theoretical and political journal after the failed coup d’état in August that year when the Communist Party was suspended. It was claimed that the journal was the sequel to *Kommunist*. Lenin disappeared from the first page, and the steering committee was presented as a collective of the editorial staff.

The importance of *Kommunist* can hardly be exaggerated. As we have mentioned, paragraph 6 in the 1977 Soviet constitution stated that the Communist Party “is the leading and directing force of the Soviet society and the essence of its political system and in all governmental and social organisations.” The Party should “determine the general perspective for the development of the society and the guidelines for the foreign and domestic policy of the Soviet Union, lead the Soviet people’s great constructive activities and give its struggle for the victory of communism a systematic scientifically based character” (Jonson 1998, p.6).

Novyí mir (The New World). This journal edited by the Soviet Writers’ Union (Soyuz pisatelei SSSR 1934-91) was established in 1925 and after the death of Stalin in 1953 and the ensuing “thaw” (*ottepel*, after a novel by Ilya Éhrenburg) gradually became a non-conformist stronghold in the Union and was never totally emasculated. It did not limit itself to literary critics but was also interested in social and economic issues. (Moser 1995 p. 534 ff.) The style of the journal in comparison with the other thick journals is more “literary” and outspoken.

Voprosy ékonomiki (Economic questions). The journal was founded in 1948, and was published by The Soviet Academy of Sciences (*Akademiya Nauk SSSR*). The journal was the main scientific journal on economics in the USSR.

Thick journals have a long tradition in Russia, beginning with Pushkin’s “*Sovremennik*” (The Contemporary). One reason for this type of journal was that quantity of pages would deter less educated readers. One of the more famous editors of *Sovremennik* was Nikolaí Chernyshevskii, whose novel “*chto delat'*” (what is to be done) in 1863 inspired Lenin to write his book with the same title (Geoffrey Hosking 1997, pp. 345, 362).

The selection of articles from these journals needs some explaining. Approximately 250 articles have been studied. There is a lot of repetition among these, as they often argue in the same vein. 125 articles have been chosen since they represent distinctly

different issues which are of interest in this thesis. The following table illustrates the character of the articles. The first group, 39 articles, are general in the sense that they often deal with socialist ideological and economic issues in more or less outspoken relations to market economics. 23 articles deal with markets. Up to 1989-1990, the question was how to create a socialist market, and in the last years there was a beginning of a discussion of a system akin to market socialism. During the last years of the period, the discussion centered on how to transform the planned economy to a market economy. General economic theory in the planned economic system was dealt with in 18 articles, mainly in the context of analyses of contradictions in the system. Wage formation and theories of distribution were the subjects of 12 articles. Special aspects of the perestroika reform process, *inter alia* the role of ministries and other state authorities, were the subjects of 16 articles. The problems of price formation were specifically covered by 11 articles. The veracity of statistics and the role of the black market was the theme of 6 articles. The following table gives an overview.

a) Comprehensive analyses of socialist economic and ideological issues	39 articles
b) Analyses socialist market, market socialism and transition to a market economy	23 articles
c) Analyses of economic theory in a planned economy	18 articles
d) Analyses of the structure of remunerations, and social and economic equality	12 articles
e) Discussion on the role of the state in perestroika	16 articles
f) Discussion on price formation	11 articles
The veracity of statistics	6 articles

1.3. Organization of the thesis

This thesis is organized in 10 parts.

Part 1 constitutes the background of the analysis. I state my aims, discuss the sources and survey the state of the present research.

In Part 2 theoretical and epistemological questions are analysed.

Part 3 deals with statistics.

Part 4 deals with the starting point of the debate, which was stimulated by the Communist Party.

Part 5 deals with the debate aiming at safeguarding the Soviet system.

Part 6 examines the debate on the possibilities of establishing a socialist market.

Part 7 deals with the debate on different ways of transitioning to a market economy

Part 8 is a summary of interesting features of the discussion.

Part 9 contains the conclusion.

Appendix 1 presents the backgrounds of the persons mentioned as references and sources.

Appendix 2 is a discussion on the concept “shock therapy”.

Appendix 3 lists the main political events during the period 1985 - 1991.

Appendix 4 describes relevant Five Year Plans, measures of equality and economic legislation.

Appendix 5 contains explanations of concepts peculiar to the Soviet economy.

Finally references and sources are cited.

The concepts “socialist” and “communist” are used according to theory and practice in the Soviet Union, without entering into a debate about the “true” meaning of these concepts.

In stylistic terms, the standard British system is used with some exceptions. That system is a modified version of the Library of Congress system. The “iu” and “ia” letters become “yu” and “ya”. At the beginning of names “e” becomes “ye”, i kratkoe becomes í. The double apostrophe (“) denotes the hard sign and the single apostrophe (') denotes the soft sign.

1.4 Earlier research and background

This thesis is about the economic theoretical debate in the Soviet Union from 1985 to 1991. But such a debate is of course influenced by the development in the real economy and also by political constraints. There is extensive literature on such issues. However, I am not using the space in this thesis to give a summary of this type of research. Examples in this respect are Hanson (2003) and Nove (1992). Earlier research of interest to this thesis deals therefore both with economic theoretical debate, and also on other issues regarding real economic and political development. Therefore this review will address literature which is directly relevant to my research, but also will address research as a background to the thesis.

The review will be structured in the following manner:

Background

- Research on Gorbachev.
- Research on reform.

Research of more direct interest

- Schools of economic thought.
- Stationary structures.

Research on Gorbachev

In my sources, Gorbachev is not a frequent contributor of economic ideas and therefore not of direct importance to my research. In this context, it should be noted that Gorbachev is not an economist (he is a lawyer). However, being the leader of the Soviet Union, and in principle the ultimate decision-maker, Gorbachev played an important role (active and passive), both in formulating and carrying out of the economic policy.

It is difficult to find any observations that analyse Gorbachev's economic policy in a positive light. Ed Hewitt (1988) is one of the few exceptions. He is of the opinion that it is possible to reform the system, "and it is already reformed at a pace far greater than conventional wisdom would suggest." George W. Breslauer (1995) concludes that in his first five years of power, Gorbachev had been an "event-making man." He exercised a unique leadership.

The negative observations are abundant, however. Jerry Hough (1995) writes that Gorbachev was letting his allies determine economic policy, while he instead concentrated on changing ideology. Consequently, his reactions to economic problems and their solutions, including the "parade of plans", eventually became rather hesitant and irresolute. Similar negative opinions on Gorbachev's wavering and hesitancy are expressed by, for example, Anders Åslund (1995), Jan Adam (1993), Stefan Hedlund (1999) and Philip Hanson (2003).

Peter Reddaway (1995) and Goldman (1994) are perhaps the most interesting scholars among those critical of Gorbachev's policies, and I will therefore dwell in more detail on their findings. With Goldman, it is possible to follow the critical analysis of the Soviet Russian historian, General Dimitrií Volkogonov.

Reddaway admits the skill with which Gorbachev undermined Party rule, the administrative command system, and the traditional political culture. He could do this without -- until 1990 -- provoking a conservative backlash. In 1990, however, Reddaway observes that Gorbachev had minimal domestic authority.

Volkogonov is of the same opinion, and argues that Gorbachev "has played a large historic role in the collapse of the totalitarian system, both in our country and in the countries of Eastern Europe. If, though, we are honest, he did not so much play a role, did not so much do things - he did not hinder the process because the system in itself had come to the point of breakdown, of collapse."

A frequent attitude among scholars is that Gorbachev had some new, but often incoherent, ideas. And that he was not able to implement them. Goldman (1994) is a good representative of that opinion. Gorbachev deserves credit for even contemplating far-reaching economic and political reform. But his mistake was that he believed that they could be carried out through fine-tuning the existing system. Hanson (2003) thinks along the same lines: "Gorbachev was the first Soviet leader who, if one may judge by appearances, did not understand the Soviet system. He was therefore the last Soviet leader". Goldman claims that Gorbachev's place in the textbooks is guaranteed because he produced a very rare economic crisis -- a supply side depression. Normally the standard course of a depression is that demand drops and retailers cut back on their inventories. As a result, orders are reduced,

unemployment increases and GNP drops. The recession or depression is demand driven.

Summarizing the research described here, Gorbachev was credited with opening up the Soviet society, and allowing a vivid discussion about the future. However, Gorbachev is not an economist and seems to have had difficulties grasping the real economic situation, though he was fully aware of the stagnant economic development in the USSR. He was, possibly to the end, convinced that the system could be reformed and that the lessons of the NEP period could be used for this purpose. The slogan was “back to Lenin”. He was prepared to give private enterprises, and particularly co-operatives, roles - but only limited ones. Private ownership in agriculture was rejected.

Research on reforms

Turning to the debate in the media, scholars have observed that limited openness (glasnost) was visible in the media -- beginning with rather harmless critique of stagnation (*zastoï*) under Brezhnev. Condemnation of Khrushchev's ideas and the Stalinist period became a subject. Thus, in January 1987, Gorbachev launched a strong attack against what he called lingering dogmas from the 1930s. This attack opened up the possibilities for a more diversified debate.

The reform process started outside the USSR in countries such as Hungary and Poland. Jan Adam (1993) explains the reason for this development. In countries such as Poland and Hungary, economists saw socialism as a system imposed from abroad, and therefore something that could be criticised and modified if possible. It was therefore easier to establish contacts with Western economists. These countries were also more influenced by foreign tourism.

Scholars have mainly used three approaches (but not exclusively) in analysing the economic development in the Soviet Union:

- A systemic approach using categories such as ownership relations, the concept of socialism, etc.
- Analysing the schools of thought.
- Describing and analysing the development over time.

Adam (1993) and Anders Åslund (1995) observe that when the severity of the economic situation became apparent to everyone, it became possible for a number of economists to emphasize the need for sweeping economic reform. Attacks were launched against the prevailing picture of Soviet economic development, with a radical revision downwards of the alleged results. The emphasis was placed on problems of economic equality and bore in mind the ideological – but not necessarily real -- egalitarian quality.

In reforming a socialist system, ownership relations were of major importance. At the beginning of the Gorbachev years, there were no challenges to collective ownership,

but critics noted that workers, in principle being co-owners and co-possessors, had no say in the use of the means of production. State ownership should be turned into societal ownership. “De-stateification” (“*razgosudarstvlenie*”) became a key word in this process. The 1988 reform had introduced self-management in enterprises. Adam notes that this could be seen as a vehicle in order to achieve societal ownership. De-stateification for some participants in the debate meant that conditions should be created where the state was still the owner of the enterprises, but did not interfere operatively. The other aspect of these reforms was a change in the ownership. Hanson (2003) observes that “de-stateification” should not be confused with “*denatsionalizatsiya*”. The latter was a bad word. Already in 1987, however, Oleg Bogomolov, Director of the Institute for the Socialist Economic World System (IEMSS), said plainly that it was desirable to introduce a variety of private and co-operative forms of ownership into the Soviet economy. In the debates during the 1980s, the efficiency advantages of the American family farming were favourably contrasted to the Soviet agricultural system. In the 1980s, small-scale enterprises were clearly advocated. Thus, *Literaturnaya gazeta* published a round table discussion in 1987 (*Ékonomika ha perepute*, The economy at a crossroads). This article was published before Gorbachev had tried to limit the discussion by stating that all points of view were acceptable as long as they were socialist. At this round-table, arguments were expressed which were very pro-market and anti-socialist.

Another aspect closely related to “de-stateification” was the role of branch ministries (*vedomstva*). In this context David A. Dyker (1992), writing before the dissolution of the USSR, touches upon the discussions on the role of ministries in a market-based system. He refers to the ideas expressed by some economists that the ministries should be wholly freed from their brief to supervise enterprise plan fulfilment.

Scholarly interest has been concentrated on more spectacular interventions. A typical instance is *Perestroika and the Economy* (1989) edited by Anthony Jones and William Moskoff. In this book, a number of articles are published without very much analysis. Some of these articles are analysed in this thesis. In my opinion, the articles in the book have been chosen in an atmosphere where it could be reasonable to believe that perestroika would radically change economic theory. In my opinion, this was an exaggeration.

Schools of economic thought

After the failure of the reform programme of 1987, the debate became more diversified, and a transition to market economy started to be envisaged. It is possible to identify different schools of thought.

Adam (1993) identifies three camps in the debate. The radical group advocated a speedy transition to a market economy, and in some quarters a minimal role for the government was advocated. The moderates attacked the old system less, and saw the proposed reforms as compatible with socialism. The conservatives saw this programme as too radical.

Hanson (1989) and Sutela (1991) analyse the Soviet debate mainly in terms of different schools of thought. Hanson concentrates on modern Soviet economic debate, while Sutela adopts a more historical aspect. Thus, Hanson describes adherents to the school of the System of the Optimally Functioning (socialist) Economy. Three features of their approach are of interest to the policies found in the Gorbachev era:

- Detailed central administration is an inefficient way of running an economy. Improvements can be found in designing a system with automatic feedbacks between separate decisions. These feedbacks rest in part on market relations, which are guided by scarcity prices.
- Guidance by the central authorities will continue to have a large role, such as the setting of key prices, through the fixing of stable, long-term normatives linking enterprises' financial obligations to performance, and the setting of control figures to broad categories of output and investment.
- Planning normatives entail changes in the activities of existing institutions rather than the abolition of the institutions. Existing types of ownership of the hierarchical system of ministries are not questioned.

Pekka Sutela's (1991) seminal work deals with economic policy – not so much theory - and economic reform in the USSR from the beginning up to 1989/90. It was written before the dissolution of the Soviet Union. His main thesis is that the history of economic thinking in the USSR is based upon the Kautsky-Lenin single factory image of socialism. Sutela writes (p.7) that in the famous revolutionary pamphlet *State and Revolution*, Lenin paraphrased Karl Kautsky's description of the future society. Kautsky, the leading theoretician of the socialist movement, wrote in the late nineteenth century: "In the socialist society, which is after all just a single giant industrial enterprise, production and planning must be exactly and in a planned way organized, as they are organized in a modern large enterprise."

Gorbachev's 1986 reform proposals soon got competitors. Sutela discerns three alternatives, viz. the Slavophile, the radical socialist and the Westernising approaches.

The Slavophile approach was a spiritual rejection of economic rationality and markets. Existing applied economics was worthless and the political economy of socialism an apology. There was a need for a proper Russian form of economic reasoning that should be based on ancient traditions of collectivism and spirituality. The "Slavophiles" were against markets, co-operatives, private property, and unemployment, as well as export of raw materials and energy, the opening of the economy and joint ventures with capitalist firms. Their economic programme consisted of centralism, collectivism, full employment, stable prices, and opposition to entrepreneurship.

The radical socialists enhanced what they saw as the socialist character of perestroika, mainly self-management and leasehold. In leasehold (*"arenda"*) the state

remains the owner of means of production. Workers of a factory or a farm – or a part thereof – are put in possession of it through “*arenda*”.

The Westernisers played down the differences between capitalism and socialism in the sense that they argued that the market is the natural economic model for any society, irrespective of the system of ownership. They emphasized the need for opening up the economy to world markets.

Summarizing the research work on the history of economic ideas and ideology, we may note that to a large extent such studies had been accomplished before the dissolution of the Soviet empire. This research is not concentrated to or specialized in the perestroika period. It often covers long periods, sometimes from the beginning of the Soviet state, or, in a few cases, deals with comparative analyses of the development in different socialist countries. Thus, in some cases, it concentrates on salient points of more political than economic interest. Economic theory is only sparsely approached. To a large extent, the scholars have used sources such as newspapers or periodicals, which primarily do not deal with problems of economic theory.

There are different types of approaches. Some scholars go back to the intense debate in the 19th century between Westernisers and Slavophiles, including also modern tendencies as the radical socialists. This could be of interest, bearing in mind the long-term tendencies in Russian thinking. Others classify the discussion of economic issues according to different research. After the dissolution of the Soviet Union, the interest in the perestroika period appears to have faded among scholars, whose interest now seems to be more directed towards the independent Russian Federation and some other states members of SNG/CIS (*Sotrudnichestvo Nezavisimykh Gosudarstv*).

Stationary structures

Regarding research in Russian/Soviet history, scholars have emphasized the importance of stationary structures (e.g. Fernand Braudel and *la longue durée*, path dependence). Stationary structures as discussed by the adherents of the French Annales tradition can be defined as collective mentalities and geographical and economic conditions which limit the actions of people. Rapid political and economic changes are ripples on the surface.

One such structure of less importance to our research is the lack of natural borders, that has given rise to a sense of insecurity and vulnerability of attacks from neighbours – e.g. Mongols, Swedes, Poles - and as a consequence the need for military expansion as a means of protection.

In his study “On the ‘Primitivism of Russian Capitalism’” Björn Badersten (Badersten 1998 a, pp. 29 ff. and Badersten 1998 b pp 67 ff.) seeks the roots of the present economic situation in Russia in a historical continuity of personalisation of economic exchange. He argues that the Russian economy since the very beginning has been marked by a high degree of personalisation in economic exchange. The economic exchange in the primitive rural economies in the territories now known as European

Russia, Belarus, and Ukraine, was characterised by networks of kinship groups or tribes, linked together through barter. Regional, and eventually, long distance trade came into being in the 6th and 7th centuries, and was further developed by the Vikings in the 9th and 10th centuries, which developed the trade route “from the Vikings to the Greeks”.

Novgorod and Kiev played important roles as commercial centres, and in the 10th century Kievan Rus controlled the entire Volga River trade network from the Baltic to the Adriatic and the Black Sea. For a considerable period, economic exchange in Kievan Rus was increasingly marked by impersonal traits. Later, Novgorod also stands out as a commercial centre with a socio-economic life, which brings one's thoughts to Florence and Venice.

With the forced modernisation from above by Peter I, Russia witnessed the growing system of serfdom in a new industrial form. Merchants and industrialists were allocated serfs. Badersten observes that in the 19th century, the backwardness of the Russian economy, when contrasted with Western Europe, became apparent. The interventionist state had created trade and manufacture monopolies. Protectionist tendencies, nepotism and corruption retarded the economic development.

In 1861, Alexander II introduced modernisation from *inter alia* by abolishing the serfdom. However, administrative obstacles, ruthless taxation and the tying of the free peasants to the village, resulted in a decrease of agricultural production. During the period of rapid industrialisation at the end of the 19th century, the majority of the workers were seasonal migrant labourers. The peasants, the largest part of the population, remained in practice tied to their communes. Stolypin tried to reform the system, but by 1914 only about 25% of the rural households had been reshaped. There were, however, wide regional differences. The local commune and even the small enterprises in the cities operated in isolation from the commercial mainstream. The personalisation of the economy was still highly important.

The Bolshevik coup d'état (from above) signified a continuation of the route of interventionism, clientilism, and state control over economic affairs. According to Badersten, NEP did not introduce market exchange in the Russian economy. This short period was a new manifestation of politics from above. State intervention continued to grow. Small scale and privately owned firms, encouraged by the regime, were dependent on the state sector for supplies. Peasants continued to produce mainly for subsistence.

With the introduction of the command-administrative economy, and the deficiency of the formal state-run economy, an increasing informal, underground economy kept the system afloat. It became utterly important to build up long-term personal relations to secure deliveries and co-ordinate economic activity. Gifts, bribery, extortion, clientilism, and nepotism became features of the economy. Stealing was widespread. Badersten quotes Grossman (The “Second Economy of the USSR” 1977 p. 29): “Very probably there is a close organic connection between political administrative authority, on the one hand, and a highly developed world of illegal economic activity on the other. In sum the concept of kleptocracy does not seem inapplicable”.

In addition, the Russian economist professor Effem Maíminas (*Svobodnaya mysl'* 16/1991) argues along lines very similar to those of Badersten's, and reminds us of the widespread use of distributions of valuable goods and services through the black market and other channels in the Soviet shortage economy. The fact that the whole distributive system was in the hands of the state gave the bureaucracy powerful leverages. We will come back to Maíminas later in analyses of the debate.

However, Maíminas' main point is that the historical dependence upon state bureaucracy and power also influences the behaviour of Russians today. Maíminas feels that the tradition of dependence upon the authorities, the powers, and the state, is a common characteristic of Russian history, reaching its apogee in the totalitarian administrative-bureaucratic system.

As has been evident from the above mentioned article by Maiminas, the important role of the state and its authorities is a stationary structure in Russian history. Furthermore, Lewin (in Lennart Samuelson (2007) maintains that the Soviet idea of state ownership is close to the tsarist concept of hereditary estate. He probably refers to the concept *pomest'e*, in the sense of conditional land tenure (cf. Richard Pipes 1995, *passim*). In the same volume, Victor Danilov and Teodor Shanin tell us that the Bolshevik system of the compulsory supply of agricultural products in force from 1918, had also been used by the tsarist government as well as the provisional government in 1917. Scholars are not unanimous regarding the importance of the tsarist influence on the property situation. But it is allowed to note that this influence was significant.

There are only a few experiments of democracy in Russian history. Its history is mainly a history of different types of autocracy, sometimes formulated as a state ideology. The substance of autocracy has of course changed in Russian history, but the principle has remained the same. Autocracy by the tsar/imperator was based on the will of God. The communist autocracy was based on historical and economic theory and ideology, and would lead to a higher stage of civilization.

James Billington ends his classical work (Billington 1970, pp 590 ff.) with a chapter on "The Irony of Russian History". He notes that in the Muscovite period under Ivan the Terrible and Alexis Michailovich, the most extreme statements of the exclusive nature and destiny of Russia happened when westernisation was proceeding rapidly. "The maniac xenophobia of Ivan the Terrible and Old Believers had an enduring popular appeal, and provided the basis for modern mass culture...." The autocratic tsars - imperators and reformers of Imperial Russia found themselves often in bondage to the superstitions of their nominally bonded subjects.

The spontaneous and democratic revolution in March 1917 was cancelled out through a coup by a small and mostly totalitarian opposition group. Lenin's position was that the interests of the revolution were superior to the formal rights of the Constituent Assembly. As the Bolsheviks could not control the Assembly, Lenin dissolved it *manu militari* in January 1918. Nobody stood up to defend this legally elected Parliament. (Hélène Carrère d'Encause 1996 p.467.

An important root of Russian collectivist historical development is the farmers' commune, *the obshchina*. It was an isolated institution, with its own egalitarian system of distribution of lands after the emancipation in 1861. It was dependent upon the state and gave rise to an attitude of dependence or exploiting efforts of other people (*izhdivenchestvo*).

This collectivist attitude is clearly shown in an opinion poll at the end of 1990, where only 10 percent of the answers were in favour of entrepreneurial incomes, with all their risks. 50 percent preferred wages or salaries lower than entrepreneurial incomes, but which are less risky (Maiminas, op.cit. *Svobodnaya mysl'* 1991).

Another aspect of the stationary structures is the attitudes of the elite to the people. A problem discussed during the period 1985 -1991 is how to ensure that the employees really do their duties as workers in the socialist society. A key word is "*izhdivenchestvo*" which is often translated as "dependence", but can also mean "a tendency to exploit and enjoy the efforts of other people". This attitude could of course also be explained as an intelligent way of avoiding the demands of an oppressive power - the landlords under the serfdom, the Communist party in the collectivisation of agriculture, etc.

Richard Pipes (1995, pp. 155 ff.) argues that in Imperial Russia the resistance of the farmers could be violent, and refers to the jaqueries in the 1670s under the leadership of Stepan (Stenka) Razin, and in 1773-75 under Emilian Pugachev. Also in 1905 and 1917 there were peasant uprisings.

However, as Pipes writes, the serf tended to employ non-violent means to have his ways, and elevated the art of lying to great heights. Pipes quotes from Yurií Samarin, a Slavophile expert on rural conditions, who wrote: "The peasants show the landlord almost in all circumstances of life the darkest side of their nature". Furthermore, "In the presence of his master, the intelligent peasant assumes the pose of a clown, the truthful lies right to his face, untroubled by conscience, the honest one robs him, and all three call him 'father'". Pipes observe that "this behaviour towards his betters contrasted vividly with the peasant's honesty and decency when dealing with equals. Dissimulation was not so much part of peasant character as a weapon against those from whom he had no other defence".

The disdain of the elite for ordinary people is also well reflected by a comment of the literary critic Vissarion Belinskií (1811-48), a commoner by origin, who disputed the *muzhiks'* dream of a democratic Russia: "Our people understands freedom as *volya*, and *volya* means to make mischief. The liberated Russian nation would not head for the parliament but it would run for the tavern to drink liquor, smash glasses, and hang the *dvoriane* who shave their beards and wear a frock-coat instead of a *zipun*". *Volya*" is a Russian word for "having ones way". *Zipun* was a coat used by peasants. *Dvoriane* are the noblemen.

The same attitude was prevalent also among the communists after the coup d'état in October 1917. Pipes (1996, pp 201 f) quotes from Lev Trotsky, who put it as follows: "One may say that man is rather a lazy creature. As a general rule, he strives to avoid work. The only way to attract the labour force required for the economic tasks is

to introduce compulsory labour service.” At the Eleventh Party Congress (March 1922) Lenin denied that Russia had a “proletariat” in the true sense of the word. He insinuated that most of the employees of Russian factories took jobs to avoid military service.

Lewin (2005, p. 295) also writes about the abyss in pre-Soviet Russia, which separated the élite from the majority of the people and qualifies this situation as the syndrome of underdevelopment. He quotes the Russian historian and politician Milyukov, who wrote about the lack of cohesion (*tseplenie*) among the different strata of the population.

More or less the same attitude was also prevalent in the period 1985 - 1991. Thus in 1987, the Russian economist Nicolaí Shmelev wrote in *Novii Mir* (1987): “Let us not close our eyes to the economic harm done by our parasitical confidence in guaranteed work. Today it is, I believe, clear to everyone that we owe disorderliness, drunkenness, and sloppy work largely to excessive full employment. A real danger of losing your job and going onto a temporary allowance or being obliged to work wherever you are sent is a very good cure for laziness, drunkenness, and irresponsibility”. Smelev’s arguments will be further dealt with in my analysis.

Hosking (1997 p. 485) writes: “The rift which remains is that between the political elites, joined now by a nouveau-riche business elite, and the masses. Between the two sides there is little or no sense of common citizenship: only mutual suspicion, and from below, a bewildered and cynical resentment”. Members of the KGB could keep their flats, dachas, and high retirement pensions irrespective of their activities, while their victims often live in poverty. The Russian word for “state” is “*gosudarstvo*”. The root of this word is “*gosudar*” which means “sovereign” or “Your Majesty”. Before Soviet times, this expression was also used by people when addressing a person of higher social standing, often with the preceding adjective “*milostivyi*” (gracious).

The change of terminology in the Soviet period, with the introduction of “comrade” (*tovarishch*), and later citizen (*grazhdanin*, *grazhdanka*), as a common address, did not mean a change of substance, titles were used together with “comrade”. As a result, there was evidently a feeling among many Soviet citizens that the intelligent strategy was to co-operate when necessary with the powers that be, or, better, avoid these powers. There was a sort of double standard with one standard applied in the relation to the authorities and another concerning friends and relatives.

Consequently, the lack of trust is a stationary structure in Russian/Soviet history. During the last years “economics of trust” has emerged as an interesting field of research. This type of analysis could be seen as influenced by institutional economics. Thus, according to empirical research, a number of factors such as the rule of law are important in this context. High homogeneity in the population and a high level of education and training are important factors. The Soviet Union was a multinational organization with large cultural differences among the different parts of the Union. The level of education and training was rather low if the number of manual workers, particularly in agriculture, but also in other sectors, was taken into account - even if there were centres of excellence in some fields. Trust reduces the costs of

transaction and seems to have a positive influence on economic growth. It seems reasonable to assume that lack of trust is an important part of stationary structures. A good review and analyses of the literature of “economics of trust” are to be found in “Ekonomisk debatt 3/2006” (Niclas Berggren and Henrik Jordahl).

As will be examined later, the concepts of social and economic equality and justice (*spravedlivost'*) played an important role in the Soviet society. In an article in *Kommunist* (13/1986) Tat'yana Zaslavskaya analyses this concept and notes that existing inequalities always give rise to active response (*otklik*) among the population. Her analysis is based on the socialist concept of social and economic justice – from everyone according to his or her capacity, to everyone according to his or her work performed. As will be noted later, the popular idea of the Soviet Union as a society with advanced equality among different groups of the population did not necessarily correspond to the reality, and that many Soviet economists felt that the levelling of salaries and wages had gone too far.

The idea of social and economic equality, at least among the lower strata of the population, was well reflected in the village communes (Hosking 2001, *passim*).

Even after the emancipation of the serfs in 1861, the peasants were in practice tied to the commune, where cultivable strips were periodically redistributed among families to compensate for changes in family size. The custom of emergency mutual aid (*pomochi*) was common sense. Joint responsibility (*krugovaya poruka*) was a custom long before this custom could be used by tsars and the Soviet leaders to control the population. Egalitarianism was at least an ideal. Hosking (*op. cit.*, p. 16) quotes a popular saying: “Wealth is a sin before God, and poverty is a sin before one’s fellow villagers”.

Another stationary structure can be seen in the light of Sutela’s (*op.cit.* 1991) findings concerning Slavophile and westernising approaches of the economists. These approaches have a rather long history in the Russian empire. They tend to come to the fore when there is a feeling or a conviction that the Empire is economically lagging behind Western countries and reached its climax 1840 – 1865 (Klas Göran Karlsson 1999, Nicholas Riasanovski 1952, Richard Sakwa 1993, Andrzej Walicki 1989). It is a highly complicated issue. In a very simplified description, Slavophiles (*Slavyanofily*) use a theme of “we” (the Slavonic culture) and “they” (the Western culture) or of “good” and “bad”. The Slavonic culture is different and better. It has a mission in the world. External and internal enemies have to be unmasked, and Russia has to understand its intrinsic nature and direction, and in this way secure the victory of the right principles of life and development. The Westernisers (*Zapadniki*) have the same point of departure in the analysis, but their conclusions were different. Russia did not have a past, present or future if the country did not change tack. Russia had to become Western European and accept the dynamic principles of these countries.

Very much in line with the Slavophile ideology was the idea of the advantage of Soviet-style socialism over capitalism. I agree with Sutela that this type of discussion played a role by the end of the Soviet era, and still has an influence. Thus the present leader of the Communist Party of Russia, Gennadii Zyuganov is not a

Slavophile, but is influenced by groups called “neoslavophiles” (cf. Zyuganov 1995 and 1996).

The extent to which Marxism is deterministic is somewhat of a moot point. The Slavophiles were not deterministic. What is superior and therefore desirable is not the same thing as determinism. But it is possible to argue that Marxism-Leninism is deterministic. In this spirit, the economists had to be aware of the system’s historical infallibility

Summarizing the analysis, the following types of stationary structures can be noted.

The role of geography is generally interesting, and merits mentioning, but is not directly very important to our subject. Indirectly, the observation of quantitative versus qualitative development has a bearing on my research.

The personalisation of economic relations as opposed to market economic relations is essential in Russian history up to now. It was thus important to take advantage of personal connections (*po blatu*) for exchange of goods and services including contacts with the authorities. The role of illegal economic activities can be seen against this background.

Economic and political reforms in Russia and the Soviet Union have been reforms from above. Dependence upon the authorities is a stationary structure in the same vein, as well as the lack of civil society traditions.

The old discussion among Slavophiles and westernizers was interesting as a stationary structure. These attitudes had their equivalence in the attitudes of the elite to the ordinary people – distrust and sometimes even animosity. The Leninist concept of an elite party reflects an attitude common in Russian history. The lack of trust is a stationary structure in Russian/Soviet history. There are very few experiments of democracy in the Russian history.

Collectivist and egalitarian attitudes among the population are important structures. The roots of such attitudes can be found also in traditions for the farmers’ commune, *the obshchina*.

In this thesis, one purpose of analysing the economic theoretical debate will be to trace such stationary structures in this debate.

PART 2. THEORY AND METHOD.

During most of the period 1985 to 1991, paragraph 6 of the Soviet (Brezhnev) constitution of 1977, which guaranteed the leading role of the Communist Party, was in force. In November 1989, Andrei Sakharov argued that this paragraph should be debated in the Supreme Soviet. Gorbachev rejected the idea on the grounds that the discussion would be an attempt to debate the role of the party. Then some deputies demanded that the paragraph should be discussed before full parliament (the Congress of People’s Deputies) during the month of December. Gorbachev refused (Steve Crawshaw 1992 p. 94). The paragraph was eventually modified in March 1990, after large manifestations of popular discontent. The paragraph had constituted a

certain limit to the scope of the political and economic debate. On December 8, 1991, agreement to dissolve the Soviet Union was reached. Gorbachev resigned his office on 25 December 1991. In the analyses of the discussion, it is necessary to take this institutional situation into account.

Mark Blyth (2006) argues that in periods of economic crisis, ideas, and not institutions, reduce uncertainty. After the reduction of uncertainty, ideas make coalition-building and collective action possible. Ideas are weapons and blueprints in the struggle over existing institutions. Finally, following institutional construction, ideas make institutional stability possible. Blyth's case is that ideas are casual variables in their own right. Power, money, and self-interest are important only to the extent that they can be mobilized to specific ends. But neither material resources nor the self-interest of agents can dictate those ends. Ideas do this. Blyth's findings can of course not be integrated into a Marxist-Leninist theory. But bearing in mind the importance of ideology in the Soviet Union, Blyth's approach and findings are of interest.

Writing after the dissolution of the USSR, it is possible to also make use of source material from the last years of the Gorbachev period. Furthermore, by limiting the research to the period 1985 to 1991, it will be possible to penetrate deeper into the discussion, and shed light upon parts of the discussion which have not been dealt with.

One reason for the importance of the economists and other social scientists is that many of those who published their articles in the journals cited in this thesis also belonged to a sort of "nomenklatura" of academic economists. Some of them also played important roles as actors in economic and political life *inter alia* Abalkin, Aven, Gaïdar, Golovin, Khanin, Kantorovich, Latsis, Selyunin, and Shatalin.

The meaning of concepts

One of the problems is the meaning of central words and concepts. It is useful to take a closer look at the meaning of some of the concepts frequently used in our source material. One example could be the concept of "shock therapy," which played a role in the late Soviet debate. This kind of therapy was often recommended as an alternative to a more gradual transformation of the economic system. Did those debating the Soviet economy agree on the meaning of this concept (cf. Appendix 2)?

In addition, the idea of "*demokratizatsiya*" did not, at least up to 1989, mean the introduction of a multiparty system. In practice, the concept could be interpreted as decentralization. In 1989, the idea was to ensure that there would be more than one candidate acceptable to the Communist Party for every seat in the Congress of People's deputies, and this way give the electorate a kind of choice.

Abalkin (Kommunist 16/1987) has an interesting approach to this concept. The process of democratisation means a fundamental renovation of Socialism, and is coupled to the expression and defence of various interests - national economic, collective, regional, national, and those of other associations of workers. Only on this foundation is it possible to overcome the alienation (*otchuzhdenie*) from the economic

interest of the whole society. Accordingly, a fundamental and revolutionary renewal of the socialist economic system is necessary - also regarding questions related to ownership of means of production. There are two interesting aspects in this context. Abalkin identifies the existence of different (and possibly conflicting) interests in the Soviet society. Rather unorthodox is it that Abalkin uses the term “alienation”, which in Marxist terminology refers to the situation under capitalism.

The terms *glasnost* and *perestroika* have a rather long history in Russian conceptual history. These concepts became household words among the Westernisers (*zapadniki*) beginning in the reform period of Alexander II after the Crimean war. (For a historical analysis of these concepts, see Kristian Petrov et 2006, *passim*.) In this context the implications of these concepts for economic theory are interesting.

“*Glasnost*” is a derivation of the Russian word *golos* (Church Slavonic *glas*), which means voice. It is often used to mean that there should be a more open debate, which should aim at ameliorating the functioning of the socialist system, but while taking into account the leading role of the Communist Party.

“*Perestroika*” (reconstruction”) implied making the socialist system more effective and efficient. It was necessary to get away from the Stalinist system, as well as from the lethargy and stagnation (*zastoĭ*) during the Brezhnev period.

All these slogans should, in my opinion, be understood as concepts within the limits of officially-defined socialism. However, at the end of the period 1985 -1991 these concepts, as well as socialism, took on new meanings.

As is well known, Soviet statistics did not always reflect reality. It is possible that even the leaders of the Soviet Union received some misleading information about the real economic and social state of the Union. These issues are dealt with in Part 3.

Without pre-empting the conclusion of this thesis, one can already here and now claim that principally there are four main attitudes among the Soviet economists in the period 1985 to 1991. These positions are different in the various phases of the period. These attitudes are the following:

- Safeguarding the original socialist system. The system is in itself good, but has been corrupted by Stalinist terror and the inertia under Brezhnev. It is necessary to go back to Lenin. At the same time, it is not possible to copy the NEP. Drawing upon NEP experience, the present system has to be reformed and modernised.
- A “third way”- a socialist market. This position has some similarities to the convergence theory.
- Gradual transition to market economy.
- Shock therapy.

These positions may be influenced by the perceptions of the economic and social reality, the intellectual and economic heritage, as well as by experiences from other socialist countries and influences from the west.

PART 3. Statistics

Statistics is of course important for economic theory. The perception of economic and social reality is essential not only for economic decisions, but also for discussion on economic theory.

I will take into account the following aspects:

- The economic position of the Soviet Union in the world economy, particularly in comparison with the USA.
- The veracity of Soviet statistics, including the size and importance of the black market.

Comparisons with the USA played an important role in the official Soviet discourse. As a leader of the capitalist system and the main economic and social competitor, the USA was actually a sort of a benchmark.

Regarding the economic position of the USSR in the world economy, Soviet economists had noted negative tendencies even before 1989. Along these lines, Yegor Gaïdar wrote a review of the Soviet economy in *Kommunist*. His comments became more and more acidic and negative, and he tried to find solutions in the experiences of Latin American countries, with their high inflation rates in the nineteen-seventies and the nineteen-eighties. Comparisons were made between the Soviet Union and other socialist countries, and the economic level of the USSR was considered analogous with that of Romania for example.

Comparisons between Russia and the USA were made earlier *inter alia* by the Russian economist Propokovich (1871 to 1955), who estimated the Russian (excepting Finland) imperial national income (*natsional'nií dokhod*) as being about 37 per cent of that of the USA. At the beginning of the Soviet period, the corresponding figure based only on the material production (estimated by the Russian economist and statistician academician Strumilin 1877 to 1974) was 33 per cent. In the Stalinist period, there were practically no such comparisons published. From 1960, statistical publications indicated that national income and industrial production reached the level of 60 percent of that of the USA, while agricultural production attained 75 to 80 percent, and the labour productivity in industry 40 to 59 percent (Kudrov, *Svobodnaya mysl' 17, 1991*).

In the nineteen-sixties and nineteen-seventies, the leadership of the USSR organized research studies on the US economy. The results of such studies were sometimes published, but more often were not. For instance, prime minister Kosygin in 1966 asked the Academy of Sciences to evaluate the Soviet economy, particularly in relation to its competitiveness with the USA (Lewin 2002).

In 1982 the national income of the USSR was officially estimated at 67 percent of that of the USA, industrial production more than 80 percent, agriculture about 85 percent, and investment about 100 percent. Labour productivity was estimated to more than

55 percent, and agriculture 20 to 25 percent of the corresponding figure for the USA. According to Kudrov (op. cit.), these figures were political fraud (*politicheskaya lipa*) but were believed by many.

Kudrov surmises that the falsified figures had to do with the Soviet ambition to catch up with and surpass (*dognat' i peregnat'*) the capitalist economies, and might well have been the reason for believing that the capitalist society was doomed to destruction. Kudrov also refers to the 1961 programme of the Communist Party, in which it was stated that the economic level of the USSR would surpass that of the USA in 1970, and that the communist society would be realized in 1980.

This programme indicates that the Soviet leadership really believed in these figures. An example is Khrushchev's statement that "we will bury you" (*my vas pokhoronim*). According to Hanson, for example, the real GDP was far less than that which was communicated by the Soviet Union. In one analysis of the "real" GDP, Hanson presents the following figures (quoted from Hanson 2003 p. 243).

Revised figures are the following:

Soviet per capita GDP as per cent of corresponding figures for the USA

1946	20.8
1950	31.7
1953	27.8
1960	35.2
1964	34.9
1973	34.0
1985	33.5
1991	27.1

When the communist monopoly of setting the agenda was abolished in 1989/1990, as has been indicated above, it became possible to question fundamental issues regarding the veracity of Soviet statistics. Two types of problems were discussed. The first question was to what extent Soviet statistics were false, and what to do in order to establish veracity and regain confidence. The other question was to what extent the statistics really covered all economic activities, i.e. the significance of the officially non-existing or unimportant black market.

The discrepancy between the propaganda of the Party and the reality experienced by ordinary Soviet citizens created moral problems that influenced the behaviour of people. As Hedlund (1989, p. 22) puts it, "there is an official reality in which I exist when I am away from home, and there is a private reality that exists in my home and among the family." As Hedlund observes, this reality was reflected in the world of Soviet anecdotes. He tells the story of the man who enters a clinic and demands to see an eye-and-ear specialist, an *ukho-glaznik*. There was of course no such

specialisation, and the man tells the nurse of his affliction: “Well, you see, I keep hearing one thing, but I see something totally different.”

Gorbachev changed the attitude of the Communist Party by being more open than his predecessors about the economic and social problems facing the Soviet Union. However, he did not raise the question about the veracity and relevance of the available statistics. Kudrov (op.cit) writes that there were among some Soviet scientists serious doubts regarding economic statistics. Thus the Soviet Academy of Sciences regularly arrived at estimates 10 to 15 percentage points below the official figures. Such estimates were normally not published.

As early as 1987 (*Kommunist 10/1987*), Yegor Gaïdar, while evidently accepting the existing statistical figures, wrote that indices relating to the growth of the Soviet economy might distort (*iskazhat'*) what really happens in the national economy. Indices of the volume of production represent the total production but not necessarily its expediency. He refers to goods of low quality, which does not correspond to the demand. Another example is that there are a lot of ineffective activities in the economy. He refers to bottlenecks in the transport system. As a result, enormous amounts of goods are stranded in the stocks.

Selyunin and Khanin in an article in *Novyí mir 2/1987 (Lukavaya tsifra)* find fault with the Soviet statistics, from the Stalin period and onwards. As a contrast, they quote from Lenin in 1924 when he stressed the importance of correct statistical information. Their comments can be seen as part of the ideology stressing the importance of Lenin and the NEP period in contrast to Stalinism and the stagnation under Brezhnev.

The chairman of the Goskomstat (The State Bureau of Statistics) is explicit and writes (Kirichenko, *Vernut' doverie statistike, Kommunist 3/1990*) that statistics in the Soviet system had the task of demonstrating the successes and predominance of the existing system, and concealing its problems. Statistics have had an ideological function. Methodologically and conceptually, Soviet statistics did not correspond to internationally accepted standards. Now the professional honour (*chest' mundira*) had to be restored.

Kirichenko writes that Goskomstat was now trying to correct the figures, and bring Soviet statistics up to internationally acceptable standards with regard to theory, relevance, veracity, credibility, concepts, and methods - a difficult task. It was not considered disgraceful to ask for the help of foreign experts. Kirichenko does not conceal the immense difficulties facing Goskomstat in this respect, and goes into some detail regarding this issue. For example, the first step was to calculate the Gross National Product (*volovoí natsional'nyí produkt, VNP*) for the Union instead of the Net Material product (*Chistií material'nyí produkt, Chmp*) in the form of national income (*natsional'nyí doxod ND*) and gross material product (*volovoí obshchestvennyí produkt VOP*). However, Samoukin (*Voprosy ékonomiki 4/1991*) maintains that these problems were not yet solved. Thus ND and VOP were still calculated according to the old system while VNP was used only for international comparisons.

According to Kirichenko (op.cit.), another important purpose was to bring about correct information on inflation. In a situation with price control and scarcity of goods, particularly consumer goods, the retail price index did not take into account the suppressed inflation (*podavlennaya inflyatsiya*). It had also become possible to publish information about economic and social differences among different strata of the population, and also among the Soviet republics.

A special statistical problem in the Soviet Union was the black market or shadow economy (*tenevaya ékonomika*). We will later discuss the economic theoretical problems connected with the shadow economy. It existed and played an important role as a lubricant in the planned economy, even if it is difficult to calculate its importance. A more trivial aspect of the black market was false reporting and theft of socialist property, which could be very profitable in a command-administrative system with chronic disequilibria between demands and supply. Because of *inter alia* different definitions of the shadow economy in my sources, there are varying estimates of the size of the black economy. It is sufficient to note that the black market played an important role in the Soviet economy and served some useful purposes.

The lubricant aspect of the shadow economy is interesting when it comes to illegal business connections among state enterprises (Golovin and Shokin, *Kommunist* 1/1990). According to the authors such activities have close ties with the personal motivations in the command-administrative system regarding decision-making as to planning and management. Reference is here made to the “trading” (*torg*), in which central economic authorities, sectoral ministries, and enterprises participated. The trading dealt with the plan for the respective enterprise and the struggle for resources to the enterprise in question. The decisions were not taken on objective grounds, but based more on personal ties and subjective priorities. This hierarchic interdependence could often provide a fertile ground for economic criminality.

One such well-known illegal activity was the illegal market for means of production originally distributed according to the central plan. Surplus in the store of one enterprise could be sold to another enterprise with scarcity of such resources. This type of illegal transactions prevented a total paralysis of the local economy, but also gave rise to non-productive costs, blackmail, and corruption. Also, the lubricant aspect of a non-performing official economy was addressed by Nikiforov, Kuznetsova and Fel’zenbaum (*Voprosy ékonomiki* 1/1991). They are optimists in the sense that transition to real market would take care of these problems.

Part 4. The Starting Points of the Debate

4.1. Introductory remarks

Gorbachev and the Communist Party opened the possibilities for a freer debate among Soviet economists on economic theories, within certain limits –namely that the socialist planned economy should not be abandoned. The general idea was that the Institute of Economics at the Academy of Sciences should be used to defend socialist economics, and in parallel stimulate a freer debate. The years 1986 to 1987 constitute sort of a starting point for this discussion, even if there had been somewhat

bold interventions also before 1986. 1986 and 1987 are important also in the sense that these interventions set the tone for the discussion in 1988 and 1989. However, it is important to remember, as has been stressed above, that there is no strict periodisation in the material.

In this chapter, the following questions will be addressed: Which were the themes and aspects of market economics that were discussed among the economists during these first years of perestroika? Was the theoretical thinking among Soviet economists influenced by market economics and experiences from other reforming socialist countries? Did they try to use the theoretical tools offered by market economics? What type of market economic theories were their targets? Could they have chosen other theories for their attacks?

One recurrent problem in Soviet economics was the position of enterprises in the planned economy. The question was how to increase the flexibility and the independence of enterprises without infringing on the fundamentals of the planning system. Such an endeavour could be interpreted as an introduction of an element of market economy into the socialist system. Therefore I will look at the reception of the 1987 law of state enterprises, which was supposed to be a focal point of the reforms.

In order to accelerate economic growth, increased productivity was a crucial question. Therefore scientific-technological progress became an important issue.

Finally, I will look into the accepted method of analysing recognized problems in the Soviet economy during the period of 1985 -1991, i.e. contradictions in economic analysis and practice.

4.2. On market economic theories

Concerning the knowledge among Soviet economists of market economic theories

official terminology: bourgeois economics, *burzhuaznaya ékonomika*) at the beginning of the period Hosking (2002 p. 552) writes that even before 1985 more or less unofficial seminars were organized in order to familiarize the economists with such theories. Thus in many research institutes – Hosking cites Moscow, Leningrad, Tblisi, Erevan, and the Baltic republics – informal seminars were organized where ideas not accepted by the official ideology were discussed. These meetings were not oppositional, but rather were gatherings of people interested in greater intellectual variety than was tolerated. Economists discussed Keynesianism, Hayek and theories and practice of the free market economy. They had genuine and positive interests in such economic theories, and were not interested in political considerations - knowing the enemy as it were.

As early as 1964, Hanson (2003, p. 97) visited the Central Economics-Mathematical Institute (TsEMI) and found the economist Viktor Volkonskií and a group of young women, all mathematics graduates, “armed with copies of Samuelson’s *Foundations of Economic Analysis* and English-Russian dictionaries”.

Following the instructions of the Central Committee, Soviet economists showed a

keen interest in market economic theories. It was important to show that these theories and analyses were wrong. The approach was also ideological. The terminology is sometimes bellicose, particularly before and during the first years of perestroika. Examples of this were the expressions class enemy “fight (*bor’ba*), “fabrications” (*izmyshleniya*) or “distortion” (*iskazhenie*). Concepts such as specialist on the Soviet economy or researcher on socialism are often put between quotation marks. The western analyses were seen as serving the interests of the capitalists, particularly those of big business. I will try, however, to concentrate on the factual contents of the analyses.

In that context, the analysis in this thesis will focus on three aspects of importance Gorbachev’s reforms and the debate on these measures, *viz*

- Supply-side economics and monetarism. These theories were considered the absolute antithesis to Marxism/Leninism even if in the later stages of perestroika some aspects of these theories were looked upon more seriously.
- The second economy (or the illegal market). Western economists treated this part of the Soviet economy as an illegal but necessary lubricant of the system. This was not acceptable to the Soviet economists.
- Scientific-technological progress and the management of innovations. Emphasizing the importance of qualitative economic growth as opposed to quantitative growth, the process of innovation in its broader sense became a cornerstone in the reform programmes.

The point of departure is the Communist Party’s acceptance of the existence of problems and contradictions (*protivorechiya*) in the Soviet economy, but also the Party’s continued assertion of the advantages of the real socialism (*preimuchestvo realnogo sotsializma*) over capitalism. According to the party line there was no crisis in the socialist economy, only problems that could be solved. Thus Ol’sevich (*Voprosy ékonomiki* 9/1985.) uses Soviet statistics and statistics from the European Economic Commission to refute assertions of such a crisis. The Commission’s estimates were based on official statistics. This is an important point of departure for the analysis. Open crisis awareness would appear later.

Monetary and supply-side economics

A typical argument at this early stage in the debate could be exemplified by Livshits (*Voprosy ékonomiki* 11/1985) in his criticism of monetarism and supply-side economics (*teoriya predlozheniya*) for anti-historicism and “scholastic” deductions from mathematical models lacking any application in real life. According to Livshits, such theories distort reality and cannot come to grips with the crisis of capitalism. He includes what he calls the Austrian school in this critical analysis, which is mainly equated with the Austrian economist Friedrich von Hayek. He does not, however refer to other Austrian economists such as Carl Menger, Eugen Böhm von Bawerk, or Friedrich von Wieser. He also sees the supply-side economic schools as apologists for free-market private enterprise, Thatcherism, and Reaganomics. Livshits provides a good appraisal, albeit ideologically biased, of these theories critical of

Keynesianism. Among the economists involved in the debate, Livshits quotes *inter alia* the American economist Arthur Laffer. Livshits is well aware of the differences between monetarism and supply-side economics, and criticizes “false abstractions” such as the concepts of inflation (*nepredvidennaya inflatsiya*), rational individuals (*ratsional’nye subekty*), and implicitly the concept of NAIRU (non-accelerating-inflation rate of unemployment) through the natural rate of unemployment (*estestvennaya bezrabortitsa*).

It is worth noting that Livshits criticises econometrics in spite of the Soviet tradition of the mathematical school. One explanation of his criticism could have been doubts about the veracity of Soviet statistics.

Livshits is well-read in the field of supply-side economics. In this context it may be noted that he is critical of theories of rational individuals, but does not explicitly mention rational-expectations macroeconomics.

There are on the whole no indications that the Soviet economists in my sources used the tools and methods of monetary and supply side economic theories to carry out the tasks demanded by the Party. Robert Lucas (Nobel laureate) and Thomas Sargent maintained that markets clear quickly and that expectations are rational. Their conclusions are that predictable macroeconomic policies will have no effect on output (real) or unemployment. They argued for a passive monetary and fiscal policy and considered attempts to straighten out the variations in the business cycle as futile. This theory could have been used to show that market economics could not provide full employment and sustainable economic growth. Lucas and Sargent published their research in the early 1970s and this should therefore have been available to Livshits. There is also textbook criticism of this school, such as the assumption of immediately flexible wages and prices and the implicit assertion that human beings act as computers [comment: act as computers?] using the latest economic forecasts or outpouring of data. These aspects could have been useful to the Soviet economists.

One reason for the ambition to change economic growth from quantitative to qualitative growth was the lack of useful economic resources. The USSR faced a shortage of labour force. Forced growth later became an issue. It is therefore interesting that the Soviet economists analysed in this thesis never refer to the Beveridge curve (named after the British labour economist William Beveridge), which could be seen as an ideologically neutral tool for analysing such problems also in a socialist economy. Thus on the horizontal scale of the curve is indicated one possible measure of labour surplus and on the vertical scale the number of vacant jobs. (Cf. Kornai 1992 pp. 212 ff. for an interesting discussion on this subject.)

Second economy

Above I have above touched upon the veracity of Soviet statistics and the illegal market, which in the literature also is analysed in terms of “the second economy”. In their criticisms of the “bourgeois economy” this question is of importance to the Soviet economists. If it could be shown that the Soviet economy was dependent on

an illegal sector functioning on the basis of market economics this would be a serious criticism of the planned economy.

Thus S. Khavina and L. Superfin (*Voprosy ékonomiki* 11/1986) analyse the concept of *vtoraya (second) ékonomika*. Khavina and Superfin note that western economists often admit that illegal economic activities exist in all economic systems. In the socialist system some of these activities are considered as a symptom of the imaginary (*mnimyĭ*) convergence of the socialist and capitalist systems. The second economy is sometimes described as illegal capitalism, which is necessary for the functioning of the Soviet economy, particularly for the provision of consumer goods and services, which indicates that the Soviet economic system is not sustainable. Furthermore, the bourgeois economists see the Soviet legal economy as a centrally administrative or command economy. Thus there are no independent legal economic subjects. Such concepts do not reflect the Soviet reality. In reality the state ownership in socialism is a form of national (*obshchenarodnyĭ*) property, which is managed in the interest of the society as a whole. However it is necessary to improve and guarantee maximal participation of the masses in the management of the property.

The legislation on the suppression of unearned income (*netrudovoĭ dokhod*) aims at suppressing infringements on state property and illegal enrichment at the expense of the state. Legal individual economic activities are possible in the form of personal subsidiary enterprises without employees and therefore without exploitation of workers.

Moreover the present Soviet economic system combines centralization and decentralization, giving state enterprises the possibility of taking decisions within the framework of the plan. Perestroika has got all possibilities to resolve the problem of the Soviet economy and is able to increase the independence of managers.

Khavina and Superfin are somewhat ambiguous in their criticism of western research on the second economy. The two Russian economists give a fairly adequate analysis of western research but seem to deny its relevance at the same time as they admit that the problems exist. Very much in line with the thinking of the Gorbachev administration, they argue that there is nothing wrong in principle with the Soviet economic system and that perestroika will solve these problems within the framework of the reformed socialist system.

Scientific-technological and innovative processes

A crucial point in the qualitative aspect of perestroika was to accelerate and improve the technical and innovative process of the Soviet economy, in order to promote qualitative growth. Therefore analyses and criticisms of bourgeois concepts and theories in this field became important in defending the Soviet economic theories and system. Thus in December 1985 *Voprosy ékonomiki* organised a round table (*kruglyĭ stol*) on this subject, and published a report in *Voprosy ékonomiki* 8/1986. In *Voprosy ékonomiki* 6/1987 E. Mukhanova published a critical conceptual analysis in the same vein of thought.

It should be noted that the round table at this time was rarely a real forum for discussion. It is with few exceptions lacking critical commentary or objections. In the following section I will summarize the suggestions of the round table and of Mukhanova.

Market economists' analyses of the process of innovation are based upon market economic conditions where entrepreneurs have the most important role. The conclusion of such analyses is that the Soviet system is inefficient regarding innovative and technological development. This should create a problem for economists arguing for a centrally planned system. For this reason, Soviet economists refute this type of analysis. It is argued that Soviet managers in some respects have wider margins of action than managers in the monopolistic capitalist system. In this analysis, the Soviet system sometimes was more flexible than market economies. It was argued that according to Soviet statistics for the period 1970 to 1985 a considerable number of Soviet innovative and technologically advanced enterprises had been created. Schumpeter was wrong in this respect. There are instances of complementarities between Soviet innovations and capitalist ones.

There is also some sort of central planning regarding the innovative process in the capitalist systems, and market economists and managers sometimes admit that this is necessary. *Inter alia* John Galbraith is quoted. It would have been interesting if the Soviet economists could have discussed Ronald Coase's (Nobel Laureate 1991) research on the planning within enterprises, and also the Coase theorem, which shows that the negative effects of external influence on resource allocation can be abolished by internalizing these effects by agreement between interested parties. But the Soviet economists analyzed in this thesis are also aware that there are problems in the Soviet economy and that it may even be possible to learn from capitalist countries without abandoning the planned system. Thus the problems are not systemic.

The Soviet economists argue that the analyses of the innovative process in the Soviet system cannot be only economic. Historical, philosophical, and sociological aspects must be taken into account. The conclusion is that not only traditional bourgeois economists are included in the criticisms, but also the Frankfurt school and its analyses of science and technique as unavoidable enslavement of consumers leading to their manipulation. In the eyes of the Frankfurt school, capitalism is not an exploiting system but an inhuman type of technical rationality. And socialism is a variety of technical rationality according to the Frankfurt school. This is not acceptable to the Soviet economists. They maintain that it is necessary to bear in mind that socialism puts into practice democratic principles of economic management, and in the long term it is necessary to realize organisational forms of participation of the masses in the management of the economy - in the systems of incentives and sanctions and in a large economic formation.

There had been a tendency among Soviet economists to maintain that there were no class conflicts, or at least no class conflicts among different social and economic groups in the socialist society of the Soviet Union. The theories on rational individuals

making their individual choices were therefore refuted. At the beginning of the perestroika period it seems that a more or less new type of discussion was taking place.

One question, was the interest of ministries and departments responsible for state enterprises to introduce innovations and thus reduce labour costs. This should be done without abandoning the principle of central planning. The interference of different authorities (in Russian “*vedomstva*”, the adjective *vedomstvennyí* means both departmental and narrow-minded could be problematic. The recommended measures imply the existence of different group interests, which as is a concept that in principle would be irreconcilable with the official ideology.

In the round table at least one of the participants is aware of Mancur Olson’s research but does not make very much of it. Another participant maintains that the interests of ministerial and departmental leaders in this context are not the same as those of the working classes. The former are interested in high labour costs – possibly this is a reference to the habit of labour hoarding – while the latter are interested in efficiency and thus of saving such costs. There is a conflict between the general interest and the interest of leaders. An important part of the criticism of ministerial and departmental power is the existence of monopolies, where, as will be noted later, it is possible to refer even to Lenin. In this context many participants agree that monopolies lead to “rot” (*zagnivanie*). Where any group of persons somehow gets the right to manage and lead a certain organisation, this will give rise to rot also in the socialist system. There will be red tape (*formalizm, kantselyarshchina, byurokratizm, volokita*). This has fundamentally nothing to do with the characteristics of socialism, but will emerge only when personal and group interests prevail over the general interest.

Bearing in mind that public choice theories deal with the public sector and that the Soviet economy as a whole was practically public, there should have been a scope for more discussions of such theories and these issues came to the fore later in the period.

As has been noted, Soviet economists refute theories based on the assumption of the rational individual. But the insight that there were conflicts between the general interest and the interests of the leaders also in the Soviet society is rather similar to the points of departure of principal-agent theories. It would have been possible to describe ministries and departments as agents of the people, with the assumed owner of the production facilities as principals. The inefficiency described above could have been analysed in terms of agency costs. Research on agent-principal problems documenting and analysing problems regarding the separation of the ownership and control of firms and agency costs have been available since the 1930’s.

One problem in the centrally planned economy in the Soviet Union has to do with prices fixed and determined by the authorities with the ambition to realize equilibria between different sectors and between supply and demand. It was therefore

important to analyse theories on equilibria in market economies in order to come to grips with for the Soviet economists' negative concept of market socialism.

Thus the Nobel laureates Kenneth Arrow and Gerard Debreu continued Léon Walras' research on general equilibrium. Walras (*Éléments d'économie pure ou Théorie de la richesse sociale, 1874—77*), with the concept of *tâtonnement*, (groping for equilibrium) could not show rigorously that there is equilibrium in a competitive market economy. Arrow and Debreu (Existence of an Equilibrium for a Competitive Economy 1954) discovered that there would always be one set of prices that will balance the supplies and demands for all inputs and outputs. This was demonstrated even if there were millions of inputs and outputs also in different regions and at different times. One participant in the round table was of the opinion that the theory indicated that optimum and economy on the basis of free competition in capitalism with private property were incompatible (*veshchi nesovmestimye*). Another conclusion at the round table was that propositions of bourgeois and revisionist ideologists regarding market socialism could not guarantee economic development without crisis and with full employment. An important conclusion is that optimum is fully compatible without equilibrium between demand and supply. Thus the Soviet analysis demonstrates that straight central planning is necessary for reaching proportionality and an optimum in the economy, and also for limiting the importance of regulating the economy through prices and other levers of circulation. It was therefore not possible to agree with proposals to use models similar to the Arrow-Debreu theory in formulating normatives.

The Arrow-Debreu theorem is an interesting support to the classical theory of the invisible hand. As has been noted, the Soviet economists in my material were well read in theories on market economics. It is therefore of interest to note that they did not use the ordinary Keynes-inspired textbook criticism of the theorem. Thus the theorem presupposes *inter alia* that there are no increasing returns anywhere, no insurable risks, no monopolies or oligopolies, no externalities and perfectly flexible wages and prices.

It is interesting that the analyses of Soviet economists do not touch upon the system of input – output tables (*zatraty-vypusk*) of the of the Russian-born Nobel laureate Wassily Leontief, in particular bearing in mind the mathematical school tradition in Soviet economics. It could in principle have been useful to the Soviet economists to discuss the algebra in this context. Hanson (2003, pp. 94 f) writes about the experiments in 1959 and the following years with such tables in the Soviet Union. However these experiments did not have practical consequences for the Soviet planning. The experiments shared the fate of Soviet mathematical economics in general. I have noted above the criticism of mathematical economics also in the perestroika period. The negative experience of the use of input – output tables may explain the absence of comments on Leontief's research. Another possible explanation (Hanson op.cit) is that the insiders knew that the data were poor. This reflection coincides well with what I have observed above from Soviet statisticians.

4.3. The law on state enterprises

This legislation was a centrepiece of the radical reform intended to promote more flexibility in the planned system. (Hanson 2003 pp. 196 ff.) It could be interpreted as an ambition to integrate some market characteristics into the planned economy. Therefore it played a role in the discussions of the Soviet economists. It is therefore of interest even if in practice not much came out of this reform. The main idea was that the enterprises were to have more control over their finances. Deductions from the revenues were to be fixed as a percentage for five years. Also other fixed proportions were introduced such as payments to different funds. These intentions were expressed as “stable long-run normatives”. Thus the enterprises would get incentives to develop their own activities and set their own plans. But this freedom was limited by branch objectives, control figures, and state orders (*goszakazy*) for state priority programmes. A programme of wholesale trade between enterprises would be introduced. There would be also other possibilities of co-operation among enterprises.

In addition, the employees were to vote on candidates for enterprise directors. The branch ministry was entitled accept or reject the proposal (Hanson 2003, pp.196 f).

Evidently, the enterprises got more freedom but within prescribed limits. The law project was discussed during a round table of scholars. The minutes of this meeting were published in *Voprosy ékonomiki* 5/1987. Abalkin introduced the project. The law project was analysed and criticized. According to many participants in the round table the project had many shortcomings. However, the criticism is of limited interest. Thus a comparison of different paragraphs indicates many contradictions and incompatibilities, as well as lack of consistency. In principle the project needs revision. In my opinion, the comments are to a large extent administrative, formal, and technical. Thus, for instance, it is noted by the participants that the assembly of employees being co-managers will be able to take some decisions on the running of the enterprise. But at the same time there were traditionally other organizations of some or all of the employees such as a party cell and the local trade union. To what extent will these institutions overlap or will there be a distribution of competences? But from the point of view of economics the comments are few. Thus it is noted that the relations between the enterprises and branch ministries will need clarification. There is a risk that the state orders could be used to preserve the old system. Wholesale trading does not in itself take care of chronic shortages. The system of price formation should be re-analysed. Is it possible to guarantee the supply of material and spare parts (*zapasnye chasty*)?

In summary, I feel that it is evident that many participants in the discussion doubted that the ambitions of the law could be implemented, and that a number of problems had no answers. The proposal did not guarantee more democratisation, i.e. decentralisation and flexibility.

4.4. Contradictions

Perestroika was reflected in a new programme of the Communist Party. The economic part of the programme needed exegesis. The use of this word is justified

by the discussion. At this stage of the debate the programme was not criticised but the interventions were concentrated on theoretical elaboration of its theses.

In Marxist-Leninist analysis the concept of “*protivorechiya*” is important. This word is translated as contradictions, inconsistencies, conflicts, or clashes. In the development from socialism to communism this concept is regarded as a positive dialectic quality, as driving forces (*dvizhushchie sily*) of the development to communism where there will be no contradictions – the end of history as it were. The translation “contradictions” is most consistent with the Marxist-Leninist theories. Thus “contradictions” were a politically and theoretically accepted and important analytical tool. The concept of contradictions has deep roots in Soviet philosophy (cf. Boris Groys 2006).

It should be stressed that the participants in the debate had to toe the party line. In the same vein of thoughts as expressed by the Soviet leadership, the participants in the discussion did not question the fundamentals of the Soviet economic system. Thus public (state) ownership of the means of production was considered as an inalienable characteristic of socialism. The problems were analysed in the Marxist-Leninist frameworks in terms of contradictions between relationships of production and forces of production.

The problems of contradictions between the need for central planning and flexibility (independence of enterprises) and between central planning and participation of workers at all levels of the planning system would haunt Soviet economic thinking during the years of perestroika. These problems of contradictions were to be the subject of contributions in *Voprosy ekonomiki*. As has been noted above regarding the project law on state enterprises, contradictions were essential [comment: essential to what?].

Kulikov initiated the discussion in *Voprosy ekonomiki* 2/1986 where he maintained that such contradictions in socialism were not yet discussed with clarity. In 1986 and 1987 followed a debate on such issues. Some of the issues are rather philosophical (cf. Groys 2006). I will concentrate on some fundamental economic questions.

The question of how to combine central planning with independence of the state owned enterprises, as has been noted, was a central issue in perestroika. A. Kolganov (*Voprosy ekonomiki* 9/1986) does not believe in abolishing either the central planning or the independence of enterprises. Such measures would lead to bureaucratisation of the economy or anarcho-syndicalism. The solution is to be found in democratization of the central planning by arranging links between central planning and the development of socialist popular self-administration by workers’ collectives regarding planning initiatives, responsibilities etc. The centre will keep important functions regarding *inter alia* control of results of the economic branches of the economy.

A. Buzgalin (*Voprosy ekonomiki* 10/ 1986) goes further and maintains that if work is socialized on a national economic scale, then only the workers, as a collective in the socialist society, could be the subject of the national economy. He mentions also the

idea of counter plans, which did exist, elaborated by the workers' collectives in the planning process. It is not clear how he intends to realize this idea in practice.

Yu. Rubin (*Voprosy ékonomiki* 12/1986) posits that centralization has been formal in the sense that the levers used in the planning system were of administrative nature. This system had promoted "the cult of the gross product" (*kul't vala*), and did not take into account qualitative characteristics. Instead, levers should be economic. He is critical of the system of planning of the production of individual enterprises from "the achieved level" (*ot dostignutogo urovnya*), which does not take into account the demand for products. This problem is known in market economics as the ratchet effect. Yu. Borozdin is of the same opinion (*Voprosy ékonomiki* 12/1986).

Kolganov (op. cit.) argued for a reduction of planning indicators, a proposal which eventually was carried out. Rubin (op. cit.) agrees, and writes that Gosplan ties up production and its use through establishing 400 material balances for the five-year plan and 2000 for every year in the planning period, and in all indicators for more than 24 million industrial and agricultural products. He is sceptical of this centralized planning to "the last screw" and argues for a decentralization of the planning process.

A fundamental economic and social law of the socialist economy is "from everyone according to capability, to everyone according to work produced".

A. Semonov (*Voprosy ékonomiki* 10/1986) is interested in contradictions regarding the acceleration of labour productivity (*proizvoditelnost' tryda*), and maintains that there are contradictions in that fundamental principle. Thus capability (*sposobnost'*), the potential possibility of work, does not directly coincide with the result of the work performed. In Marxist-Leninist terminology, capability is a characteristic of the level of the development of the fundamental forces of production. Implementation of this capability and payment for work reflects relationships of production. Forces of production regularly outstrip (*operezhayut*) relationships of production. Thus development of capabilities may outstrip growth of the efficiency of its implementation and payment for the work.

In this context it is necessary to implement the potential of forces of production, in this case the labour force. Application of science and technology is essential. The same goes for more efficient management. Semenov argues in line with the general tendency of perestroika to substitute economic levers for administrative ones. The present practice and the levels of wages do not promote (*sposobstvovat'*) individual (*otdelnyĭ*) capacities. 50 million people in the workforce are manual workers, of which one third are in industry. More than half of the workforce is in the building industry, and three quarters in agriculture. It is in this situation necessary to increase material incentives for the individual employees to ameliorate labour discipline and higher productivity.

In order to make sure that material incentives are ameliorated, there must be a sufficient supply of goods and services that are in effective demand. Evidently the price formation is of importance in this context. Most prices in the Soviet Union were

in principle determined by the central authorities. This system was not considered a problem *per se*. The problem was the methods used to determine the prices. In order to understand this, reference to the Marxist system of determining values is necessary. There are many good analyses of Marx's value theory, e.g. in Robert B. Ekelund Jr. and Robert F. Herbert, *A History of Economic Theory and Method*, McGraw-Hill International Editions 1997 and *Slovar' sovremennoi ékonomitheskoí teorii Makmillana*, Macmillan Dictionary of Modern Economics 1997, General editor David W. Pearce.

As is generally known, Marx was the proponent of the labour theory of value. Prices reflect a value caused by the objective element common to all commodities, i.e. labour. This means that prices, at least in the long run, are determined by "the socially necessary labour". In the capitalist economy prices over and above the socially necessary labour reflect the surplus value and thus the exploitation of the proletariat. This is not the case in the socialist economy where the means of production are owned in principle by the society as a whole. The labour theory of value (*trudovaya teoriya stoimosti*) is thus considered a "law of value" (*zakon stoimosti*).

Borozdin (op cit) is critical of the application of this law, and argues that this application is a contradiction that has to be solved. He notes that the kolkhozes in the nineteen thirties, nineteen forties and at the beginning of the nineteen fifties formally sold their products to the state, but at very low prices determined by the state, which was a violation of the law of value. The law means that prices are determined on the basis of labour costs. Now Borozdin argues for "consumer value" (*potrebitel'naya stoimost'*). What is interesting is to what extent the enterprises are able to sell their products and not only how large quantities they produce (cf. Gaídar 1987). I note that this is a suggestion close to the market economic concept of effective demand. Borozdin feels that is the first indicator that should determine the amount of financial resources destined to the fund for economic incentives to the employees. In the socialist economy prices should reflect consumer value. Borozdin is convinced that his ideas can be carried out on the basis of the resolutions of the Communist party. I will later come back in greater detail to the problem of price formation.

Leonid Abalkin (*Voprosy ékonomiki* 5/1987) summarizes and comments upon the discussion of contradictions. He agrees with the economists' views that there are contradictions in the socialist economy. However, his comments are rather philosophical and therefore of minor interest. He encourages more research based on new ideas but does not really engage in a discussion of the more concrete proposals of the discussion.

I have noted here some of the fundamental contradictions brought to the fore in the discussion. Such contradictions are central planning versus the independence of the qualitative indicators such as consumer value, and furthermore in this context the application of the labour theory of value and the complications of the socialist principles of distribution of incomes.

At this stage, it seems evident that bearing in mind the political constraints the Soviet economists were straining to come up with practical solutions. A few interesting ideas may be noted. V. Cherkovets (*Voprosy ékonomiki* 11/1986) argued for limitation of planning indicators and proposes that even the majority of planning indicators could be estimates (*raschetnye*) and not directives. Enterprises could also be allowed to come up with counter plans (*vstrechnye plany*) in the planning process. As a matter of fact, this was introduced already in 1971.

In the leader of *Voprosy ékonomiki* 1987/1 it was emphasized that the purpose of economics was to come up with scientifically-based solutions for the practical problems of perestroika as defined by the Party.

In order to make the economic system more efficient and replace the “*kul't vala*” with qualitative growth, the concept of democratisation was applied to economics. Thus within the framework of a centrally-planned economy, enterprises were to be more independent and less influenced by bureaucratic layers (*vedomstvennost', byurokratizm*) in their daily work. There should be a detachment (*obosoblennost'*) of enterprises from such interventions, and they should have more influence on the elaboration of plans. Workers should have the possibility of participating in the management of economic units. They should have realistic feelings that they were co-managers and co-owners (*sokhozyaeva*). It is evident that transferring these principles into practice would not be easy.

4.4. Conclusions

The tasks of the Soviet economists were to attack the main tenets of market economics and defend the Marxist-Leninist theories that constituted the fundamentals of the planned economy.

Their main targets were monetarism, supply-side economics, the theory of rational expectations, and the theory that black markets (second markets) were a necessary lubricant in a planned economy of the Soviet type. Monetarism is a variety of supply-side economics that deny a role for stabilization policy. The theory of rational expectations points to the inefficiency of positive financial and monetary politics. The Arrow-Debreu theorem shows that it is possible to calculate a logical set of prices that would ensure equilibrium of supply and demand. These theories deal with policy possibilities and equilibria in market economies. The economists tried to show that equilibria could be also and more easily be attained in planned economies. Furthermore, planned economies have dealt with innovations at least as well as market economies. Enterprises were in some respects reasonably flexible.

Black markets were said to exist in all economies, and did not play an important role in the Soviet Union. The criticism of the Frankfurt school is more philosophical than economic. This is an efficient choice of theories against the backdrop of their tasks. What is somewhat surprising is that the Soviet economists did not use the Keynesian inspired textbook criticism of, for example, the Arrow-Debreu theorem. From a Marxist-Leninist point of view the theory of rational expectations could have been better interpreted as indicating that unemployment was an inherent characteristic of

market economies. This could have been an important weapon bearing in mind that the Soviet economics was supposed to guarantee full employment. The theory of rational expectations is controversial also in market economies.

The economists endeavoured to develop the prevalent theories, e.g. the concept “consumer value”, and ideas similar to effective demand. In chapter 00 I will come back to the problems of price formation and the transformation problem in Marxist economics. Another type of discussion has similarities to public choice theories.

There are no explicit positive references to market economics and it is difficult to know if these discussions were inspired by the tools of market economics, perhaps as hidden influences, or if they were inspired by genuine Soviet experiences. There were no references to experiences from other East European countries.

Referring to part 2, it is in my view evident that during the first years of the perestroika period the traditional Soviet intellectual heritage dominated the perceptions. The position of the Soviet economists was to safeguard the Soviet system while considering some modifications. These modifications are discussed in terms of contradictions inherent in the system. The idea of a socialist market is mentioned but not particularly developed. Thus the foundations are established for a more vivid debate from 1987/88, even if this discussion still aimed at safeguarding the Soviet economic system. The statistics available are accepted .

The economists were well-versed in market economics. Following their Party instructions, their reception of market economics is negative. The economists toe the party line. This can be interpreted as a continuation of the Russian cultural history of following whatever line was established from above. Glasnost' was applied only within the framework of socialism. The task of economic theory was to contribute to the institutional stability of the system. These years were not formative. Instead there is an optimistic attitude towards the possibilities of non-systemic reforms. This will gradually change in the next period of 1987/1988.

Some of the economists may have remembered the atmosphere after Khrushchev's destalinisation in the 1956 “thaw” (*ottepel'*). As we have noted above, the thaw did not last for a long period, and order was re-established. This experience may have influenced the debate. The quotation from Gorbachev on the first page illustrates the limits of glasnost'.

There was practically no enthusiasm for the project law on state enterprises since it had inconsistencies and did not guarantee independence and flexibility.

The concept of contradictions opened up the possibilities of an interesting discussion within the limits defined by the Communist Party. These contradictions such as labour theory of value versus consumer value (a variant of the transformation problem), independence of enterprises versus central planning, the influence of the employers as subjects versus the authoritarian planning system, problems with the planning system (the ratchet effect, the number of planning variables, the low quality

of the labour force versus the transition to a more technically advanced economy) would haunt the economic debate during the whole period.

PART 5. SAFEGUARDING THE SOVIET SYSTEM: NEW IDEAS.

5.1. Introductory remarks

Periodisation is difficult. In Soviet economic thinking during the period 1985 -1991 and in my material there is no evident turning point prior to 1990-91. Such a turning point would appear more clearly later after the breakdown of the Soviet Union. The period analysed in Part 5 covers roughly the years 1986 to 1989/1990.

As is evident from chapter 3.2, not very much had happened during the first years of perestroika regarding reforms. The most conspicuous measures were campaigns against alcohol and the so-called unearned incomes, i.e. incomes not earned by work. The five year plan 1986 to 1990 emphasized the importance of the machine-tool industry, which would receive increased investment. A new wage system was introduced, as well as attempts to improve incentives. State and collective farms had gotten more freedom and foreign trade was in principle decentralised (Åslund 1995 pp, 53 ff., passim). However, the economic and social situation had deteriorated. It was clear, at least to Soviet economists and the leadership of the Union, that the country was in a pre-crisis situation (*pred-krizisnoe sostoyanie*). It became evident that the envisaged reforms were not sufficient. There was a need for a more *radikal'naya reforma*, which was launched in 1987. Thus, the law on state enterprises, was promulgated. In line with the official ideology there was no private ownership. Capital was not considered a factor of production, and consequently there was no capital market. A law on individual working activities had come into force. In 1988, a law on co-operatives was promulgated (Åslund 1995, p. 30, 37).

The Soviet economists could in 1985 and 1986 look back at a long period of economic stagnation under Brezhnev, Andropov, and Chernenko. In another political framework it would have been natural to ponder over the question if a failed economic policy was based on misleading economic thinking. However, as has been indicated above, there were limits to the debate as expressed by Gorbachev in *Izvestiya* (13 June 1987), where he defined the limits of the debate in the following manner: "We must ensure that there is an atmosphere such that all points of view can be taken into account. This does not mean that there should be no sense of responsibility in the discussion...we need discussion and speeches that are permeated with concern for socialism.... We must rebuff anyone who offers us anti-socialist alternatives" (Quoted from Hanson 2003, p.212). "Back to Lenin" did not mean transition to a market economy of sorts, but rather back to Lenin's New Economic Policy, which introduced only some market economic measures in the economic system (cf. Nove, 1992 pp.78.f.f., Hanson 2003, pp. 172 ff.).

It is worth repeating that earlier reform experiences did not encourage systemic criticism. That situation may have led to some wariness. However, it is fair to bear in mind the criticisms against Soviet statistics, which were brought to the fore in articles as early as 1987, and then with more force in 1990.

In such a situation there were in principle two possibilities for participants in the discussion. One possibility was to concentrate on technical aspects of the reform process. The other possibility was to prudently try to develop different aspects within the accepted theoretical and ideological framework. As long as reference could be made to Lenin and the NEP, as well as Marx and Engels, interventions in the debate could reasonably be considered kosher

Against this background, the following questions will be answered in this part 5: How could the economic system be reformed in order to increase its flexibility? Did the economists continue to criticise market economics? Were they influenced by market economics? Did they use openly, or by circumlocution, market economics tools in order to develop the accepted theories? Did the debate have a dissolving or stabilizing influence on the socialist economic theory? Did experiences from other socialist East European countries play a role in the Soviet economic debate?

More specifically, it will be relevant to address some additional questions: Did the economists approach the crucial question of employees as co-owners of co-managers of state enterprises? Similarly, was the lack of work discipline a problem, and if so how could this problem be solved? Is it possible to identify stationary structures in the debate? Did socialist options still exist?

The contributions of the economists are structured in different ways. Some economists have the ambition of giving an overall view of economic problems. Other economists have the ambition to discuss special questions such as ownership or labour market problems. In a market economy, some of these aspects could have been analysed in macroeconomic terms, and others in microeconomic terms. In order to analyse possible changes in this period 1985-1991 in the thinking of the Soviet economists, i.e. different directions such as towards market economic ones, I have analysed their contributions from six different aspects:

- How did the Soviet economists deal with the problems of forced growth, shortages, and markets?
- How did the economists tackle the crucial problem of price formation within the framework of the labour theory of value? How did the economists tackle the issue of world market prices, bearing in mind that import prices were not set according to Soviet principles? This also brings up the issue of how the economists dealt with the issue of open inflation.
- Centralization and decentralization: How did they analyse the contradictions between binding state directives and the decision-making powers of enterprises?
- Ownership: In principle, the people in the Soviet Union were the owner of the state enterprises. Therefore, the employees should have some influence on the running of the enterprises. How could such influences be exercised?
- Labour and economic equality, as well as the structure of remunerations became ideological issues in a society where egalitarian principles were thought to reign. How did the economists approach such issues?
- Learning from other socialist countries: Were the Soviet economists interested in experiences from other socialist countries?

- Did the meaning of socialism change among the economists, taking into account the economic and social development?

All the above aspects are interrelated.

5.2. Forced growth, shortages and markets

As has been noted, Abalkin argued that scientific analysis was not yet available explain why the USSR, with its enormous productive resources, constantly ran into widespread shortages. Neither was scientific analysis available to explain why, in spite of the indisputable advantages of the economics of planning, the USSR could not come to grips with distribution and investment, and accelerate scientific, social and technical progress. As has been shown, Abalkin tried to come up with some explanations of such problems. The well-known economic journalist Vasilií Selyunin, already as early as 1985, (*Éksperiment, Novyí mir* 1 985/8) wrote a systemic analysis of the Soviet experiments. He maintained that the essential question that was not dealt with was how to fulfil the output targets set from above in the different plans. The producers had no incentives to use the inputs more efficiently. As a consequence, a perennial situation of shortage was created. (Cf. also Hanson 2003 p.92). In 1987, the Soviet Union was in a pre-crisis situation and radical reforms were considered necessary. The Central Committee of the CPSU, in its meeting in June 1987, intended to modify and accelerate the system. The debate became more interesting. The general public did not know the real situation until 1989. Maybe this is what Yasin (*Kommunist* 11/1987) had in mind when he observes that some of economic perestroika reforms were launched already in 1984. But he quotes from Gorbachev, who had said that some people state that they are in favour of perestroika, but they do not see any changes around them. This observation maybe implies an attitude quite common in Soviet society. The system as such is good, but needs reforms. The problems can be found in sloppy implementation of the directives. Gorbachev represents here a typical opinion expressed by the Communist Party.

The CPSU reform programme had many worthy objectives. However, the question remained if Gorbachev and his advisers had not overestimated the aggregate production function in the Soviet economy. Thus, among Soviet economists there was a widespread belief in support of scientific/technical progress and it's inexhaustible (*neischerpamyé*) revolutionary possibilities of rearranging production - saving resources and resulting in more concentration of high quality end products (e.e. Sitaryan, *Kommunist* 7/1987). But ideas close to the concept of the production-possibility frontier, PPF, also came to the fore (Gaídár *Kommunist* 10/1987) from the acting head of Russian government and reform economist. Gaídár was a more prudent economist than Sitaryan. He also emphasized the importance of the use of technologies, including technologies available abroad. He also points to an eternal problem in the Soviet system regarding how to establish dynamic links between production and advanced technology.

Gaídár of course accepts the decisions of the Party, but does not overly conceal some doubts. He observes in the article that active restructuring of production and

redistribution of resources as a rule take place in situations with low rate of economic growth, or even a falling volume of production. The cause of such development is the mechanism behind the capitalist cycles. Gaïdar does not dwell on the reasons behind this mechanism. He may feel that such reasons are obvious to communist readers. This process gives rise to social conflicts. These social conflicts are influenced by objective factors associated with the development of the forces of production. The Communist Party, by raising the production volume and its quality, will enable the USSR to overcome its lagging position behind most developed capitalist countries. In order to realize these goals, links between sectors having a high content of advanced science and technology have to be created. In this way, science and technology can be used to raise the standard of living. To reach this goal, Gaïdar proposed a strategy to break with the negative tendencies in the funding and the economy, and to use limited resources more efficiently. This strategy proposes to increase the investments in fuel and energy, engineering, as well as chemical and industrial sectors. The production of consumer goods will increase. The standard of living in the country does not allow for a transfer of substantial additional resources from the production of consumer goods to other economic sectors. He notes that shortages of goods and other resources are incompatible with the system of self-financing of enterprises.

In Gaïdar's view, there are inherent problems and contradictions in the planning practice. Thus he writes that there is a reliable method for making the economy unmanageable, *viz.* to let the planning goals exceed the available resources, even if from the point of view of an authority there are profitable projects to be carried out. The problem is that a conflict between the plans of one ministry with specific interests and the interest of the society as a whole is allowed. In PPF terms – not used by Gaïdar – there are a number of plan goals for goods that are outside the PPF graph (to the northeast). This problem was not taken care of when the twelfth five-year plan was elaborated. It was not clear according to Gaïdar which problem had to be resolved during the period of the plan. Nor is it evident that a rapid increase of the level of investment could attain the goals of the plan, such as raising the living standards of the populations. There had to be redistribution in favour of the social sectors, and scientific-technical progress. There was no possibility of resolving shortages and attaining the goals of the plan by rapidly overusing resources in the sector in question (*shturm* – storm, assault).

Gaïdar made his criticisms, evidently without using the expression which in western economic literature has been called “forced growth” (cf. Appendix 4). Thus, there had been an attitude in the Soviet economy to believe that the resources of the government were inexhaustible. Now, when the Ministry of Finance had a programme with the intention to make the state financial situation healthier (*ozdorovlenie*, health), enterprises had to cut their coats according to their clothes. Gaïdar quotes Lenin in support of this policy.

Social development, i.e. raising the standard of living of the population, was to be a main objective of the policy. This has been an objective in theory, but in my opinion in practice this is a new aspect in Soviet economic and social history.

Sintaryan (*Kommunist* 7/1987) also argued in this direction. When looking into the concept of acceleration of growth, he posited it is necessary to take into account its social direction, in order to realise the goal of socialism, *viz.* raising the standard of living of the people and the many-sided development of the individual. Socialism is the first system in history which subordinates growth of production to the prosperity of the people.

Evidently Sitaryan recognizes that this has not always been the case. Economic growth *per se* does not automatically lead to satisfying the needs of the population. In this respect, Sitaryan refers to the so-called non-productive sectors of the economy (c.f. Appendix 4), a role of which will be strengthened in the twelfth five-year plan where the intention is to raise the well-being of the population to a qualitatively new and higher level. This aspect of the economic policy had largely been ignored in the Soviet Union, where material production had precedence. Sitaryan is highly critical of that policy, which in his analysis is supported also by the economic science, and had a “stamp of dogmatism” (*pechat’ dogmatizma*). It is now necessary for economics to come to grips with earlier deficiencies, and recognise the importance of a harmonious structure of total production.

One of the difficulties with the system of central planning was the slow adaptation of the economy to changing economic conditions, in other words the lack of flexibility of the system. There has been no system of self-regulation.

V. Kulikov (*Kommunist* 12/1986) addresses these problems and observes that “self-regulation” has been discussed mainly in relation to market economies. According to Kulikov, it is possible to integrate this quality of market economies into a planned economy. Kulikov recommends the following measures:

- Adoption of full self-financing (*khozraschet*).
- More use of contract and piecework.
- Competition among enterprises and other units.
- Widespread use of normative criteria for enterprises and workers.

But the state will still set the prices and the goals of the production. A dissenting voice in this respect is Yasin (*Kommunist* 11/1987), who argued that only prices of critical production should be decided centrally. Prices should stimulate the attainment of the goals of the plan. How this should be done is not discussed in the article. I will come back to this subject when we discuss price formation.

The introduction of market economics was generally rejected. To some extent Shmelev (op.cit and *Novyí mir* 4/1988) is a rare exception. He argues that it is necessary to abolish the existing system of supply of material resources to the enterprises, a system which is based on rationing (*po kartočkam*). Similar to Gaïdar, he notes that this has resulted in the building up of stocks over and above the norms of raw material, material, finished products, etc. He suggests that all this material and products be freely sold and bought, and thus a wholesale market could be created. He feels that central planning of prices for more than 24 million products

is of no avail. Shmelev generally blames the centralized planning system for preventing economic, scientific, and technical progress.

He argues for the creation of free zones with joint enterprises, where Soviet enterprises could co-operate with foreign companies (there were in fact such joint enterprises). There would be no restrictions in these zones, and Soviet companies would be permitted to sell stock to obtain increased investment.

Vladova and Rabkina (*Voprosy ékonomiki 10/1988*) rather vehemently take exception to Shmelev's proposals. Their article is stylistically very amusing and ironic. They feel that Shmelev has not taken into account the real situation in the Soviet Union regarding socialist property with its special characteristics. In the epoch of scientific-technological progress, a large state property could be the antithesis to the power of capital. To oust this type of ownership would mean full disorganization of the economy, with disturbance of the connections of fundamental sectors.

In sum, my conclusion is that the economic discussion had developed in a direction where rather radical modifications of the planning system were recommended. Thus the number of fixed prices would be reduced. This would increase the flexibility of the system. Interesting to note is that the Soviet economists tend to come out against the perception that economic growth *per se* does automatically lead to satisfying the needs of the population. The present planning system is said to prevent economic, scientific, and technical progress. This is an embryo of systemic criticism. This comment was vehemently refuted. One proposal is that free zones with joint enterprises should be created, and in these zones Soviet companies would be permitted to sell stock. This suggestion comes close to a recognition of private ownership, and could be interpreted as a recognition of capital as a factor of production. The idea seems unrealistic because there was no capital market in the Union. There seems to be almost a consensus among the economists that forced growth was a problem. This kind of reasoning comes close to the market economic concepts of aggregate production function and production-possibility frontier.

5.3. Price formation

During the perestroika period most prices were fixed or limited by the government. However, "price determination" better reflects the reality than "price formation". The Soviet term is price formation (*tsenoobrazovanie*). Accordingly, the conventional word "price formation" is used in this context, but recognizing that in reality there was a system of centralized price determination.

There were a few niches with free prices. The most important of these were the kolkhoz markets where products exceeding the established planned production targets could be sold. In appendix 4 the establishment of prices is analysed more in detail.

How did the Soviet economists apply the labour theory of value in order to arrive at market clearing prices of sorts? Firstly, the main characteristics of the theory will be described. Secondly, the transformation problem in the Soviet planned economy will

be analysed. Finally, I will discuss problems associated with world market prices and inflation.

The labour theory of value

The point of departure of the theoretical discussion is the labour theory of value (*trudovaya teoriya stoimosti*) as elaborated by Marx and Engels in "Das Kapital". For the sake of coherence, it should be noted that the value (*stoimost'*) of a product according to this theory is determined by the cost of socially necessary labour (*teoriya obshchestvenno neobkhodimykh zatrat truda*) needed for its production. Prices were defined in price lists (*preiskuranty*). Exploitation of labour by the means of capitalists acquiring surplus value (*pribavochnaya stoimost'*) did not exist in the socialist system. Profit (*pribyl'*) was an essential part of this system, but profits accrued to enterprises or the central authorities who belonged in principle to the people, or were elected by the people. According to this theory, therefore, the workers were not exploited. There were evidently limits to the discussion. The political system and the theory of value could not be questioned. The discussion had to be limited to the transformation problem. Market prices could not be accepted. Furthermore, political guidelines such as resolutions of the Party and speeches and articles by Gorbachev, as well as the works of Marx, Engels and Lenin, established such limits. A practical consequence was that prices or changes of prices had to be centrally planned, and in addition there must be national ownership of at least the most important means of production. In principle the theoretical discussion was concentrated to three issues. First, what should be included in the determination of prices, second, how should a centrally planned price determination system be managed, and third, how should the transformation problem be solved. In other words, how could centrally determined prices be transformed into prices reflecting consumer value?

It should be noted that in Marxist-Leninist economic theory, the fundamental theories are considered objective scientific laws that cannot be changed but can possibly be interpreted.

Labour is divided into two parts: physical capital and labour force. Physical capital is defined as the social labour materialized in the good (*v toware oveshchestvlennyi trud*). Consequently, capital is not a factor of production. The labour force in this context is called *zhivoi trud*. *Zhivoi* means living. The theory has evidently difficulties in integrating natural resources in the calculation of value. Environmental problems and related costs were therefore difficult to deal with within the framework of the theory.

As a consequence of this logic, another problem is that the longer working time to produce something, the higher the value. Soviet economists were aware of this problem and struggled to find solutions of how to increase the efficiency of the production (*proizvoditel'nost'*, productivity) in order to arrive at lower prices and prices that could establish equilibrium between supply and demand. In other words, how to unify labour cost pricing with prices reflecting consumer demand and supply? The

problem was how to transfer the cost of labour in specific cases to prices – the transformation problem, as it is known in Marxist economics.

The transformation problem

In the debate on the Marxian theory of value, the "Great Contradiction", which started after the publication of the first volume of "Das Kapital" in 1867, was one of the more serious objections to the labour theory of value. "The Great Contradiction" is that the empirically observed exchange value of commodities, the market value, differs from the labour time they contain. It is not relevant here to go into details on how Marx solved this problem. Suffice it to say that he solved this transformation problem with the theory of the competition of capitals. According to this theory, competition between enterprises engaged in production tends to establish a uniform rate of profit. When the average rate of profit is added to the costs of production, the individual divergence of market prices from the labour value tends to cancel out in the aggregate. A good description of the labour theory of value can be found *inter alia* in Robert E. Ekelund and Robert F Hébert, *A History of Economic Theory and Method* and in *Slovar'sovremennoí ékonomicheskóí teorii*.

Marx dealt with the price formation in market economies. However, in the Soviet system most prices were centrally determined, and price competition among enterprises did not exist. The concept of profit in this system was obscure. In the Soviet Union, the transformation problem was the following: Could it be possible in practice to transform labour value into prices in a system with centrally defined prices? Soviet terminology formulated the problem as how to transform labour value into consumer value. In classical Marxist theory, value is determined by the socially necessary labour costs, but prices possess their own specific nature, their particularity of formation. The specific nature in turn is defined by the function of prices, of being the form in which value manifests itself. In addition, prices are more mobile than the labour contents of the goods.

In this context, Tarasov (*Voprosy ékonomiki 8/1987*) uses the concept of consumer value (*potrbitle'naya stoimost'*) in his analysis and emphasizes that the production of consumer value is the direct goal of the socialist society. Tarasov defines consumer value as social utility of the goods (*obshchestvennaya poleznost' blag*). In practice, economic management is more oriented towards consumer value, without giving much attention to the labour costs of the goods, i.e. the value. However, value as expressed by the labour theory of value is important for solving problems in determining the consumer value and the efficient management of the economy. The priority of consumer value manifests itself in the overall goal of the socialist society - to increase the material and cultural level of the population. Tarasov is not entirely clear regarding the solution of the transformation problem. The most reasonable interpretation of his thinking is that prices, i.e. consumer value, coincides with the goods and services produced with minimal labour costs or the lowest possible prime costs.

Petrakov (*Voprosy ékonomiki 1987/1*) maintains that Marx and Engels analysed the transformation problem from two perspectives. The micro level referred to a specific product, while the macro level referred to the total social production. The last perspective is more important. The structure of social demand determines the level of the costs of necessary social labour in different branches of the economy. Prices should correspond to the objective proportions (structure) of the economy, which determine the social distribution of labour. It seems that the price of a specific product does not need to reflect the labour costs of the product. Petrakov's analysis is representative of the interventions of other economists in this debate.

When Deryabin (*Voprosy ékonomiki 1/1987*) approaches the transformation problem he maintains that prices are the expression of value, and that prices should be calculated according the value of labour inherent in the product. This could not be done directly because enterprises are different with regard to their efficiency. Socially necessary labour costs are those costs that arise when resources are best distributed and used. This implies that prices will be oriented towards the lowest prime costs. Prices will not only serve as incentives but also as economic constraints (*prinuzhdeniya*). Goods of low quality or obsolete goods will be eliminated. However, he does not address the question of what would happen to enterprises which do not fulfil these conditions. Bankruptcy did not exist in the Soviet Union.

In his article, Deryabin's solution to this problem is characterized by a tendency to introduce a certain dynamics of prices in combination with planned management of price movements, where the dynamics of socially necessary labour costs will be taken more into account. The level of minimal costs should be reflected in the plan through changes of prices.

Borozdin (*Voprosy ékonomik 12/1987*) does not agree with Deryabin. Referring to earlier experiments with planned standardized indices of price changes, which had been stillborn, he gives a concrete example: if prices of specific products are oriented towards minimum costs in the tasks established by the plan, it is necessary to solve the problems of enterprises and goods that are produced with costs during the planning period that are higher than the minimum costs established by the plan. Such goods are necessary for the society. Deryabin's approach does not solve such problems.

Deryabin (op.cit.) maintains that the existing centralized system is unable to rationally control prices, particularly for new products or change of prices due to higher quality. He calculates that the Central Price Authority (*Goskomtsen*) can allocate only fifteen days to approve a new price. *Goskomtsen* can use only less than a minute to control existing prices of every product. Deryabin argues that the controls therefore are essentially formal. Prices should play a more important role in planning and the setting of norms. Tropin (*Voprosy ékonomki 9/1987*) agrees.

Moreover, Deryabin argues that prices should not be determined only by costs of production, but also consumer properties with higher prices of products with these qualities and lower prices of low quality or obsolete products. The surcharges

(*nadbavki*) regarding new and better products should be dependent on lowering of prices of other products. The level of all prices, including retail prices (*roznichnye tseny*), should be co-ordinated with the planned wages fund. It is necessary to suppose that this fund will be planned in close co-ordination (*v tesnoi uvyazke*) with planned effective demand, turnover of goods, and guarantees for the provision of the goods. Deryabin recognizes the practical difficulties of managing such a system. In order to make price formation more unbiased, he proposes that the state level should establish procedures for determining prices. Only strategic decisions regarding price formation should be taken on the state level. All other possible influence such as producers, consumers, and price formation organizations should be excluded. In this concept, an important task in this context would be to manage price movements and not the formal decision-making regarding specific prices. In addition, ministries and enterprises based on strategic decisions and rules worked out by the state level could then determine actual prices.

Accepting the resolutions of the Party, Deryabin feels (*op.cit*) that market prices are not the solution to the problem of shortages. Already with the present system there are clear tendencies of growth of wholesale prices (*optovye tseny*). Markets would further raise these prices and would corrupt the workers, as well as hamper the scientific-technical progress. The reason for his conclusion seems to be the chronic shortages of products, which will put the customers in a disadvantageous position.

Chubakov (*Voprosy ékonomiki 1/1987*) argues in the same way as Deryabin. Prices establishing equilibrium between demand and supply would mean that prices rise. Balancing the plan by increasing prices would not increase satisfaction of the demand of the population. Higher prices would dismiss the question of the necessity of increasing the production of goods and services. It seems that he means that an absence of price pressure would lead to that result. Market prices could lead to uncontrolled rise of prices. Moreover, Chubakov is aware of the needs for a reform of prices. He notes that some food prices had been the same since the 1950s and 1960s, and do not correspond to changing patterns of demand. He proposes a rather complicated system of consumer prices with six categories. He argues against a fundamental reform of the price system, and maintains that specific prices should be tied to the extent it is necessary to attain equilibrium of produced goods to social demands, and to the demand of the population. How this could be attained is not clear.

Like Deryabin, other economists deal with the question of excluding vested interests from central issues of price formation. One example is Efremov (*Voprosy ékonomiki 6/1987*). In his view, price formation is an objective science. Thus prices should be established also using the services of different institutions of the Soviet Academy of Sciences.

Borozdin (*Voprosy ékonomiki 12/1987*) assigns importance to the equilibrium (*ravenstvo*) between supply and demand, which is the most important task for the planning organizations in a socialist economy with national ownership of the means of production. The national requirement (*potrebnost'*) of goods manifests itself only as the amount of manifest demand (*tol'ko v razmere pred'yavlyаемого sprosa*). Only

under conditions of such equilibriums is it possible to unify value and socially necessary labour costs in the price. It seems that Borozdin thinks that this will be possible by using advanced econometric, or in Soviet terminology, planometric methods.

To some extent, Deryabin's ideas have a superficial similarity with those of the Polish economist Oscar Lange (1904 – 1965). Deryabin did not refer to Lange. Lange was an active participant in the discussion in the nineteen thirties on rational calculations in a planned economy. Lange argued that this was possible. Thus, equilibrium market prices could be calculated outside the market system without any act of exchange. In practice, however, applying this theory would require the establishment of a specialized organisation playing the role of the market. It seems reasonable to assume that this would mean the use of shadow prices. The real difference between Deryabin and Lange is that the former did not envisage market influence on the prices. The theory of labour law of value prevented such an approach.

As a matter of fact, shadow prices were not an unknown concept in the Soviet Union. Leonid Kantorovich (1912 – 1986), Nobel Laureate in Economics in 1975, who, together with Tjalling Koopmans belonged to the mathematical school, advocated the use of shadow prices in his scientific production. However, as we have seen earlier, the mathematical school had lost much of its influence.

Tarasov (*Voprosy ékonomki 8/ 1987*) agrees with Deryabin regarding the importance of minimal labour costs in establishing the normative value of goods. Efremov (*Voprosy ékonomika 6/87*) agrees in principle with Deryabin but tries to solve such problems in another way. It is evident that producers have an interest in higher prices, even if this is not in the interest of the society as a whole.

But to come to grips with unprofitability of enterprises should be a criterion (*merilo*) of the efficiency of organs responsible for planning and management. It is not possible to save such enterprises by increasing prices. On the contrary, established new prices should make earlier established norms regarding costs more rigorous. There is no other way to solve such problems other than to redistribute resources in order to reconstruct obsolete production and to revitalize existing enterprises.

Efremov maintains that the existing management and planning system with its different indicators cannot take care of such unprofitability-related problems, nor can it reflect the level achieved regarding the progress of production. Furthermore, it cannot promote scientific-technical progress because the methods of calculating the incentives to encourage such production are inefficient.

Another problem is how to calculate profits. As Hanson (2003, p 96) observes, "Profits in the USSR, after all, were the product of input and output prices that did not, except by chance, reflect supply and demand. With misleading prices, profits are guaranteed to be a misleading guide to efficient resource allocation".

Like Deryabin, other economists deal with the question of excluding vested interests from central issues of price formation. One such instance is Efremov (*Voprosy ékonomiki 6/1987*), who posits that price formation is an objective science. Thus,

prices should be established also using the services of different institutions of the Soviet Academy of Sciences. Efremov argues that the instrument to solve the contradictions (*protivorechiya*) between social and collective (enterprises) interests regarding prices is not the approved plan, but the pre-plan stadium of the production. He takes as an example the production of quality steel. There are in steel production progressive enterprises, and also backward (*otstalnye*) enterprises. Analysing such enterprises provides a representation of the actual progress of the metallurgical industry, and permits the elaboration of objective assessments regarding the determination of norms including incentives. Therefore the incentives should not be calculated only on the basis of profits, but also by deductions from the profits for enterprises not living up to the norms. In this way, producers who are now interested in higher prices will be interested in lower prices. There is of course a problem in calculating profits. As pointed out earlier, Hanson (2003, p 96) observes that "Profits in the USSR, after all, were the product of input and output prices that did not, except by chance, reflect supply and demand. With misleading prices, profits are guaranteed to be a misleading guide to efficient resource allocation". Cheplanov and Shrygin (*Voprosy ékonomika 11/1987*), both senior civil servants in the state price authority, try to unite flexibility of prices (*gibkost' tsen*) with the labour theory of value, and thereby solve the transformation problem. Their points of departure are the decisive role of the national ownership of the means of production and the increasing role of joint ventures with private foreign firms, as well as the kolkhoz-co-operative ownership. Price formation cannot be based upon a system with only national ownership of the means of production, even if this type of ownership must increase and be strengthened. Not surprisingly, they maintain that increases in the prices of goods of basic needs must be compensated by changes in wages and pensions. They also observe that the effects of such price increases will be mitigated by the fact that the structure of demand had changed, in the sense that the share of demand for food will continue to decrease as a result of higher standard of living.

According to Cheplanov and Shrygin, prices of the most important means of production, particularly those of basic popular necessities, should still be determined centrally. But changes should take place. These prices should not be seen as unchanging and valid for an undetermined period. They should be the highest allowed prices for such products. Within these limits, producers and consumers could agree on other and lower prices. A certain quality of possibilities of agreement on prices was introduced. In such a way, it would be possible to promote maintaining compliance to the socially necessary cost of labour regarding the production of such goods, as well as giving the possibility of producers to lower prices - and thereby increase the competitiveness of the socialist market. Like Abalkin, Cheplanov and Shrygin use the expression "socialist market", which of course is not the same thing as market socialism.

As most other Soviet economists, Cheplanov and Shrygin argue that fundamental disequilibria in the socialist markets and particularly in food markets should be solved in the first hand from the supply side. Against this backdrop, they propose a system regarding the production of goods of basic necessity by the kolkhoz-co-operative sector. Here agreed prices could be established. Agreed prices (*dogovornye tseny*) in this sector could then deviate from the highest allowed level of products from state

enterprises. The agreed prices could thus be higher or lower in comparison with prices of similar products from state enterprises. However, they argue that there must be also some sort of limits to higher prices in this sector.

Cheplanov and Shrygin argue in a manner somewhat similar to that of the market economic concept of indifference curve, income effects, and substitution effects. However, they do not use these concepts (cf. Appendix 4).

As has been observed, a number of products were highly subsidized by the state. Komin (op.cit) had argued in favour of abolishing the subsidies. According to Cheplanov and Shrygin, such subsidies should be reduced to a minimum. They distort indicators regarding the efficiency of production and are not compatible with the indolence of enterprises, which requires that prices should be closer to the socially necessary labour costs. But they also argue against price increases of food and other goods of primary necessity. It is reasonable to believe that raising prices of primary necessities could be politically sensitive. Another aspect, highly speculative in the case of the Soviet Union, is the problem of menu costs, i.e. the costs of price adjustments. It is easy to understand that control and changes of millions of prices would have been costly. However, this does not seem to be of interest to the Soviet economists in my sources

Value theory: Natural resources

A consequence of the labour theory of value was that natural resources did not have any value as long as they were not exploited. Therefore it is interesting to note that Petrakov (op cit.) argues that prices of mineral products, and particularly finite natural resources, should be charged in order to stimulate the economy. The artificial (*iskusstvenoe*) lowering of raw material prices creates economic obstacles to the introduction of intensive production methods, resource-saving techniques, and the integrated use of raw materials. This point of view is quite common among Soviet economists. Cheplanov and Shrygin (op.cit) also note the same problem. Efremov (*Voprosy ékonomiki 6/1987*) approaches this issue in the same way.

Partly in the same vein, Deryabin, in his article in *Voprosy ékonomiki 1/1987* (cf. also Sätre Åhlander 1993 for later development), criticizes the existing system as being incoherent and not responding to the needs of radical reform of "the economic mechanism". In his view, the system does not allow for costs of e.g. environmental protection, recultivation of land, training of personnel, geological prospecting, etc. Komin (*Voprosy ékonomiki 3/1988*) is very clear in this respect.

In my sources there only seems to be an embryo of a discussion on prices of raw material. The same goes for environmental protection, recultivation of land, etc., which are also mentioned in the discussion of price formation. In principle, the above considerations could be integrated in a system with prices established from above, but it is difficult to understand how such prices would be concordant with the labour theory of value. There are no such proposals.

World market prices

A special problem was price formation of imported goods. Prices of imported goods were generally speaking market prices. How did the Soviet economists tackle such problems? Komin (op.cit) addresses this question and recommends that international prices should also be taken into account. He refutes the idea that Soviet prices should be set in isolation from the world market. Existing prices of raw material and products from the manufacturing industry that are artificially low in comparison with world market prices diminish the efficiency of the production, as well as hamper exports and international economic competitiveness. He also argues for a suppression of subsidies (*dotatsiya*), which distort the price formation but recognizes that wages and pensions have to be adjusted in such a process.

Some economists noted that prices in Soviet foreign trade were structured differently regarding, on one hand, members of SEV/CMEA (cf. Appendix 5), and on the other hand, market economies. Some of the SEV countries had based their prices on an examination of world market prices as a means of structuring the functions of prices in strengthening the acceleration of scientific-technical progress. Shurkalin (*Voprosy ékonomiki 5/1988*) argues for the same type of analysis of the Soviet price formation.

Now the question is which types of world market prices should be taken into consideration. Shurkalin admits that prices in SEV countries have specific characteristics, but thinks that the basis of these prices is the prices of the capitalist market for goods. Contract prices in the final analysis reflect the level and dynamics of international prices.

Regarding the possibilities of interconnection in domestic and external prices, Shurkalin notes the low level of participation in the international division of labour among the Soviet enterprises. Shurkalin argues that prices should be tested against prices in the Soviet foreign trade. He agrees with Deryabin's thesis (op.cit) that prices should be determined by the production with the lowest prime costs. It is necessary to gradually abandon price formation of imported products based on domestic costs. But he does not accept spontaneous and uncontrolled invasion (*vtorzhenie*) of world market prices in the domestic price formation. It is important to guarantee to a certain degree (*v izvestnoi mere*) the stability of prices of imported products, and at the same time promote great flexibility and stimulate influence of the prices. Prices of imported products should reflect not only the costs of their procurement, but also the results caused by such products. Prices should be planned norms set to promote national economic interests.

A particular problem was that the rouble was not convertible. A number of coefficients were used in order to express foreign currencies in roubles. Shurkalin notes that regarding export there were more than two thousand such coefficients. He argues that this system is very inefficient. There should be one exchange rate, which could lead to convertibility of the Soviet currency. Soviet economists were evidently aware of the problem of how to integrate world market prices in the domestic system of labour theory of value, but thus far did not present practical solutions. It is difficult to see how such prices could be integrated in the prevailing system.

Inflation

A new theoretical problem was inflation. Economists were now aware of suppressed inflation (*podavleonnaya inflyatsiya*). In an economy of shortages there is no equilibrium of supply and demand. If prices are determined on other grounds, inflation will manifest itself in rationing or queues. A queue was a sign that the shop had something to sell. A linguistic illustration to this situation is the Russian word for net bag – *avos'ka* from *avos'* which means maybe or chance. Shimon (*Voprosy ékonomiki* 6/1989) studied the experience of *inter alia* reforming socialist countries such as Hungary, Poland, and Yugoslavia. He alleges that during the last decades, inflation in developed capitalist countries was connected with the market for goods including influences from the world market and with the labour force. He probably refers to wage-push inflation. However, in developed reforming socialist economies, the situation is different. In these countries, the hidden or suppressed inflation has to be taken into account. Due to the absence of market mechanisms there are shortages and price relations do not reflect equilibrium values. He argues that the main reason for inflation in such countries was the chronic imbalance of the economic processes, where the long-term accumulated shortages of goods and services caused an inflationary spiral. I will later come back to this issue. Anyhow, it seems that Shimon's analysis of the situation in those countries could indicate a certain similarity with the "scissors crisis" in the USSR in 1923 - 1924. In my opinion, it is evident that with the widening of the niches where prices could be set more or less freely, including the black market, the Soviet economists became aware that suppressed inflation now had become open inflation. Interest in the experiences from other reforming countries was growing. There is also a growing interest in the experiences of other reforming countries.

Summary of price formation

In summarizing the debate on price formation, one can conclude that a number of interesting ideas were brought to the fore by Soviet economists. A majority of the economists recognized that the existing system of price formation did not promote the acceleration of qualitative growth. However, the more or less centralized system for price formation could not be questioned, but only modified in order to attain a higher degree of flexibility, and to attain a national equilibrium between demand and supply. Different ideas for limiting the central authorities' competence in price formation were presented.

A lot of theoretical work was done in order to unify the labour value with social utility or consumer value of the production - the transformation problem. Other ideas concentrate on the total value of the production of material goods and not on prices of particular products. These ideas could be interpreted as trying to integrate parts of market economics into the planned system.

A rather new aspect discussed by Soviet economists is that prices of mineral products and other finite natural resources should be charged in order to stimulate the economy. The artificial lowering of raw material prices amounts to subventions, and therefore creates economic obstacles to the introduction of intensive production methods, resource saving techniques, and the integrated use of raw materials.

Within such limits, it would have been theoretically possible to use ideas similar to those of Oscar Lange, and to analyse the problems in terms of difference curves, income effects, and substitution effects. This did not happen. It is recognized that something must be done to account for the frequent shortage of goods. Bearing in mind the limits to the discussion – price control and national ownership of most means of production – the solution had to be on the supply side. There were contributions addressing problems in a similar manner to the public choice school. The welfare of the population had to be addressed. The concept of profit had been accepted for a long time, even if it is not easy to understand the economic meaning of the concept. This was of course a serious problem, bearing in mind the important role of profit in calculation of the efficiency of the enterprises, incentives, and benefits accruing to management and employees.

Stationary structures

Referring to the analyses part 2 I have observed that experiences from other socialist countries have become interesting in safeguarding the Soviet economic system. When discussing stationary structures in the Russian context, it was observed that one of its characteristics is the existence of a dominating state ideology from tsarist times, which could not be fundamentally called into question, but could possibly be modified. Reforms were supposed to come from above. The labour theory of value had a strong ideological connotation, in the sense that it constituted the basis for the theory of exploitation of the workers in the capitalist economy, and thus the necessity of common (state) ownership of the means of production in the socialist economy. The discussion on price formation reflects this aspect of stationary structures, in the sense of accepting directives from above, even if it is difficult to distinguish stationary structures from socialist ideology.

5.4. Centralization and decentralization

Democratic centralism was a cornerstone in the Soviet economic and political system. Central planning of practically everything in the economy was looked upon as a great advantage in comparison with the capitalist economies. On the other hand, it was recognized that the central planning mechanism was not flexible enough to respond to changing economic conditions during the planning period, and also did not encourage increasing productivity.

In general, there were in principle two ways of coming to grips with such problems, *viz.* ameliorating the techniques of the system and decentralizing the decision-making regarding the implementation of the plan. In the latter case, there were ideas about diminishing the role of administrative directives in favour of economic ones. Another aspect is how to combine centralism with democracy in the communist sense of the word (decentralization). How did the Soviet economists deal with these two fundamental questions?

Typical exponents of the first approach are the adherents of the mathematical school, who can be described as adherents to the single factory theory, or seen as an advanced version of the “ABC of Communism”. The above-mentioned article in *Kommunist* by Kantorovich, Albegov and Bezrykov (*Kommunist* 9/1986) is a good

exponent of this case. The authors argue for a more widespread use of optimising methods in the national economy, within the framework of accelerating economic growth. The authors concentrate on the technical aspects of increasing the rate of growth.

Decentralization will inevitably redistribute influence and decision-making from the central level to lower levels in the hierarchy. Influence means independence. As Sitaryan (*Kommunist 7/1987*) argues, democratic centralism is the firm principle of socialist economic management and the role of Gosplan must be safeguarded. Only centralism can allocate the concentration of available resources to the development of fields, which predetermine the scientific-technological process.

Most economists participating in the discussion agreed that some sort of decentralization was necessary. Kulikov (*Kommunist 12/ 1986*) expresses the problem in the following manner. Transition to intensive modes of production requires independence of enterprises and other economic units when it comes to investment in machines and other equipment. Furthermore, the widening of possibilities of taking initiative and accepting responsibility means a further democratisation of management - a process imminent in socialism.

Another problem in the same vein has to do with self-financing of the enterprises, or commercial accounting (*khozraschet*). If the enterprises were to finance their activities from their proceeds, the question arises how this principle could be consistent with central planning and centrally established prices, and the low level of legally permitted trading among enterprises. It is of course true that the directors of enterprises could indirectly influence Gosplan, but when planning indicators had been decided upon, they were legally binding.

Sitaryan (*Kommunist 7/1987*) argues that reform of economic management is the main condition for acceleration, and writes that this process is complicated and full of contradictions. It is necessary to elaborate a theory and practice of socialist management. These management problems boil down to how to optimally combine the interests of society, collectives and individuals.

Furthermore, Sitaryan argues that the border between centralism and democracy has historically been shifting, but centralising has incontestably always been the most important. In the present situation, evidently, one must recognise that the border has moved in the direction of democracy, e.g. more authority to enterprises and local institutions. However, this change is only of a quantitative character. The qualitative aspect has to do with the administrative or economic management system. According to Sitaryan, the administrative system allows for decentralisation, but with limits. In the present situation it is necessary to transform the administrative management system into an economic one. This means that enterprises have to be self-financing, a change that has already been carried out in practice. But this does in fact not imply an abandonment of centralism, but rather a modification

At present, however, changes have to be made in order to combine central planning and goods-money relations or plan and market. It is thus necessary to redefine the

substance of planning and common ownership of the means of production, in order to find a new management mechanism to deal with prices, profits, finances, and credit. However, in this process the role of *Gosplan* must be safeguarded. In this context, Soviet experiences from the NEP period should also be used. However, the present situation is different from that of the NEP period. Better planning methods have been developed, which was not the case during NEP.

It is not quite clear what type of economic system Sitaryan advocates. One possible supposition is that he recommends a sort of mixed economy, where the state would play a dominating role as an owner of strategic enterprises and set strong rules for the economic system, i.e. a type of central co-ordination at the macro level.

Bearing in mind the relatively good knowledge of market economics among Soviet economists, it is somewhat astonishing that they did not discuss the theories of Ronald Coase (Nobel Laureate in Economics in 1991). Like many Soviet economists, Coase was sceptical of the increasingly widespread use of mathematics in economic analysis.

In a famous article in 1937 (Coase 1937) on the nature of the firm, he asked the following question: the economists maintain that the market is the best co-ordinator of economic activities but why then are large parts of co-ordination carried out in the planned economy of the firm? Coase addresses the question as to why the whole economy could not be planned as a single firm. The bargaining and transaction costs are the explanation. He argues that when a firm reaches a certain size, such costs will have been increased. Consequently and implicitly this should be true in a totally planned economy – a single factory approach. But the Soviet economists could have argued against such a proposition, being aware of the planned economy of individual capitalist enterprises. Abalkin's early arguments for the establishment of a socialist market could have opened up the possibilities for a more open discussion, which were presented in chapter 0.0. Abalkin was not very clear in this context. The use of the word "market" could have implied the use of more market economic methods, but still within the framework of a planned economy. Sitaryan and Yasin (*Kommunist* 7 and 11/1987) try to go further and elaborate more concrete suggestions. Being in favour of new methods without commands and directives, they are aware that it could be argued that even if the reforms could be interpreted as a reconstruction (*vossozdanie*) of "market", and even if this means giving up dogmas founded on selected quotations, it is necessary to carry out the measures.

One of the levers for such reforms was that enterprises had to be self-financing (*khozraschet*), a change that had been carried out in practice also before perestroika. Sitaryan and Yasin argue that increased transfer to self-financing is necessary. But it appears that their results are not better than other enterprises, and here and there even worse. This is not an argument against self-financing. The explanations are to be found elsewhere.

The system of norms and standards in the plan does not take into account that enterprises are different with regard to equipment, financial situation, and culture.

Still, enterprises are not free to use their profits according to their own ideas. They are still subordinated in many respects to directives from governmental authorities. The system does not allow for economic incentives. Furthermore, the enterprises had not used existing possibilities within the existing framework of self-financing. With full self-financing, the enterprises will be receptive to economic methods of management.

Another lever of reform, closely connected to self-financing, is state orders (*goszakazy*). *Goszakazy* will be introduced and will cover strategic goods, at defined prices that cannot be changed. What are the differences then between the old planning system and the new system? Sitaryan and Yasin answer that there could be only one difference, *viz.* that the enterprises can decide upon the rest of its production. State orders could be seen as analogous to requisition or compulsory supply orders. But this is not so. Governmental orders are supposed to be a new type of vertical relationship, but this relationship will be economic and not administrative. The system should be construed as agreements mutually advantageous for both partners - governmental authorities and enterprises - where governmental authorities guarantee the necessary inputs for the production, which in turn is guaranteed by the enterprises. Thus a socialist market will come into being. As has been noted above, the enthusiasm for *goszakazy* was not shared by all economists.

As pointed out above, economists argued that only prices for very important production should be decided centrally, as a part of the overall plan. Prices should stimulate the attainment of the goals of the plan. According to Sitaryan and Yasin, in this way it will be possible to overcome the problem of shortages of important products.

Another pressing question is the role of the local party organisations in the management of the economy. Sitaryan and Yasin argue that there are a number of members with experience in party management of the economy. However, it is so that from time to time administrative considerations have prevailed over political ones, in order to show that the planned figures of total production are attained. There should be less interference from such institutions in the production. On the other hand, the enormous experience of local party organisations should be used to support those workers' collectives, which are vanguards in the context of solving inevitable important social and ideological problems connected with serious economic reforms. Economists in my sources interpret the policy of the CPSU as an endeavour to create a socialist market. This involves self-financing, state orders on a mutual contract basis, liberty of the enterprises to decide on the use of resources (at least once the government orders have been fulfilled), limiting the plan objectives to important goods, economic norms, prices, centralized control of economic resources, and lesser interference by local Party organisations in the running of enterprises. This can be interpreted as an endeavour to integrate market economic aspects into a planned system, but still a system where important economic decisions must be taken centrally. This ambition in my opinion can be seen as a *contradictio in adjecto*. In my view, this part of the discussion did not contribute very much to the development of economic thinking, but opened up theoretical possibilities for the future. The economists could argue for some sort of market, but still the power of

central authorities would remain even if somewhat modified. In my opinion, the concept of a socialist market is still confusing.

5.5. Ownership

A special problem in the democratisation of the Soviet system was the state ownership of the means of production. As has been described above, the law on state enterprises aimed at increasing the independence and flexibility of the state enterprises. An important aim was to get the employees more engaged in the work of the enterprises. The question is then: how to make employees to feel that they are co-owners or co-managers of this property?

There were traditionally two types of recognized ownership of the means of production in the Soviet Union, namely state and co-operative ownership. In practice, there were no managerial differences between the two types of property. They were subjected to the plan. The legislation of co-operatives opened new possibilities for a more flexible ownership structure. Also, individual labour was now allowed according to the constitution.

The problem for a socialist economy in this respect is the labour theory of value. The capitalist will receive profits and thus exploits the workers. On the other hand, private ownership of the means of productions was allowed (to a limited extent) in the NEP period (cf. Nove 1992).

In this context, in his 1987 (*Voprosy ékonomki* 5) article, Abalkin approaches the question of ownership. He does not argue for private property, but for more decentralisation and possibilities for employees to participate in management. Without change in the nature of state/public ownership of productive property, it will not be possible to overcome the workers' alienation and bureaucratic immobilization. A more or less systemic criticism of the property system of the USSR was provided by Zoteev and Hewitt (*Kommunist* 13/ 1989). They argue that the socialist system of property needs to be further analysed. The defining characteristic of this system is in the theory of collective ownership, which means that in reality the government is the sole owner (*ogosudarstvlenie*). As a consequence, there is no particular owner of the means of production, and they argue that there are no individual stakes in increasing the quality and quantity of production. The authors quote Adam Smith's well-known statement on how the personal stakes of bakers see to it that consumers can buy bread.

The system implies that the burden of reproduction of fixed capital (*osnovnoí kapital*) rests on the shoulders of the government, which continually increases the part of the gross national product used for investment in fixed and working (*oborotnyí*) capital. The lack of individual stakes in this process consequently causes decreases in the efficiency of the use of resources, and the rate of economic growth. According to Zoteev and Hewitt, the increasing investment, necessary for maintaining the system, cannot therefore retain the stability and equilibrium of the economic system because the part of the resources used for current consumption will diminish to a critical level where even the economic incentives die down (*ugasayut*). The system had landed in

an economic trap. They maintain that the system would lead the Soviet economy into a dead-end street. This was recognised already in the nineteen sixties by Western as well as Soviet economists, and reforms were recommended.

According to the two authors, competition is a key factor, but the discussion so far in the USSR has been simplistic, infantile, and naive. There is no widespread agreement on the negative consequences of the greenhouse conditions of government monopolies in foreign trade, in particular for the production of first-class goods according to the criteria of the world market. It seems evident that Zoteev and Hewitt, without being explicit, advocate a kind of mixed economy.

Alienation (*otchuzhdenie*) became a key phenomenon. As I have noted, when dealing with contradictions in the socialist system, one problem was to see to it that workers realized that they were co-proprietors or co-managers of state-owned property. It is interesting to note that in classical Marxism alienation was a concept used in the analysis of capitalism. However, it seems to be applicable to the socialist system as well. Dunaev (*Voprosy ékonomiki 8/1988*) argues that the only way to manage alienation in the socialist economy is to activate self-administration (*samoupravlenie*) under the following conditions. Command-administrative methods of leadership should be replaced by economic centralism. Self-administration should be implemented through full self-financing, which will overcome the now only formal participation of workers in leading the production. Finally, Dunaev concluded that in reality the general atmosphere of democratisation in the society will serve as a guarantee of self-administration.

Kolesov (*Voprosy ékonomiki 4/1988*) argues that regarding property, all economic systems (including the socialist system), have elements of alienation. If the whole society (*vse obshchestvo*) is designated the sole owner of the means of production, then individuals or collectives are not owners. In this regard there is alienation in socialist societies. But each individual, separately alienated, will profit from this type of ownership as a member of the society.

But Kolesov is not content with this analysis, and is fully aware of the widespread misappropriation (*khishchenie*) of state property by the employees. He advocates the principle of “national – it is not yours”. He bases his proposals on Marx, Engels, Lenin and Gorbachev.

Kolesov argues that in a socialist society there is never one individual which is the owner of an enterprise. But an individual is a producer, even if this individual is not the sole owner of an enterprise. Kolesov accepts that the society is the owner of the means of production but argues that there are other participants, *viz.* owners, producers and consumers, that also need to have a say in production issues. Without overtly using the concept, Kolesov seems to be approaching the idea of “stake holders”. On the level of the society, all these groups merge to one subject.

In this context, the problem is how to join the producer, individual, or workers' collective, with the means of production, and thus eliminate alienation. Very much in

line with the idea of independence of enterprises in the fulfilment of the plan, Kolesov's solution to the problem is that the producers be given more power to control and manage (*vladet*) the means of production, and consequently be allowed to enjoy fruits of efficient management. In this way, the interest of the producers in such management will be encouraged.

Kolesov also intends to show how such a distribution of functions could work in practice. The society, i.e. the state as a whole, is the sole owner of an enterprise. It can decide on, for example, merging or restructuring enterprises. The state regulates the relations by controlling the activities, use, and management, and by defining the limits of the scope of action of the enterprise. The state grants the enterprise the means of production. Management of the resources is thus subordinate to the owner. The state is the owner, and the different collectives lead the production in the name of (*za chet*) the society (state).

Kolesov's type of analysis is typical of the interventions in *Voprosy ékonomika* at this time. There are some minor differences of opinion, e.g. about how to distribute the surplus value and how to define the concept of "owner".

Co-operative and private ownership

However, one part of the radical reform was to be the introduction of some kind of private ownership, individual working activities, and co-operatives. These measures were introduced with reluctance and an apparent lack of enthusiasm. From a Marxist point of view, this reluctance is understandable, bearing in mind the sorrowful fate reserved for small enterprises.

Already in 1986, Kulikov (*Kommunist* 12/1986) evoked the possibility of widening the field of individual activity. Experiences from other socialist countries indicate that there are certain branches in which for various reasons collective work is less efficient than individual activities. Kulikov sees this as a means of dealing with the problem of the levelling of salaries and wages, and of awarding incentives according to work performed, i.e. the socialist principle.

Kulikov developed his ideas on this subject in 1989 (*Voprosy ékonomiki* 5/1989). According to the decisions of the Party, it was now possible to discuss various types of socialist ownership, viz. state, co-operative, leasing (*arenda*), and individual. He is still very critical of the concept of the state as representative (*predstavitel'*) of different subjects, such as ministries, authorities, co-operatives, and a great number of local government organs. There are contradictions in this system because all these representatives of the state on different levels constitute groups of people with different interests. Thus there are contradictions between the state as representative of the social common interests, and these interests as such. This is not an argument against the state, but rather an argument for the resolution of this contradiction, in order to avert separation of one interest from another through promoting different forms of socialist property. The key word is "de-stateization" (*razgosudarstvlenie*).

The questions regarding contradictions were treated in a way similar to that of public choice. Kulikov argues in this way, but similar to other economists, he does not directly refer to that school of thought. Duanev (op.cit) also argues for a radical re-

thinking of the concept of socialist property. He argues for individual activities and co-operatives. He is in favour of socialist shareholding companies where workers of the enterprises are the shareholders. In this context, it is useful to go back to Latsis' article in *Kommunist 1/1987*. Latsis, later a more pronounced reform economist, applies an approach of principle and analyses. He defends

5.6. Labour and social and economic equality. The structure of remunerations.

As has been shown in the previous chapters, a fundamental problem of perestroika was how to get employees more interested and incited to perform more efficient work. How is it possible to change the attitudes of the employees? I have earlier referred to such discussions, e.g. regarding ownership of means of production. The debate in this section will address these issues from another perspective.

However, there were also other problems that the Soviet economists had to tackle, namely what line were they to take regarding equitable remunerations of the future communist society of the Soviet Union?

It was considered important to change some employees' negative attitudes to work, while at the same time increasing economic efficiency and stimulating economic growth.

Equitable remunerations

As has been noted, the idea of socialist material equality was very much alive in the Soviet Union (Cf. Zaslavskaya and Shmelev below). However, in reality the income distribution in the Soviet Union was not particularly equitable compared to the situation in many market economies (Cf. Appendix 4). The idea of material equality is to some extent astonishing, bearing in mind the difference between the socialist society and the future communist society. The socialist principle is "from each according to his capabilities, to each according to his work" (*ot kazhdogo – po sposobnostam, kazhdomu-- po trudy*). In the communist society the principle will be "from each according to his possibilities, to each according to his needs". Sitaryan (*Kommunist 7/1987*) is one of the economists who observe that distribution of the result of production according to the needs of the individual is a characteristic of the future communist society. In the present socialist society, the most equitable principle of distribution is distribution according to work accomplished. This principle has not been sufficiently realised in the Soviet socialist society. Sitaryan argues that the exaggerated levelling of wages, salaries, and other employment conditions has gone too far (*uravnilovka*). This has discouraged those who can and are willing to work better and thus contribute to the growth of the production. According to Sitaryan, this problem can be solved *inter alia* by decentralization of economic decision-making, and by self-financing of the enterprises. The concept of full employment in contrast to high employment rates in the market economies also played an important role in the debate. The problem of determining equitable incomes from work performed was a difficult one in the debate about the new possibilities of individual working activities. Latsis (*Kommunist 1/1987*) discusses future well-organised and rational individual working activities, and their place in a general economic mechanism that does not yet exist. To some extent, Latsis was troubled about the possibility of too high incomes of

individual work activities. He emphasizes that the incomes of workers in such activities must be connected to the intensity and productivity of work performed.

The problem of acceleration of growth rate was closely connected to the quality of the production of goods and services. Evidently, in this context incentives (*stimuly*) to the labour force became an important issue. Bearing in mind the ideology of economic equality, there could be difficulties in convincing the workers to accept larger wage differentials.

Economists tended to discuss levels of remuneration from the point of view of economic efficiency. Shatalin (*Kommunist 14 /1986*) tackles the problem by arguing that a clear distinction must be made between wage differentials providing incentives, and social compensation funds being important in distributive justice.

Another problem is remuneration differentials reflecting the level of training and education of the labour force. Thus Kunel'skií and Gaídár (*Kommunist 2 and 10/1987*) discuss wage differentials from an economic point of view, and are not particularly interested in ideological problems. They criticise the extreme levelling of wages and salaries of, for example, scholars, engineers and technicians, as detrimental to the labour force, which is most important to economic growth. This conflicts with the endeavour to increase productivity. Kunel'skií has a number of detailed proposals on how to increase salaries and wage differentials, favouring qualified workers and specialists. He stresses the importance of the leadership in the enterprises. The leadership should have the possibilities to determine certain types of increments of salaries and wages in order to remunerate good performances. In general, Kunel'skií emphasizes the importance of the personal responsibility of the leaders of the enterprises. He criticises the levelling of wages and salaries and the diminishing prestige of engineers.

Kunel'skií also discusses these issues more in detail. An important problem is how to get the principles outlined above accepted by the workers in the different enterprises, be it the brigade or the individual worker. It is necessary to strengthen the awareness of the relationship between labour force incomes and work performed. The principle of economic responsibility, in reality piecework, of each brigade must be upheld.

He maintains that the quality and efficiency of production must play an important role. He bases his proposals upon experiences from a number of enterprises. Research made in these enterprises shows, however, that the total production of the brigade was very often considered more important than efficiency and resource saving. There are, however, good instances of higher productivity when using piecework.

Kunel'skií argues that the quality of production has to reach international levels. Productivity must increase. This means that the planning indices referring to the number of personnel of the enterprise should be abolished. Better results have to be attained with less staff. There must also be possibilities to resort to temporary

economic sanctions against leaders of enterprises who systematically fail to attain fundamental planned objectives.

Attitudes to work

As has been described, when discussing stationary structures the attitudes of the people to efficient work and to authorities was an eternal problem in Russia, and also in the USSR. The problem was analysed in terms of “socialist work discipline” (*sotsialisticheskaya distsiplina truda*). Baranenkova discusses this issue in *Voprosy ékonomiki* 5/1986 referring *inter alia* to Lenin.

She describes this issue as one of the most important problems in the USSR. The Party considers ways to create among the employees more responsible and creative relations to work, as well as a sense of being owners and managers. Baranenkova claims in her article that her findings are based to a large extent on economic and sociological research, without being explicit about her sources.

One reason for the lack of work discipline is the high rate of staff turnover, and she points to historical statistics to support this thesis. Baranenkova enumerates a number of problems in this context, such as late arrival to the work place, leaving the work place before the end of the working day, and absenteeism.

To handle these problems, a thorough analysis is necessary. Baranenkova identifies three levels of discipline, *viz.*

Collective (production, technology, supply, etc.).

Individual (personal responsibility of the employees).

Discipline of the executives (Lenin stated that if we want to install discipline among workers and farmers we have to start with ourselves).

Troublemakers (*narushiteli distsipliny*) could be dealt with in two ways: dismissal or re-training (*uvol'nenie, perevospitanie*). Dismissal should be used only in extreme cases of repeated and long-term absence from work. If the reason for such absence is alcoholism, there should be legal possibilities for compulsory medical treatment.

Dismissed employees should be registered by the authorities, in order to ensure that they can be brought back to work. Baranenkova stresses that alcoholism is an important problem in the production, and leads to large economic losses. Problems with work discipline are more prevalent among younger employees. Men are more frequently troublemakers than women. However, absenteeism increases among women in proportion with the number of children in the family.

The question is how to manage all these problems. Regarding the youth, Baranenkova emphasizes the importance of the school system at all levels, where good working norms and morals should be taught. The remunerations system should encourage good work performance, which is not the case presently. The economic planning system, with frequent changes and problems with supply, contributes to disorganization and bad working habits. The social-psychological climate of the

working place must be taken into account. Teamwork (*brigadnaya forma organizatsii tryda*) leads to new types of division of labour, as well as co-operation among workers. Thus this type of organization intensifies the moral and social-psychological relationship to better discipline.

- Baranenkova has a “soft” approach to the problems, stressing the importance of education, training, and collective work. A more “hard” attitude is more prevalent in my sources.
- In this latter vein, Kulikov (Kommunist 12/1986) writes that in the present USSR society a number of problems have not been sufficiently discussed. These include the inadequate foundation of planning activities, widespread striving to exploit the efforts of other people (*izhdivenchestvie*), and levelling of the distribution of the national product among enterprises and individuals. Here Kulikov approaches one of the most important issues of a changing socialist society, i.e. what to do with workers striving only to exploit the efforts of their colleagues, and more generally what to do with persons working poorly.
- Socialism guarantees the well-being of the citizens. But one point is that socialism in the new conditions does not guarantee that an employee has the right to a specific working place. A worker may be asked to leave his employment. Then it will be the task of an employment office to take care of the situation. However, in the present situation, such responsibility rests with the enterprises, which do not necessarily have the motives to dismiss inefficient or redundant workers. Kulikov would prefer the establishment of a specialised employment office.
- According to Kulikov, in the non-socialist society the most important means to discipline the labour is unemployment. The threat of unemployment makes people work more and harder. On the contrary, in the socialist society the right to work is guaranteed. In the socialist economy, material incentives based on objective grounds are more important than in the non-socialist economy. It is a socialist principle that incentives should be distributed according to work performed, as opposed to the egalitarian distribution in the future communist society.
- *Novyí mir* lived up to its more outspoken tradition. Earlier N. Shmelev has been quoted (*Novyí mir* 6/1987). He went further than his colleagues in *Kommunist* and *Voprosy ékonomiki* and writes: “Let us not close our eyes to the economic harm done by our parasitic confidence in guaranteed work. Today it is, I believe, clear to everyone that we owe disorderliness, drunkenness and shoddy work largely to excessively full employment. A real danger of losing your job and going into a temporary allowance or being obliged to work wherever you are sent is a very good cure for laziness, drunkenness, and irresponsibility.” In western textbooks on economics, Shmelev’s criticism has been described as original. But criticism of this kind was not uncommon even if Shmelev in *Novyí mir* used forceful wording.

- More or less in the same vein, Yasin (*Kommunist* 11/1987) also quotes Lenin, who wrote that attractiveness of work (*privlechenie k trudu*) is the most important and most difficult problem in socialism. There is no possibility to use the inhumane method of unemployment to such ends. As many other authors, Yasin stresses the importance of a wage structure that reflects quality and quantity of production. Hitherto, even lazy workers have been guaranteed their salaries. One method of dealing with this problem could be the introduction of collective contracts, where the incomes of the workers will depend on their performances. Contract works have been proven successful in some enterprises.

There is, however, another aspect to this problem. In the Bolshevik ideology, a “new man”, a *homo sovieticus*, a *sovietskiĭ chelovek* should be created. Alec Nove (1983 p.10) observes that “If one assumes that the ‘new man’, unacquisitive, brilliant, highly rational, socialized, humane, will require no incentives, problems of discipline and motivation will vanish. It is assumed that all will identify with the clearly visible general good, the conflict between general and partial interest, and the complex issues of centralisation/decentralisation, can be assumed out of existence.”

As I have observed above this ideology had nothing or very little to do with reality. Shemlev in his above article in *Novyĭ mir* writes about apathy and indifference, stealing, and disrespect for honest work that have been commonplace. Somewhat in line with Zaslavskaya (*Kommunist* 13/1986), he also observes an aggressive envy for those who earn a lot. Perhaps more importantly, he observes a scepticism toward aims and intentions which indicates that a more reasonable organisation of economic life is possible.

Summary

In the economic debate, the insufficient remunerations differentials were looked upon as obstacles to flexibility and economic growth. On the basis of the sources of this thesis, it is not possible to have an idea about the reality of this observation. Suffice it to say that the Gini index of the Union was similar to that in Sweden (cf. Appendix 4). It was argued, however, that larger differentials were ideologically allowed because the Soviet Union was a socialist society and not a communist one.

In the discussion of work sloppiness, it should be observed that such problems were not new in the Soviet Union. One instance is Andropov’s campaign in 1983 (Hanson 2003, pp. 169 ff.) There are different solutions to attain a healthier and more productive attitude. One tendency is to concentrate on carrots and assistance to stimulate motivation with different methods. The other tendency is to use the stick and harsher measures. Even the risk to lose employment is proposed. It is evident that the ideal of a new *homo sovieticus* is now longer a current concept. Maybe this new human being will emerge in the future communist society. People are not willing to work. They will use all possibilities to live off of other people’s work. Here it might be possible to identify one important stationary structure: the rift between the leadership and the population at large. One problem was the egalitarian attitude of the population, which did not correspond to the social realities

5.7. Learning from other socialist countries

Did the Soviet economists profit from the experiences of other socialist, reforming East European countries?

During the first years of perestroika, experience from other socialist countries did not play an important role. Later, from 1987 particularly, the Hungarian experiences would play a more important role. In *Kommunist 10/1987*, Gaïdar is critical of the experience of Poland in the nineteen seventies. In spite of increased investments, partly financed with foreign loans, the economic situation in Poland deteriorated. Hungary experienced high rates of economic growth in 1974 -1978, while the years 1985-1986 were characterised by zero growth. The explanation is unbalanced economic growth, where short-term gains were reached at the expense of long-term development. Foreign debt used in that way may lead to lowering of the standard of living. Another example is the economic development of the USSR at the end of the nineteen twenties and at the beginning of the nineteen thirties.

In the beginning of 1987, Latsis (*Kommunist 1/1987*) discusses what he refers to as positive experiences from SEV countries. The role of small enterprises in these countries (with the exception of agriculture in Poland) is not very significant, but there has been a change in the sense that the level of individual activities among the working population has been stabilised. There is no corresponding information regarding the USSR. A considerable increase of individual activities has been observed in the service sector, and particularly in Hungary and the GDR.

The experiences of reforms in other socialist East European countries were on the increase, but did not play an essential role in the Soviet debate.

5.8. The meaning of socialism. Options in a crisis situation.

One of Gorbachev's slogans in the reform period was "back to Lenin". The idea was to restore a policy aiming at an efficiently-functioning economic system, which had been destroyed by Stalin and his successors before perestroika. Against this backdrop, it could be interesting to analyse how the Soviet economists used history to further their ideas. How did they evaluate Lenin and the NEP? What type of socialism did they want to develop?

Regarding the criticism of Stalin, examples are N. Shmelev's article in *Novyí mir 6/1987* and G. Lisichkin's article in *Novyí mir 11/1988*. Shmelev argues that the rejection of the NEP and the half-baked reforms of the nineteen fifties and nineteen sixties are important explanations of the problems. The NEP with its economic incentives and levers was replaced by the administrative economic system. He notes that at the time of the October revolution, nobody had or could have definite ideas about the future structure of the economy. Marx and Engels had elaborated theories about the revolution and its inevitability, but they did not establish a theory on the economic constructions of socialism. They only had speculations (*dogadki*) in this

respect. There were no clear ideas about the economics of socialism after the victory of the revolution. War communism was necessary in the objective situation. When the civil wars were over, the NEP was introduced as a logical step. Lisichkin is of the same opinion, and stresses that Stalin was a bad Marxist, concentrating on the administrative and strong-willed aspects of Marxism, instead of its economic aspects. The important question is multi-levelled: Was the NEP something that Lenin felt he was forced to apply in order to avoid an immediate economic and social catastrophe? In this way, was the NEP an attempt by Lenin to create the foundations for a future planned socialist economy, more or less in accordance with traditional Marxist theory? “Reculer pour mieux sauter?” Or was the intention to find another direction for the development of the society? Hosking (2002, p.449) notes that Lenin had called the NEP a “breathing space”. On the cover of Nove 1992 a poster quotes Lenin saying that from NEP Russia there will be a socialist Russia. (*Iz Rossii napovskoi budet Rossiya sotsialisticheskaya*). However Lenin increasingly felt that the breath should be drawn “seriously and for a long time”. Radaev and Auzan (*Voprosy ekonomiki 9/1989*) analyse the history of Soviet socialism from war communism to perestroika. Internationally, they note that in the historical experience from poor countries on the path to socialism, elements of socialism are often suppressed by governmental totalitarianism, and sometimes such elements are wrecked. A similar observation is made by Alexander Gerschenkron, who noted that the more a country is economically backward, the more interventionist is its government in the process of industrialization.

Radaev and Auzan also write about the excessive (*gipertrofirovannaya*) role of government in developed socialist countries. They emphasize that Marx and Engels did not foresee a realizing of socialism in insufficiently culturally and materially mature countries. This means that scientific predictions by the Marxist classics were not taken into account in the first period of realizing socialism in such countries, including the Soviet Union. Lenin’s NEP was based on an understanding of this situation. According to Radaev and Auzan, disregarding this part of classical Marxism is an explanation of a number of deformations of socialism, such as governmental totalitarianism. Radaev and Auzan describe the Soviet economic system before perestroika as governmental-bureaucratic socialism working through an administrative-command system. This society was a result of long-term accumulation of deformations.

One possible socialist alternative could be market socialism advocated by e.g. Oscar Lange as in the Yugoslav version. Market socialism, they continue, implies private property rights and possibilities for hiring labour. The goal is to maximize the monetary incomes of the population and the market is the main regulatory instrument in realizing this goal. The market through integration with the world market will be a part of the solution of problems of reproduction. External and internal competition will be a driving force in expanding the growth and quality of production. The role of the government will, in this scenario, be to play the role of regulator and supervisor of the market. In this way, the welfare of people will increase.

To what extent are these ideals feasible? Radaev and Auzan mean that in Yugoslavia the negative pressure of the administrative system still predominates. The

Yugoslav experience indicates, however, that in comparison with the administrative-command model in the USSR, the standard of living is somewhat higher, and the quality of the goods as well as the supply of the market are better. But there have been costs of the transition to the Yugoslav system. Thus some governmental social guarantees have been abolished. Contradictions have come into the open. Such contradictions are property differentiations instead of closed distribution of privileges, legal unemployment instead of unemployment at the work place, open inflation instead of suppressed inflation, and shortages. But this system is not able to solve a problem that has become fatal in the administrative-command system, *viz.* stimulating scientific-technical progress.

Radaev and Auzan arrive at the same conclusions as many other participants in the debate. They argue for collective ownership of the means of production in the form of state ownership, co-operatives, leasing, etc. They want to see collectives of employees assuming an entrepreneurial role in a socialist market – not market socialism. They sort of get into a rut. Private individual work was already accepted in the constitution.

Men'shikov (*Novyí mir* 3/1989) goes further and feels that the future socialist society will consist of a combination of state, co-operative, and private enterprises. He is in favour of competition, and thinks that it would be interesting to compare state enterprises with capitalist enterprises. He notes for example that labour productivity is higher in the USA than in the Soviet Union. Socialism can only develop its potential via international competition, and domestic competition among state, co-operative and private enterprises.

Back to the mathematical school?

The decreasing influence of the mathematical school has been pointed out above, and it is known that Leontief's approach had been used for some years beginning in 1959. But it had hardly had any significant consequences for Soviet planning. One reason for this was that insiders probably were aware that the data were poor.

One objection raised against the mathematical school was that its mathematical models could not reflect the complex reality of the socialist society. Furthermore, the school and the optimising theory did not take into account the fundamental laws of socialism (cf. Livshits *Voprosy ékonomika* 11/1985).

For the sake of fairness, we should also note that economic modelling in western market economies has been subject to the same type of criticism in text books. This does not mean that mathematical modelling should be abandoned, but rather refined and tested in empirical research.

Shatalin (*Voprosy ékonomiki* 8/1989) thinks so, and argues for the use of the optimal functioning of the socialist economy theory in the perestroika. He is not very impressed by its critics. In my sources, his article is nearly the only intervention which aims to describe the theory as it had been developed by the mathematical school (e.g. L. Kantorovich *et.al.*, *Kommunist* 1986), and is therefore interesting in context and worthy of attention.

According to Shatalin, the postulates or axioms of this theory are the following:

- The socialist economy systematically and deliberately manages the social system, objectively striving for the implementation of its internal characteristics of optimal functioning. The basis of this claim is that socialist economy presupposes centralized strategic management and general development of the market.
- Owing to complexity of the societal distribution of labour, the socialist economy is a hierarchically organized system. It distributes economic resources among different agents of production.
- Taking into account the character of work in socialism, distribution according to work performed is realized, and is based on the principle of material interest of the workers.
- Socialism recognizes equal economic starting conditions for all sections of production.
- Material and natural resources are limited, as well as labour and scientific-technological knowledge of the society.

These postulates form the basis for the construction of the socialist economy. On this primary relationship a synthesis of the whole system of socialist relationships of production should be built, including secondary relationships such as the mechanism for forming proportions of reproduction, prices, payment for the use of productive resources, wages, etc.

Socialism is an optimising system, and optimising is imminent in socialism according to Shatalin. Optimising is the pivot (*sterzhen'*) of the socialist system, and realizes co-ordination (*soglasovanie*) of criteria for optimising of different interests – societal, global, local, group interests, and individual interests. The theory does not reject socialism's objective, fundamental laws. Regarding price formation, natural resources have got prices. Shatalin is also in favour of calculating marginal productivities.

The theory does not aspire to be an integrated science of social-economic development. This should be the task of research on a combination of all social sciences. The interest of the theory is limited to scientific analysis, and synthesis of productive-economic relationships within the limits of its competence.

There are a number of interesting features in Shatalin's article. There is evidently no need to discuss different types of socialism. It seems that he aspires to have a general solution to the problems of contradictions in the socialist economy. Another point is that he is in favour of analyses of marginal productivities. This was a deviation from the Marxist classics. Hanson (2003 pp. 93, 94) notes that Soviet planning methods were not concentrated on problems of efficiency and growth. They aimed at calculating internal consistency. They did not consider questions related to opportunity costs. The problem here is that it must be impossible to calculate opportunity costs in a system without market prices.

Shatalin would probably have had objections to Hanson's analysis. He accepts the economics of perestroika, which aimed at qualitative economic growth. He argues that with the increased importance of the independence of state enterprises and other economic units, optimal planning became even more important in order to

develop the central planning system. As an example, he indicates that the models were able to contribute to the elimination of the effects of monopolistic rent seeking. As to prices, the theory maintains that it is absolutely necessary to link prices to the national economic effectiveness (*éffektivnost'* means both efficiency and effectiveness), and societal usefulness of reproductive and non-reproductive resources in the production. He refers here to the reform of wholesale prices, but there were no intentions to introduce market prices in this reform. The idea of shadow prices had disappeared from the discussion. Hanson's comments seem to still be valid. Shatalin still seems to believe in the accuracy and validity of Soviet statistics. Neither does he mention any technical problems as to the quality of the data processing equipment.

In my opinion, there are a number of pertinent observations on the policy of Stalin and his successors before perestroika. Some of these observations are not new to western economic historians, but are new, for the Soviet economists (at least openly).

It is observed that Marx and Engels did not specify the structures or economic and social policy in the future socialist society. To draw detailed conclusions regarding the structure of the Soviet society from classical Marxism is based only on guesses. This is true also about the October revolution. War communism was then necessary in the objective situation.

Lenin is said to have understood this. This could be interpreted as the defense of the NEP. There was an embryo of discussion on Lenin's real intention with the NEP. Western scholars argue that Lenin saw the NEP as a "breathing space" on the road to socialism which would be gradual. This space should be used seriously, and for a long time. Many economists in my sources trace the roots of the dismal economic and social development in the Soviet Union back to Stalin's abandonment of the NEP. It is emphasized that Marx did not foresee the realizing of socialism in insufficiently mature countries. This is also true regarding the Soviet Union. Furthermore, disregarding classical Marxism in this context was a way to explain deformations of socialism in these countries, such as governmental totalitarianism. The Soviet economic system before perestroika was a government-bureaucratic system, working through an administrative-command system, as a result of long-term accumulation of deformations.

There is a rather rosy description of the Yugoslav experience, which is refuted because of many contradictions in this system. The most radical proposal is to establish a socialist society with state, co-operative and private enterprises, which could compete with one another. What is typical of the discussion at this stage is the lack of concrete proposals. Shatalin as a representative for the mathematical school is an exception, at least concerning economic theory. He tries to develop a system of optimising the economy, and argues for calculating marginal productivities. At the same time he accepts the existing system for price formation. This is evidently an obvious contradiction, which is not solved.

5.9. Summary

Forced growth, shortages and markets

Summarizing the debate, it is fair to say that the discussion has developed in a direction where rather revolutionary modification of the planning system was recommended. For example, the number of fixed prices would be reduced in order to increase the flexibility of the system. Interesting to note is that the majority of the economists recognized that economic growth *per se* does not automatically lead to the satisfaction of the needs of the population. One radical proposal is that free zones should be created with joint enterprises, and in these zones Soviet companies would be permitted to sell stock. This suggestion comes close to recognition of private ownership and could be interpreted as an acceptance of capital as a factor of production. However, the idea was unrealistic because there was no capital market in the Union.

Price formation

Despite the commonly-held notion that socialism is superior over market economy, there is in my sources no explicit criticism of market economics in these years. However, there were proposals akin to market economics such as the endeavour to introduce more flexibility in a system where prices could be frozen for long periods. Prices of raw material and costs for environmental protection could be integrated in a system with prices determined from above. The economists did not describe how this could be realized in accordance with the prevalent theory, and in reality they never tried to solve this problem. A theoretically new problem became inflation. Economists were now aware of suppressed inflation (*podavlenyya inflatsiya*). In a planned economy with shortages, there is no equilibrium of supply and demand.

It is evident that the economists in my sources tried to solve the transformation problem in theory, but they hardly succeeded in practice. They could not indicate convincingly how to harmonize consumer value with labour value. As has been noted, the labour theory of value was considered an objective economic law that could only be interpreted and modified. A lot of theoretical work was done in order to unify the cost based theory with social utility of consumer value of the production. There were mainly two ideas on how to solve such problems. One idea, which comes up now and then, is to limit the determination of prices to more important goods. Other prices could be agreed by sellers and buyers within limits. One of the most interesting ideas was to consider the labour theory of value as applicable to the whole production. Within this limit, the prices could be set for goods according to their qualities. This would be a sort of downward pressure of prices of low quality goods, encouraging enterprises to put their resources on quality instead of quantity.

With such limits it would have been theoretically possible to use at least partly ideas similar to those of Oscar Lange, and to analyse problems using methods similar to, for example, the indifference curve with income effects and substitution effects. This did not happen. But it is recognized that something must be done to grips with the

frequent shortages of goods. Bearing in mind the limits of the discussion – price control and national ownership of the means of production – the solution was on the supply side, which as we will see later was to be encouraged without really changing the system.

The welfare of the recipients of subsidies – practically the whole population – had to be addressed. The concept of profit (*pribyl'*) had been accepted for a long time in the Soviet economy, even if it is not easy to understand the economic meaning of the concept because of *inter alia* the centrally determined prices (cf. Tropin) (op.cit.). Taking into account that profits played an important role in calculation of the incentives and benefits accruing to management and employees, this is a serious problem when looking into suggestions such as Efremov's. The problem of defining profit in a system with more or less centrally determined prices have been described above. If these prices truly reflected supply and demand, it would have been possible to rationally calculate profits. An interesting new aspect is the idea of reducing the influence of vested interest in the process of price determination. This could be interpreted as an embryonic reflection in line with the public choice theories. Referring to chapter 2 I observe experiences from other socialist countries have been interesting in safeguarding the Soviet economic system. When discussing stationary structures in its Russian context, it is observed that one of its characteristics is the existence of dominating state ideology from tsarist times, which could not be fundamentally called into question, but could possibly be modified. Reforms were supposed to come from above. The labour theory of value had strong ideological connotation in the sense that it constituted the basis for the theory of exploitation of the workers in the capitalist economy, and thus the necessity of common (state) ownership of the means on price production in the socialist economy. It can be argued that the discussion on price formation reflects this aspect of stationary structures

Centralization and ownership

It was recognized from the very beginning of the perestroika period that alienation was very much alive in the Soviet system, and was an obstacle to the acceleration of the rate of economic growth. However, socialist property and central planning had to be safeguarded. The ambition was to create a socialist market. In order to attain this goal, the economists tried to simulate market conditions. It seems that one solution was thought to be that central authorities should define overall structural goals, while management of the enterprises should have the responsibility for the enterprises and their workers collectives. One problem was taken care of, however, *viz.* the traditional theoretically sorrowful fate of small enterprises. Thus, small private and co-operatives enterprises could be accepted, the motive being the changing structure of production. When the economists tried to concretize these proposals they ran into difficulties bearing in mind the ideological

preconditions. Referring to the analyses in chapter 2 I note that the discussion is very much inward looking. Experiences from other socialist countries did not play an important role. Influence from market economics can be noticed in some simulating efforts.

Remuneration and equality

The insufficient remunerations differentials were looked upon as obstacles to flexibility and economic growth. On the basis of the sources of this thesis, it is possible to have an idea about the reality of this observation. Suffice it to say that the Gini index of the Union was similar to that in Sweden (cf. Appendix 4). It was argued, however, that larger differentials were ideologically allowed because the Soviet Union was a socialist society and not a communist one.

In the discussion of work sloppiness, there are different solutions how to attain a healthier attitude. One tendency is to concentrate on more or less social actions. The other tendency is to use harsher measures. Even the risk to lose employment is now proposed. It is evident that the ideal of *homo sovieticus* is no longer a current concept according to the attitudes of the economists. Maybe this new human being will emerge in the future communist society. In the socialist Soviet Union, people are not willing to work. They will use all possibilities to live on other people's work. Here it is possible to identify one important stationary structure: the rift between the leadership and the population at large. One problem was the egalitarian attitude of the population, which did not correspond to the social and economic realities.

Learning from other socialist countries

The conclusion is that experiences of reforms in other East European socialist countries were on the increase but did not play an essential role in the debate.

The meaning of socialism. Options in a crisis situation.

How did socialist options look against the background of the dire economic situation? According to the Soviet economists, Marx did not foresee the realizing of socialism in insufficiently mature countries, which also is true regarding the Soviet Union. In the economic debate, the failure of socialism is described as governmental totalitarianism. Before perestroika the Soviet system was a government- bureaucratic system working through an administrative- command system as a result of long-term accumulation of deformations. Perestroika would change that and consequently, in spite of this criticism, as we have already observed, socialism had to be defended, at the same time as economic efficiency should be increased. Against this backdrop, the question which type of socialism that should be developed according to the Soviet economists? What is typical of the discussion at this stage is the lack of concrete proposals. Vague ideas about how the state, private and co-operative

enterprises competing with one another were presented. But how could they compete? Evidently mostly not with prices. Shatalin as a representative of the mathematical school is an exception, at least concerning economic theory. He argues for calculating marginal productivities, but accepts the existing system of price formation. This is evidently a contradiction that could not be solved

Stationary structures

It can be argued that stationary structures played an essential role in the Soviet economists' thinking. Their recommendations to deal with central problems in the planned economy seem to stem from old structures long before Soviet times. For example, they all seem to agree, with some exceptions, that the solutions for the societal and economic problems have to come from above. The implemented central measures have to be prepared and developed by an elite represented by party and state. Important reforms, it seems, could never come from beneath, from ordinary people, or small and big companies operating in the system.

The idea to create a socialist market could also be interpreted as an attempt to deal with a stationary structure, namely the personalisation of economic exchange. Another stationary structure that can be observed among the Soviet economists, is the negative attitude towards ordinary people and their abilities to be productive without control from above. It could be argued that this represents an exponent of a long stationary structure, as is shown by references to Samarin, Trotsky and Lenin, which was discussed in chapter 1.4. There is a traditional streak of disdain and distrust in this acceptance, a sort of evidently well-founded moral panic regarding free riders and moral hazard. This lack of work discipline could also be interpreted as a continuation of the use of dissimulation as a weapon against those from whom the employees had no other defence – also a stationary structure. The discussion took place in an endeavour to safeguard the existing system of the Soviet Union. There are reasonings akin to market economic theories, such as production, possibility frontier, public choice, forced growth, and aggregate production frontier. There is not much interest in experiences from other socialist countries.

PART 6. A SOCIALIST MARKET?

6.1. Introduction

The more or less elaborated idea of a possible socialist market (not market socialism) was brought to the fore from the very beginning of perestroika. The concept of "market" should not be understood as only capitalist. In 1988, Soviet economists were quite clear that the Union was in a pre-crisis situation. In 1989, most economists - and the general public - agreed that the economy was in dire straits, that is, in a crisis situation. Radaev and Auzan (op. cit. *Voprosy ékonomiki* 9/1989) are typical in their analysis of the situation in many fields such as growth of inflation, disequilibrium of the market, shortage of many goods and deficit of the state budget. Their analysis also addressed negative economic growth, falling incomes of the population, and the high rate of unemployment. At the end of the period 1985 to

1991 - from March 1990 - the situation was complicated by clear tendencies towards dissolution of the Union - "the parade of sovereignties". In December 1989, the Russian Parliament accepted a proposal by the government that a transition to a regulated market would be carried out.

My questions to the sources will then be as delineated below.

As seen in parts 4 and 5, the development of the Soviet economists' debate stemmed from an optimistic attitude, defending the Marxist-Leninist theories and attacking market economics. This led to a more open discussion, which sometimes approached a systemic criticism of the prevalent economic theories. Did this development towards a more open discussion and more pointed systemic criticism continue?

It has been noted that to a limited extent, the Soviet economists in my sources had also become open to contributions from foreign economists such as the American Hewitt and the Hungarian Shimon. East European socialist countries started reforms earlier than the Soviet Union. An example is Hungary, with its New Economic Mechanism (NEM). Did the openness increase during the following years, and which were the contributions of such economists?

How did the Soviet economists analyse the difficult economic situation in the USSR? As has been shown, the concept of a socialist market was important from the very beginning of perestroika. Not much had happened. How did the economists in my sources – Soviet or foreign economists -- discuss the problems that had to be solved in order to carry out the transition to this socialist market? What did "regulated market" really mean? Did the scope for near-systemic or systemic criticism widen?

What influences did stationary structures have on the debate? Did the debate have a dissolving or stabilizing influence on economic theory?

Did the concept of a socialist society change?

Were there still socialist options?

Interestingly, political institutional changes such as general elections to the Congress of People's Congress were not totally democratic, but there were more candidates to every seat.

I will structure my analysis according to the following aspects:

- Radical reform, covering the more general aspects of the discussion.
- The beginnings of systemic criticism.
- What type of a regulated market?
- Labour, equality and fairness.
- The meaning of socialism.
- Stationary structures.
- Summary.

6.2. Radical reform

The intention with this chapter is to establish a starting point for the analysis. The system where major economic decisions were taken by governmental authorities, while limiting the decision-making power of the enterprises, were seen as problematic (Ulyukaev, *Kommunist* 16/1988). For example, such authorities had a monopoly with regard to purchasing of agricultural products. Ulyukaev shows that this monopoly is contrary to a flexible market economy in a centrally planned system. Ulyukaev evidently feels that a flexible socialist market economy could be established within the framework of a centrally planned economy.

There are, however, even more traditional attitudes emphasising that centralised management in principle had nothing to do with the shortcomings of the Soviet economy. According to this line of thought, the principles were sound but the methods were wrong. This economic mechanism was intended to overcome uncontrolled economic development (*stikhiynost'*), assuring equilibrium (*proporsional'nost'*) and a more efficient development of the society. But at the same time this centralised management is here and there considered the reason for all shortcomings in the Soviet economy. The shortcomings have to do with administrative methods and lack of democracy in the management of the system. The theoretical mistake was to assume that attaining the objectives of the development depended upon the number of indices for production, decided upon by the centre and then given to the enterprises for implementation (Figurnov, *Kommunist* 7/1988).

Accordingly, in the new system the central management of the economy should limit itself to such problems that can be resolved more efficiently. Radaev and Auzan (op. cit. *Voprosy ékonomiki* 9/1989) are typical in this context in their analysis of the situation in many fields as growth of inflation, disequilibrium of the market, shortage of many goods and deficit of the state budget.

At the end of our period 1985 to 1991 - from March 1990 - the situation was complicated by clear tendencies towards the dissolution of the Union - "the parade of sovereignties". There had been reforms. The number of plan indicators had already decreased considerably, from 24 million products to a few ten thousands of aggregate groups of products.

According to Radaev and Auzan, the relationship among enterprises should be decentralised, which means a socialist market approach. The enterprises and workers' collectives will be real partners in the economic process. This could not be done without the support of "the relationship between goods and money" (*tovarno-denezhnoe otnoshenie*). We know that this concept in communist parlance had to do with price formation. Figurnov (op.cit.) argues that ignoring price formation is the main reason for the high expenses for material resources in comparison with market economies.

Gaidar and Yaroshenko (*Kommunist* 8/1988) are less enthusiastic regarding the practical functioning of the new system, where enterprises, including the workers, would be given more decision-making powers. They argue that in the present

situation authorities should still send downwards directives coloured as state orders and request reports as to their fulfilment.

According to Gaïdar and Yaroshenko, another aspect of the malfunctioning of the system is that central institutions have had to resolve even unimportant controversies among enterprises, leading to overburdening of the central authorities - preventing them from taking care of strategic problems. This starting point illustrates that the debate to begin with was stuck in the same old rut - pointing to too much interference by the central authorities, and in practice less independence of the enterprises. As had been anticipated earlier by the economists, the law of state enterprises did not change this situation. Such circumstances paved the way for a more systemic criticism.

6.3. The beginnings of systemic criticism

In this chapter I will analyse a new type of debate, *viz.* the emergence of discussion that approaches systemic criticism. Did this criticism really question the fundamentals of the economic system in the Soviet Union?

At the beginning of “*radikal'naya reforma*”, and in some cases practically to the end of the Soviet Union, many economists argued that a combination of centralized management and market economy would be possible. Those who had other views were often rather careful. Hanson (2003 p. 213) cites an exception in the form of a letter to the somewhat dissident *Novyí mir* as early as in no. 5/1987, by L. Popkova with the title “*Gde pyshnee pirogi?* (Where are the pirogues bigger and better?) Popkova was the economist Larissa Piyasheva, who together with her husband Boris Pinsker, had come across von Hayek's publications, which they wholly accepted. Piyasheva argued that the standards of living in market economies were higher than in the socialist economies and questioned whether socialism and market were compatible. Market economies were not in decline but at the beginning of their historical development.

In typical, vintage *Novyí mir* style, Pinsker and Piyasheva (*Novyí mir* 11/1989) came back to this issue, and noted that in spite of resources allocated to Soviet industries, the production there had not improved. In addition, there were shortages of housing, kindergartens, day nurseries, schools, and hospitals, as well as an increase in the rate of infant mortality and a reduction of average length of life. They also mention the emergence of hotbeds of poverty, and widespread alcoholism and drug addiction. Inflation is created by politicians as a result of short-sighted decisions. If a free market would be allowed, more efficient production could lead to higher rates of unemployment. However, they avoid “the lump of labour fallacy” by arguing that a modernization of the economy would entail higher demand for workforce. These economists were also admirers of Milton Friedman, and argued for a total transition to a market economy. They tend to consider a “socialist market” as a *contradictio in adjecto*. It is possible to interpret, at least in part, the contributions of Shmelev in *Novyí mir* in a manner similar to the ideas of Piyasheva and Pinsker. T

A more typical instance is an article by Abalkin in *Voprosy ékonomiki* 1/1990. There are not many practical proposals in the article, but it is interesting to note that the aim

is a transition to a regulated market economy – a socialist market, which will be a qualitative new type of socialist economy.

From this point the discussion developed in two ways. One tendency questions the fundamentals of the planned economy, but without explicitly arguing for the dismantling of it. The other tendency is somewhat patchy, and seems to argue that a regulated market economy could be seen as a more developed form of socialism. The tendencies are often mixed.

Economics of shortage

A good representative of the first tendency described above is the Hungarian economist Janos Kornai, of the Hungarian academy of sciences and Harvard University. In 1989 his seminal book “Economics of Shortage” was translated and published in the USSR. In an article in *Kommunist* (11/1989) he outlines his thinking, and gives a summary of the contents of his book. Kornai’s ideas could be characterised as a systemic criticism aiming to save the socialist system. His ideas are therefore worthy of a more thorough analysis.

As in the example of Hanson (2003), it should be emphasised that Kornai was earlier not unknown to Soviet economists. Already in 1988 (*Voprosy ékonomiki* 7 /1988), two economists – Kagalovskií and Shubkina -- published a review of Kornai’s *Contradictions and Dilemmas* (1985). They stated however that their aim was not to comment on Kornai’s theories, but only to present a survey of his thinking. They also drew attention to other works of Kornai, viz *Economics of Shortage* from 1980, *Anti-Equilibrium* from 1971, and *Over Centralisation in Economic Administration* from 1959. They note that a survey of *Economics of Shortage* was published in *Izvestiya* in 1982.

It is quite natural that the experience of Hungary became of interest to the Soviet economists, particularly in the pre-crisis and crisis periods. After the revolution in Hungary in 1956, the Hungarian communist dictator Janos Kadar introduced a more liberal type of socialist system and thinking known as the “New Economic Mechanism - NEM”. This encouraged a more interesting discussion among Hungarian economists. An example is. Kornai’s book *Anti-Equilibrium*, which dealt with an alternative to the neoclassical theory of equilibrium.

Kornai published three articles in *Voprosy ékonomiki* (12/1988, 1 and 5/1989) and in *Kommunist* (11/1989). Kornai emphasized that there were a number of “*radikal’nye reformatory*” with more or less similar ideas about reforms in process. In this context, the details of Hungarian experiences themselves are not of primary interest, but rather the theoretical framework behind the reforms. It is important to observe that Kornai and the other reformists wanted to bring to the fore the concepts of market socialism.

Kornai argues that a system of market-clearing prices is necessary. Only this principle of price formation is acceptable. Deviation from the principle is accepted only in exceptional cases. Creating profit would thus be encouraged by a reliable

regulation of prices. This would motivate enterprises to increase the value of their production. It is not clear what Kornai means by “reliable regulation”.

The relations among the numbers of small, medium, and large enterprises must be changed in order to create more small and medium enterprises, and in this way reduce the power of monopolies. Large enterprises are justified only for economic reasons, and when their products are competitive on the world market. According to Kornai, barriers to competition must be abolished. All these measures will widen the market, where the buyer has priority. A free labour market should be created, which also means a more flexible wages policy. This will also ensure that the government sector of the economy would be able to recruit necessary personnel.

Strong financial discipline should be guaranteed, and this could be combined with decentralization of financial resources and an active (*mobil'nyi*) capital market. Bankruptcy should be a real threat. A banking system based on strict commercial criteria is important. This would mean a reduced role of the state. Regarding foreign trade, Kornai argues for liberalization and convertibility of currencies. Legislation protecting private entrepreneurs should be implemented

What is the role of the government? Kornai argues that there is an active and important role for the government. Its essential tasks are the macroeconomic regulation of demand, control of the emergence of monopolies, development of infrastructure, defending the society against economic extremism, and finally, assuring income distribution in order to attain social justice. All these proposals should be considered as a package. Avoiding the implementation of any one of them will be risky, and also harmful.

Is this really socialism? Kornai admits that there are still problems that need further research. One such issue property rights. What is the hypothetical future of private enterprises in the socialist society? Should there be an upper limit to the possibilities of employing workers? There are also other problems of a more political character.

What are the differences between Kornai's socialist market and Oskar Lange's theories? According to Kornai, a cornerstone of Lange's theories is an erroneous idea about the functioning of enterprises. These were supposed by Lange to follow rigorously a law elaborated by specialists, who dictate the rules. For instance, in Lange's system there would still be an army of civil servants, almost constantly reconsidering millions of prices. Shadow pricing would not help in this situation.

In his articles, Kornai outlines the problems of shortage, showing for example how in such a situation the seller has an advantage over the purchaser/client, instead of sellers chasing clients. His problem is to analyse and explain the reasons for and the consequences of chronic shortages. In his analysis, he had also used the findings of earlier Soviet economists such as L. Kritsman and V. Novoshilov, whose works were written in 1925 and 1926. However, since then problems of shortages had been a topic discussed only in families, but not among economists in socialist countries.

However, his conclusion is that all socialist systems before reforms had given rise to shortages in all spheres of the economy, but not always at the same time. Shortages

influence all participants and organisations active in the economy. Bearing in mind that shortages are chronic in such systems, the reasons could not be individual shortcomings. They are systemic.

Kornai analyses the problems of socialist system at multiple levels. Thus he is looking into difficulties that could be explained by a number of inconsistencies (*protivorechiya*) and frictions, such as weakness in the systems of information, as well as how decisions are taken and carried out.

At another level he analyses to what extent shortages can be explained by effects of different mechanisms in the society, such as striving for economic expansion, pursuing gross output (*val*), hoarding, “starvation (*golod*) of investment”, the almost unsatisfied demand by the government for resources.

At the next level, Kornai seeks to attribute the above-mentioned tendencies to oversensitivity of state enterprises to prices and profits, constraints, and incentives to increase profitability. These phenomena are characterised as soft budget constraints (*myagkie finansovye ogranicheniya*). As a matter of fact, Kornai is the first economist to introduce the concept of soft and hard budget constraints in the debate. Thus, enterprises are more dependent of higher administrative organisations than of consumers/clients. Such enterprises are not dependent on a market for their competitiveness, but rather on the tutelage of government authorities.

It is evident that Kornai’s criticism implies a radical change of the socialist discourse. Given that more research is needed on the problems of the possibilities of private enterprises to employ workers, Kornai’s discourse implies, without overtly saying so, that the labour theory of value is not necessarily a guiding principle of socialism. The market will have the prerogative of establishing market-clearing prices.

Other reform-minded economists tackled some of the problems Kornai had brought to the fore. Very much in line with Kornai’s opinions, Zoteev and Hewett (*Kommunist 13/1989*) write that a characteristic of the Soviet economy is chronic disequilibria, that is, immunity to inconsistencies of the interests of enterprises with objective requirements of technical renewal of the production .

Gaidar and Yaroshenko (*Kommunist 8/1988*) refer to Kornai’s book “The Economics of Shortage”, and his thesis on “soft budget restrictions”, which makes shortages in the economy inevitable, and contends that resources intended for development instead will be used for alleviating bottlenecks (*uzkie mesta*). Gaidar and Yaroshenko feel that these suggestions smack of economic romanticism, based more on an ideal model than on reality.

They admit that even if Kornai’s suggestions in principle are valid, the reality of the situation in the USSR is different. One important aspect is that while the Soviet economy has been good at building basins, dams, and canals, it had not been capable of furnishing goods and services to the population. Shortages had been the rule. Kornai’s suggestions assume that the central planning institutions have been capable of identifying the bottlenecks and directing resources in order to alleviate these bottlenecks. This has evidently not been the case.

Gaidar and Yaroshenko observe the problems in a system which they call “zero cycle” (*nulevoí tsiki*). This means that it seems rather difficult to take and implement decisions regarding resources, e.g. in the engineering industry, for technically complicated and resource-saving equipment. It is easier to agree upon projects such as dams and canals. Gaidar and Yaroshenko argue that it is easier to direct resources to such projects even in a situation of shortages. This is not in the interest of the society as a whole. Economic sectors that can show results, which are not useful to the consumers, have a good possibility of getting resources, especially if they can provide results measured in tons (cement) or cubic meters (felling volume) even if such products really are not needed.

Thus, “sectors of zero cycle” are such branches of the economy where there is a “hypertrophied” development, which can be explained by absence or weakness of social controls of the movement of resources. They have the capacity of getting resources such as electricity and fuel, thereby guaranteeing shortages of such resources in other sectors, and assuring their own growth. The arguments are very similar to those that Gaidar published a few years earlier when he criticised the system of forced growth. Shmelev (*Novyí mir* 4/1988) follows more or less the same line of reasoning as Gaidar, but more outspoken in the tradition of *Novyí mir*. He argues that growth has been achieved largely through increasing the production of unnecessary goods, i.e. production was higher than real demand. At the same time, the situation in many industrial enterprises had deteriorated. These enterprises find themselves squeezed between conflicting demands, and feel forced to increase output and simultaneously they have to adjust to quality demands. Normally they were not accustomed to such demands. Enterprises had not been resupplied with necessary amounts of manufactured goods. Shmelev emphasises that enterprises, which had been converted to self-financing had not fared better. Idle time had increased; wages had declined, and workers called for the return of a strong hand. Simultaneously, the stocking of products for which there is no demand had started growing.

Summary

The climate of the debate had changed. In these years, contributions explicitly arguing for the advantages of the market economy were rare but outspoken. Arguments for a transition to a sort of socialist market are more frequent. The Hungarian experiences got a lot of attention. Thus, the Hungarian economist Janos Kornai went very far and argued in reality for a kind of market socialism. In this line of thought, market clearing prices and competition among enterprises were necessary. Private enterprises had to be accepted and legally protected. A capital market should be established. Foreign trade had to be liberalised, and the currency should be convertible. In this socialist society, the role of the state would *inter alia* be to exercise macroeconomic control of demand, and control of the emergence of monopolies. He is critical of Oscar Lange’s version of market socialism. Kornai shows how the present socialist economic system creates shortages in all spheres of the economy, and stresses the importance of the over-sensitivity of state enterprises to prices and profits, and the soft budget constraints. Other economists argued along the same lines as Kornai. But could these proposals really be described as a kind of

socialism? I will later come back to this issue. One important point is that Kornai implicitly refutes the labour theory of value.

Such ideas were not allowed to pass unchallenged. Therefore it was argued that Kornai's ideas, even if they were in principle valid, did not take into account the real situation in the Soviet Union. The problems could be found in sectors that can show tangible results, especially if these results can be measured, e.g. in tons and cubic meters, even if such products were not really needed. Growth had largely been achieved by the production of unnecessary goods, i.e. the production was higher than effective demand. Thus the stocking of products for which there was no demand had started growing.

6.4. What type of a regulated market?

By the end of 1989 there was a growing consensus – albeit there were still some dissenting views - that transition to some sort of a market economy was necessary. But it was also noted that market economies were different, and that no market was without regulations. I will analyse the range of possibilities regarding what type of a regulated market economy and also what type of regulations should be recommended for the socialist economy of the Soviet Union. In December 1989, the new Russian Parliament accepted a proposal by the government concerning the transition to a planned market economy (cf. Maevskii, *Voprosy ékonomiki* 6/1990), and therefore opened a new debate. I will not go into the details of this article, but note that Maevskii identifies three groups of problems that must be solved in order to implement a regulated market:

- overproduction of investment goods in order to create prerequisites for full employment.
- levelling of wages and salaries, which gives rise to the illusion of social fairness, and the indifference of workers' collectives to work more efficiently.
- subsidizing loss-making enterprises and enterprises with low return.

If the technological development of enterprises is not influenced by their return and their financial situation is dependent only on external circumstances, then the independence of the enterprise is illusory.

Several different types of market economies were presented. One of the more ambitious analyses was made by Kollontaí (*Kommunist* 9/1990). He distinguishes four models of market economy.

The first model consists of countries that historically have formed the avant-garde of scientific and technical progress, such as England, the Netherlands, and the USA. These countries could combine economic power with colonisation of other countries, and thus got access to immense resources for their development. Their economies were regulated mainly through the market. Also, they developed social institutions, legal norms, and governmental organisations, providing conditions for market relations as well as mitigating the negative consequences of the market economy. With the growing exploitation, the labour movement could attain legislation regarding

working hours, occupational safety, minimum wage, etc. The growth of concentration and monopolies led to the adoption of laws stimulating competition.

At the same time, the evolution of markets was accompanied by democratic development, with political pluralism taking into account the interests of different social groups. Ensuring profitability of economic units was an important characteristic of this type of economy. Governmental interference in the functioning of the economy was considered undesirable, or should at least be restrained.

The second model is to be found among the early stages of economic development in Germany, Japan, and Italy, and partly in pre-revolutionary Russia. These countries entered the industrial society with some delay, using other methods, not necessarily market or economic, to assert their positions in the world.

In the shaping of this model, the fact that some of these countries had rather recently become nation-states played a role. Therefore sometimes nationalistic or even militaristic ideas were important. In this context, corporatist attitudes prevailed, including consensus among different social strata of the population. The economic system was based on private property and a certain maturity of market relations. The governments had a leading role with regard to the direction of the economic and social development. Monopolies and protectionism were important. There were informal relations between governments and enterprises, and governments played an important role in the field of industries of military interest.

The Second World War brought an end to this model, with the exception of some developing countries. For example, in Germany and Japan, market mechanisms became more active and decentralisation was promoted and realized.

The third model has to do with developing countries having been drawn forcibly into the international market economy, with economic enclaves and one-sided dependent development. Kollontai's description is very close to the dependency school (cf. economists such as André Gunder Frank and Samir Amin).

For the Soviet Union, Kollontai recommends a fourth model. Experiences from western and developing countries show that creation of a market economy is a protracted process, depending upon economic, social and cultural circumstances. He seems to feel that change and development of institutions are therefore of utmost importance. The role of governments has become more important.

Kireev (*Svobodnaya mysl'* 15/1991) can be described as an adherent of Kollontai's fourth market model. He underlines that the stability of development in the western market economies was implemented by macroeconomic regulations. There is no such a thing as a totally free market based only upon the relationship between demand and supply. In all developed countries, the government influences the economy through economic levers such as budget, finance, credit, exchange rates, interest rates, and sometimes by subventions of prices and interventions in the foreign exchange market..

Agricultural production has been a problem in Soviet economic history. Even in periods of internal and external peace, shortages of consumer goods have been one of the persistent problems in the Soviet economy. Kiselev (*Kommunist* 8/1990) asks if the Soviet Union could make do without a market for foodstuffs. To begin with, he notes that during the period 1965 - 1988 the financial resources allocated to the agricultural sector increased 5.1 times, while the gross output of the sector increased only by 62 percent. Evidently, a new “economic mechanism” (*khozyaistvennii mekhanizm*) is needed. Adoption of laws on land, property, leasing has created preconditions for radical transformation of the agricultural sector.

Kiselev wants to reform the price system by accepting higher prices, and letting quality influence the prices. He wants to keep subsidies at a low level for basic foodstuffs, and to some extent compensate the consumers for the higher prices by using the money now destined as subsidies. He hopes that higher prices will stimulate producers to increase production, and then lead to lower prices. But what he has in mind is not an agricultural market economy, but a combination of plan and market.

Shmelev (*Novyi mir* 4/1988) illustrated the problem mentioned by Kiselev. He writes that as before there are lines in the stores and empty shelves. He advocates dramatically increasing imports of consumer goods financed by the gold reserves.

Summary

The observation that there is no such a thing as an unregulated market is of course pertinent. There are two major influences from market economics. Thus the importance of institutions is emphasised. But it seems that the interest in this context focuses on institutions such as laws and governmental organisations. The problem of habits and attitudes is not approached. It is observed that the creation of markets is a protracted process. This would later become an issue. Subsidies and higher prices are mentioned. The problem still seems to be contradictions between market and planning. The experiences of other reforming socialist countries are not addressed. Generally, the debate is conducted on a mostly theoretical level, without concrete proposals on how to attain the goals. Finally, what happened to the labour theory of value?

6. 5. Labour, equality and fairness

The legitimacy of the CPSU rested on two assumptions, *via*:

- Reasonably equal distribution of incomes.
- Full employment.

These two assumptions are interconnected.

With perestroika a rather new problem came to the fore. The reforms implied a transformation from extensive growth to intensive growth. As a consequence, there was a need to increase productivity in existing production units. This would mean that at least in the short run labour could become redundant, and unemployment could be

a problem. At the same time, there was a lack of well-qualified workers necessary to carry out qualitative growth of the economy.

The following questions will be analysed. Was the labour theory of value still valid? Government enterprises were supposed to be independent. Could such enterprises and other enterprises be declared bankrupt? What would then happen to the workers? Furthermore, labour would have to be transferred from production of low productivity to production of high productivity, which could imply also regional labour mobility. How could that be achieved? At the same time, demographic development would probably reduce the number of persons of working age. Another problem was to provide infrastructure for the labour force, and redirect investment. What would happen to the structures of remunerations, i.e. the eternal problem of perceived equality? A related question is the attitudes of leadership in the country towards the workers – the rifts between social groups. Did the economists take into account experiences from other reforming East European countries? Could the debate be seen as formative in preparing the transition to a market economy?

The labour theory of value

Perestroika implied a critical attitude to the existing system, in the sense that remuneration differentials were too small between employees with higher and lower qualifications, or according to the quality and quantity of their work. This excessive levelling (*uravnilovka*) was looked upon as an obstacle to acceleration of the rate of economic growth. To deal with this problem, socialist principles were stressed. This discussion was not new.

A typical instance of this attitude is represented by Figurnov (*Kommunist* 7/1988). He, also as other authors, argued that in the socialist stage of development there could be no equal distribution of material and cultural well-being as there will be in the future communist society. The labour theory of value is still valid, and will determine the living standards of all producers.

As has been mentioned above, Maiminas (*Svobodnaya misl'* 16/1991) does not seem to believe that the labour theory of value with its concomitant distribution according to work performed had in actuality been applied. Thus, he argues that in the Soviet Union the distributional system has functioned according to almost all possible (*chut' li ne*) criteria, among others the followings:

Office (*dolznostnym*), by distributors closed to the general public, special shops.

Work (*trudovym*), more or less equal distribution.

Property, black market (*v tenevoí ékonomike*), interest from accounts in the savings bank.

Nepotism (*krovnorodsvennyym*), favouring relatives.

Territory, e.g. clannish protectionism.

Inheritance, nepotism within the power elite (*nomenklatura*).

Maiminas observes that the official Soviet ideology (or myth) stated that incomes should be distributed according to work performed, allowing for differential in the work structure. Evidently the reality was different. Radaev and Azuan (*Voprosy ékonomiki 9/1989*) made the same observation regarding the closed distribution.

Maiminas observes that wages and salaries constituted normally one third of the national income of the USSR, while the corresponding share in the USA was almost two thirds. The distribution in the Union was far from equal. The system was in the hands of a powerful bureaucracy. There is also a myth that the income distribution in the USSR was more equal than in capitalist countries. Maiminas has read and quotes Samuelson and Nordhaus (1985). This myth has been discussed above.

The labour theory of value was finally done away with. Thus Maiminas' article (*Svobodnya misl' 16/1991*) could be interpreted in this way.

Kukanov introduces systems thinking in the discussion (*Voprosy ékonomiki 8/1990*). He cites Böhm von Bawerk, who stressed the importance of the labour theory of value to Marxism. Using systems theory leads to a re-evaluation of the labour theory of value. In line with the systems theories, he criticizes economists in the Marxist tradition for their reductionism (*edinstvennoe chislo*, singular) when they formulate dogmas and truisms (*azbuchnye istiny*), such as the primacy of material production, the possibility of calculating the value of concrete traded goods, etc. Social and economic reality cannot be placed in a Procrustean bed of a theoretical plan. What is typical of systems thinking is the interaction among different actors of which labour is one at a different level: global, international, societal or governmental, class or region, groups and individuals. Thus the labour theory of value does not correspond to reality.

Another way of approaching the labour theory of value is used by Rakitskiĭ (*Voprosy ékonomiki 9/1991*). His approach is that the Soviet Union before perestroika was a totalitarian state where the nomenclature exploited the workers. Evidently, the labour theory of value and its concomitant policy of distribution were not applied.

Unemployment and flexibility

Voprosy ékonomiki (2/1989) published a report from a round table (*krugliĭ stol*) dealing *inter alia* with the problems of coping with unemployment. Also, experience from SEV/CMEA countries was discussed.

- Before entering into details, I will touch upon a specific problem in this context *viz.* the attitude towards man and human aspirations. Palterovich (*Voprosy ékonomiki 6/1988*) maintains that Soviet economic theory has regarded man only as a production worker, without taking into consideration the individual's needs, interests, aspirations as well as moral and material values. In fact, competition is an important element of socialist production relations. It is thus a mistake not to understand that striving for success is one of the most important properties of human personality, and thereby the motivation behind the productive and social

activity of human beings. Not recognizing this means that the economy had lost powerful levers and incentives for conservation of resources, increasing product quality, and for the acceleration of scientific and technological progress. Turning to full employment, it is interesting to remember that in the first years of perestroika the importance of labour flexibility was also mentioned.

The discussion in the round table dealt with unemployment, flexibility of the work force, and the role of trade unions. In addition, experiences from other reforming countries interested the participants of the round table.

Participants in the round table agreed that unemployment was not compatible with socialism. But it is not so that unemployment cannot arise in socialism. There is no automatic connection between socialism and full employment, and in the present situation it is necessary to find methods to safeguard full employment. In earlier periods of extensive growth this was not a problem.

There was not enough flexibility concerning working hours. Full-time employment was the norm, and part-time employment was practically nonexistent. One problem in this context according to the round table, was that during the last twenty-five years the skill structure of the labour force had not changed. About seventy percent of the labour force was performing only manual work. As has been noted above, this is a frequent observation among Soviet economists. At the same time, intensive growth will require massive redistribution of the labour force not only between material and service (not productive activities, *neproizvodstvennyĭ*) production, but also among activities such as work, studies, household work, and the upbringing of children. Full employment can only be realized through social development, which means a reduction of the level of employment in material production in favour of other activities such as studies, upbringing of children, and more spare time in order to enable comprehensive human development. Also, the working conditions must be characterized by comprehensiveness (*soderzhatel'nost'*). To me it is not clear what this expression really means.

Participants in the round table also emphasized the existence of labour hoarding, where employees of different enterprises did not perform efficient work. I have also indicated this problem earlier, and noted that this practice was rational from the point of view of managers who needed resources for possible "*shturm*", to be able to attain plan targets at the end of the planning period. Here lied possibilities of rationalization. As has been seen, Shemlev (*Novyĭ mir* 4/1988) harshly criticised this practice of employing idle workers. At least one participant reacted against the excessive growth in the number of administrative employees in the government and Party who did not perform economically useful tasks, and argued in favour of possibilities for employees to organize in order to protest against worsening labour conditions.

Trade unions in the Soviet Union were more or less used as a controlling organ in relation to their members, and could not enter into conflict with the societal employers. This begs the question of how far the trade unions could go in order to defend their members. Could they be given the right to strike (*pravo na zabastovki*)? There were arguments against this idea. There was no need for such a right,

because all participants in the labour force were guaranteed employment according to his or her wishes and the needs of the workplace. Other guarantees included selection of necessary goods and services, housing, pre-school facilities, education, health insurance etc. The right to strike was only justifiable when the society could not satisfy these fundamental demands.

A relevant question is then if the Soviet society actually guaranteed these fundamental rights. Turning to the problem of unemployment, I have noted that participants in the discussion pointed to labour hoarding as a form of hidden unemployment. It was also admitted in the discussions of the round table that temporary and seasonal unemployment existed due to social problems for years (*godami*), due to the accumulated problems and deformation of socialism. The term frictional unemployment was not used. But the Soviet society will begin to experience also structural unemployment.

Hewitt and Zoteev (*Kommunist 13/1989*) also observe that unemployment could be a problem. Is it thinkable that a socialist market can function with "moderate unemployment"? This is the situation in modern, industrially-developed capitalist countries. There are radical economists who could accept moderate unemployment e.g. according to the Swedish model. Other economists argue that full employment is a fundamental characteristic of a socialist economy. This discussion will continue for a long time, and its outcome will be a very important indication of the formation of the new economic system to which the reforms will lead.

According to participants of the round table, it was obvious that other country members of SEV/CMEA had rather difficult problems with redistribution of labour among different economic activities. Particularly youth and women seem to have problems. From a gender point of view, it is worth noting that in the Hungarian experience with three years of paid parental leave for mothers, if a mother had two to three children, it would mean an absence from professional work during six to nine years. This negatively influenced the future working life of mothers. Parental leave for men was not mentioned.

Other experiences from SEV/CMEA countries, including special funds for re-training employees, and offer of early retirement, indicate that full employment in the perestroika of the economy could be attained not only by a placement policy, but also by policies regarding personnel policy, social policy, and investment policy. The trade unions should be involved in this process.

In the debate, there are at least two aspects of this discussion. An observation is the idea that trade unions should defend the interest of the workers even against state enterprises. The possibility of the right to strike is cautiously dealt with. More astonishing is that the possibility of unemployment in a socialist economy is recognized, and not only frictional unemployment, but also structural unemployment is mentioned. A frequent question is the meaning of employment guarantee.

A labour market in the USSR

Zoteev and Hewitt (*Kommunist 13/1989*) argue that the transformation of the system of property and the role of competition are the driving-belts (*privodnye remeni*) for reforming the excessively centralised system. In addition, they approach a relevant and painful problem, viz. how to organise the system of social guarantees during the first stage of economic perestroika. There are two scenarios. In the first one, the active workers will receive improvements in their standard of living, while the passive workers will remain at the previous level. In the second scenario, active workers are treated in the same ways as in the first scenario, while the passive workers will sustain losses. Experiences from reforming countries (Hungary, Poland, Yugoslavia, China) indicate that the second scenario has been realized. Reforms will be met by resistance from those strata of the population which have been “infected by the bacillus of exaggerated levelling of wages and salaries and of dependence (*izhdivenchestvo*)”.

Summary

Evidently, the labour theory of value was finally abandoned. It was argued that it had never been applied. The Soviet Union before perestroika was a totalitarian state where the nomenklatura exploited the workers. It was also argued that systems analysis indicated that the theory could not work.

Unemployment was not compatible with socialism, but it was recognized that socialism *per se* did not guarantee full employment. There was frictional unemployment but also structural unemployment. Labour hoarding could be considered hidden unemployment. A question was if moderate unemployment figures could be accepted as it was in Sweden for example. There was a cautious discussion concerning the role of trade unions and the right to strike.

Against this background it was mentioned that some unemployment had to be accepted because of the restructuring of the economy, and also larger wage differentials. The wage differential will widen, which probably would lead to resistance among the population.

6.6. The meaning of socialism

As has been mentioned above, perestroika was to a large extent built on the idea of “back to NEP”, and Lenin’s theories were often cited in support of the perestroika. Krasnov (*Voprosy ekonomiki 1/1991*) questions this approach. He argues that Lenin saw war communism with its militarization of the labour force, and the abolition of economic levers, as an acceptable way of shaping the socialist economy. Labour would thus be organized according to a military system, based on a duty to work (*trudovaya povinnost*) with punishment for not fulfilling this duty. With the then emerging catastrophic economic and social situation – workers went on strike, revolutionary movements among farmers - as well as on foreign policy grounds (Genoa and Rapallo), NEP was introduced and should be pursued seriously and for a long time, but not forever (*vser’ez i nadolgo, ...no ne navsegda*). It should be noted that also in the NEP period command-administrative methods were used. Lenin’s ideas on war communism are not unknown in western political science, (cf for instance Carrère d’Encause 1998).

Consequently, Krasnov argues that Lenin saw NEP as a retreat (*otstuplenie*) to capitalism. After NEP, he wanted to go back to war communism. It is not possible to state that perestroika, with its economic methods as opposed to administrative ones, could be seen as a restoration of Lenin's ideas on socialism. Perestroika could thus not be seen as more socialism (*bol'she sotsializma*) but as less socialism (*men'she sotsializma*). It seems that Krasnov argues that the economic system of the Soviet Union before perestroika was a sort of war communism. Oskar Lange characterised the Soviet system as war communism *sui generis*. As has been noted above, the more common views among Soviet economists and western scholars are quite different from Krasnov's suggestions. For example, G. Shmelev (*Voprosy ékonomiki 5/1990*) argues that the conventional wisdom according to which Lenin saw the farmers as a danger to socialist construction is fundamentally wrong. Thus Lenin wrote that farmers should be allowed to choose their own ways to socialism, and that the harsh and hurried measures taken against them were grossly mistaken.

Possible socialist options?

Were socialist options on the whole possible in the Soviet Union in 1991? This is ideologically a difficult question. As has been indicated, reform economists argued not only for a socialist market, but also for market socialism. There are good reasons to ask the question if there were the differences between this type of a socialist society and the Western European welfare state in the form of Ludwig Erhardt's Germany or the Scandinavian model. Tavasiev (*Voprosy ékonomiki 4/1991*) discusses the ideas that market reforms create a new character or appearance (*oblik*) of socialism. His analysis is irreproachably Marxist. He feels that all attempts to shape a model of a socialist society smack of utopianism. He notes that Marx, Engels and Lenin did not consider socialist ideals as a indefinitely defined plan. This does not mean that prognoses should be avoided. But the socialist society according to the classics was a more progressive society than the capitalist society, and should be contingent on a developed capitalism, which would be destroyed by its contradictions and conflicts. The more capitalism is developed, the higher will be the fundamentals of the socialist society.

Modern capitalism is very different from what existed in the times of Marx and Engels. Modern capitalism is characterised by high prestige for good work, resulting in higher salaries, as well as the intensive development of policies regarding science and technology and the development of collective ownership with democratic management. It also offers significant possibilities to be engaged in politics, and has a higher level of culture and quality of education. Thus all ideas of a new form of socialism have been borrowed from the practical experiences of modern capitalism. It is possible to discuss socialism, but the Soviet society has not yet reached the economic and social levels necessary for a transition to some form of a socialist society. The prerequisites are not there. Consequently, there were at this time no possibilities of a socialist option. But Tavasiev argues that there are at present not sufficient prerequisites for a rapid transformation to a market economy. Only a madman would argue for a revolutionary introduction of market economics, or for that matter socialism.

6.7. Stationary structures. Influences

It can also be argued that stationary structures are visible also in this debate. An important stationary structure is the role of the State. In the capitalist economies, the attainment of market and democracy was a very long process, and was helped by the legislative development. The Soviet alternative was to initiate a regulated market with directive from above.

Using the analyses in part 2 of this thesis I note that the aim of a socialist market was to lay the foundations of a new type of socialist economy. This new type of market solution was influenced by market economics, but even more by the experiences of the European SEV/CMEA countries. Also, influences from western welfare states exist, such as Sweden and Austria, as well as western Marxist criticism of the Soviet system. There are influences from institutional economics, as well as economics of trust. The attitudes in the discussion can be described as a "third way", in the sense that it is often argued that plan and market can be combined. There are advocates for a transition to a full-fledged market economy. With few exceptions, this transition would be gradual and not through shock therapy. It became possible to ask questions such as if the shortcomings of the Soviet economic system had to do with the lack of competence among political leaders or directors of the enterprises, irrational organisation of the economy or, even more alarming, if the shortcomings were systemic.

6.8. Summary

This part of my analysis covers a period of Soviet economists' rethinking of the fundamentals of the Soviet economic system. In this period, the concept of a socialist market was transformed to a kind of market socialism, and finally to the abandonment of central concepts in Soviet economic theory. This development was not unchallenged. Some economists argued that central planning in itself was not wrong, but that its application left a great deal to be desired. Sectors with outputs which could be measured, e.g. tons or square meters, were favoured to the detriment of other important sectors of the economy. It was also held that socialism and markets were incompatible.

It was recognized that pre-glasnost Soviet Union was a totalitarian society, where a nomenklatura exploited the workers. This is a criticism very similar to western Marxists' ideas. One example is Hobsbawm (1994, p.386), who writes that democratic centralism in reality was authoritarian centralism. It was emphasised that classical Marxism analyses socialism as a logical sequence of mature capitalism. It was maintained that Stalin had not understood Marxism when he abandoned NEP. Likewise, the introduction of socialism in developing countries had been deformed into authoritarian systems.

One conclusion of the Soviet economists is that the Soviet Union is not ready for immediate transition to socialism, or for that matter market economy.

The debate on Lenin's intention returned to the discussion. Was Lenin in principle really in favour of the NEP as part of the building of socialism? Or was the Soviet economy in his time being prepared for a return to war communism? There was increasing interest in the experiences of other reforming socialist East European countries, particularly regarding the labour market. Socialism *per se* did not guarantee full employment. The economists argued, however, that structural and frictional unemployment could exist also under socialism. Active labour market policy was needed to ensure the necessary flexibility of the labour market and avoid unemployment. Could limited unemployment possibly be accepted, as it was for example in Sweden? The labour theory of value was criticised and finally abandoned. In conclusion, the concept of a regulated market had not assumed a more definite shape. The scope for systemic criticism had widened. The debate had evidently a fracturing influence on the economic theory. The concept of socialism had changed into something similar to a western welfare state, even if there were objections. It was even held by some economists in the debate that socialism of market economy was not an immediate option for the Soviet Union.

7. THE ENDGAME.

7.1. Introduction.

The dire economic situation became increasingly evident in 1989. In the two last years of the existence of the Union the economy deteriorated further. Combined with the obvious tendencies towards dissolution of the Soviet Union - at least in its then existing shape - the need for an even more radical political and economic transformation of the Union became urgent. In addition, signs of the emergence of a mafia economy, in combination with "wild" (*dike*) privatization, contributed to the urgent need for changes, as well as the ongoing separation of the republics from the centre (the parade of sovereignties) (Hanson 2003, pp.218 ff). The form and direction of these urgent reforms became a bone of contention .

The use of the term "endgame" is justified. "The year of Gaïdar" in 1991, which referred only to the newly independent Russian Federation, indicated an abandonment of every type of socialism, and a transformation of Russia into a market economy. In the beginning of 1991, the G 7 Report on the Soviet economy conducted by experts from the IMF, IBRD, OECD and EBRD in co-operation with Soviet experts was published almost in its entirety in *Voprosy ékonomiki 3/1991 (Ékonomika CCCR; Vyvody i rekomendatsii, The economy of the USSR: Conclusions and recommendations)*. The report had been delivered in December 1990. In an article in *Voprosy ékonomiki 10/1991*, based on a paper presented in September in the U.S. by Abalkin after the August putsch, Abalkin stresses the need for stabilization of the economy and a transition to a market economy. The mainstream discussion at this time did not question the need for transition to market economy. The bones of contention where how and when to accomplish this. Should there be a gradual approach or a "shock therapy"?

As has been shown in part 6 above, the discussion on transforming the USSR into a real market economy had been brought to the fore even before the publication of the

above G7 report. Contributions by Kornai, Hewitt, Zuteev, and Shmelev could be interpreted as advocating such a transition. Therefore the economic department of *Kommunist, March 1991* contends, with some justification, that the G7 report's evaluation of the general economic situation was not totally new. It concurs with the analyses of Soviet economists, which *inter alia* have been published in *Kommunist*, and also with the fundamentals of the president's programme.

Was a successful transition of the Union into a market economy possible? This would in principle have meant a break with at least one of many stationary structures. The impersonal market would replace the personal relationships that formed an important basis of economic activity. As will be discussed later in this part of the thesis, the arguments against such rapid transition were based on reasonings akin to stationary structures. But it would be a revolution from above – one of the many such revolutions in Russian history - which would be in line with a stationary structure. There had been attempts to formulate economic theories aiming at providing the fundamentals of at least a version of a socialist society. This development now came to an end.

However, being a relatively late reformer, the USSR could draw on the experiences of the reforms in the European CMEA/SEV countries and also in China. These experiences played an important role in the discussions.

The pertinent questions asked to my sources are the following:

How did the Soviet economists argue in favour or against different types of transition? How did they use their experiences from radical reform? Which type of obstacles to a transition was discussed?

Which types of transition were really topical in the debate?

What was the reception among Soviet economists of experiences from reforming socialist countries?

Which experiences from market economies were relevant?

Which role did stationary structures play?

7.2. Gradual transition or shock therapy?

The concept of "shock therapy" is not unambiguous. It lends itself to different interpretations. For a discussion of this issue I refer to Appendix 2, which can be read as a separate paper.

The widespread, intensive discussions of pros and cons did not gather momentum until "the year of Gaïdar" in the recently independent Russian Federation. But there was a discussion in the last years of the Soviet Union, based on the IMF *et al.* report (*Voprosy ékonomiki* 3/1990). The issues brought to the fore in this context were not totally new for the Soviet economists. I will therefore include also articles published before the publication of the G7 report.

The G7 report

The first part of this section is an overview of the Soviet economy from the abandonment of NEP at the end of the nineteen twenties to 1990, including all the different perestroika plans. The critical analysis was widely accepted by the participants in the discussion of the report.

The G7 report called for immediate political compromises safeguarding the economic whole (*ékonomicheskaya tselostnost'*) of the Union, which should continue to be a unified market with common currency. The Soviet economic and social statistics suffered from a number of shortcomings. The G7 report noted that the statistics were not fully reliable, which should be taken into account.

With regard to the situation in 1991 and the transformation of the economic system to market relations, it was evident that the economy of the USSR would worsen. The rate of inflation is higher than 50 percent; the suppressed inflation - the sharp shortage of goods - is at the same level as in Poland in the eighties. The GDP (*valovoí vnutrennií produkt*) will fall by 5 percent. Unemployment is evaluated to 1.5 percent of the working population and will increase 2 to 3 times according to the report.

The report recommends the following measures to come to grips with the economy and develop a more effective and productive system, i.e. a transition to a market economy.

- Programme for macroeconomic stabilization, including sharp reductions of state expenditures, tough budgetary policy, and squeezing of investments. Reducing the governmental budgetary deficit would ease the inflationary pressure.
- Immediate abrogation of price controls regarding the majority of goods and services.
- Initiation of privatization of small enterprises.
Remaining state enterprises should be commercialized, i.e. they will function under market conditions.
- Demonopolization.
- Convertibility of the currency.

In this scenario, the prices will rise faster than in the government's present programme. In a short-term perspective (one to two years), the production will decrease because of the closing down of non-viable enterprises. Unemployment will rise considerably.

But in spite of the rise of unemployment, the experts believe that the total level of consumption will be safeguarded, because the effects of the financial and monetary policy will lead to a reduction of investments, and an increase of the part of consumption in the GDP. In two years, the production will increase, as well as the productivity and the quality of the goods produced. The result will be a stable

increase of the standard of living. The G7 report also proscribes additional measures of the programme:

- Economic liberalisation, particularly of prices, may in the present situation with macro-economic disequilibria and extremely concentrated economic power (as well as insufficient and inflexible supply) lead to spiralling cost inflation (*inflatsiya izderzhak*). It is therefore necessary to dismantle monopolies and promote privatize enterprises.
- A massive bankruptcy may occur. It is in principle possible that bankrupt enterprises could be reconstructed and be made fit for competition. In order to take care of this problem, a gradual - two to three years - transition to world market prices is proposed. Also, it is proposed to provide temporary technical and financial assistance, using federal and republican stabilisation funds, in favour of enterprises that are prepared to reconstruct.
- An adequate infrastructure a functioning legal system, and a strict budgetary and currency policy are needed.
- Streamlining the existing complicated rules for foreign investment in the Union.
- Social security (*sotsial'noe obespechenie*). The existing legislation regarding short-term unemployment should be made less complex. In the long run it is important to establish a system based on contributions from employers and employees. The experts also indicate different aspects of a permanent system of social security for groups in vulnerable situations.
- A more efficient system of taxation, as well as proposals regarding the credit market.
- The report also indicated the dangers inherent in the reforms. Thus the problems for the consumers will hurt vulnerable groups. A number of proposals are recommended in order to ease the negative effects, including a few price controls that should be retained, particularly regarding rents.
- The discussion described below tended to follow the dichotomy of gradual transition to market economy versus shock therapy. However, it is evident from the above that the G7 report did not recommend shock therapy similar to what was later recommended by Gaídár and the Harvard economists, as analysed in appendix 2. The report's recommendations deal both with rapid transition in some areas, and a more gradual transition in other areas. The reports also discusses also more extensively the social problems of the transition. This issue of social problems has also been discussed in recent research (cf. Hedlund 1999 pp.114 ff.)

Official Communists

The main contention of the economic department of *Kommunist* (4/ 1991) is that there are internal inconsistencies in the G7 report. Bearing in mind the importance of

the Communist Party in the Union, the comments of *Kommunist* will be reviewed in a holistic way.

On the one hand, the report recommends that de-freezing of prices should take place immediately in a situation when the present technological and institutional (including property) structures still exist. On the other hand, liberalisation of prices should be carried out before privatisation in order to avoid hyperinflation. The *Kommunist* argues that every competent (*gramotnyi*) economist knows that with distorted and perpetually administratively distorted prices, reforms cannot be carried out.

The Polish experiences from the eighties show that in a similar non-market situation to that of the USSR today, economic subjects, i.e. leaders of state enterprises, having the right to set prices, increased prices to such an extent as to cause hyperinflation. The *Kommunist* contends that this is an argument against immediate price reform.

In the G7report, traditional measures used in market economies are proposed, such as control or even freezing of wages as a means to fight against inflation. It is emphasized that there should be no link between wages and profits in, for example, leasing of "workers' property." The *Kommunist* agrees in this context that this is a reliable method for fighting against cost inflation, when there is an inflationary spiral wages-price. But different subjects draw different types of incomes: wages - work, profits - capital. In the Soviet situation, the inflationary spiral is caused by the excessive engagement and wages of the state sector. Labour and capital are in the same trade union. Wages are not decided by contracts between labour and capital but by a social contract between different employers and employees. The journal argues that the G7 report team has missed this characteristic of the Soviet economy. All reform recommendations must be adapted to, and have as a point of departure, the peculiarities of the present Soviet social and economic system.

The *Kommunist* also comments on the recommendations in the report concerning foreign trade. According to the report, the lack of progress of reforming this sector has to do with the existence of too many and often inconsistent objectives, and the endeavour to implement all of them at the same time. Examples of this are the endeavour to isolate domestic prices from international influences, incentives to export products with a high level of finishing. At the same time as this policy wanted to safeguard the accessibility of goods of short supply in foreign markets and safeguard a balance between import and exports and maintaining a high rate of exchange of the rouble. The report recommends the abolition of licensing of exports, de-monopolisation of foreign trade, unification of the different exchange rates, creation of a free currency market and establishment of rational customs tariffs.

All these proposals are very good and should be implemented. *Kommunist* asks, however, how all these good ideas could be carried out. How can a hard rouble be introduced at the same time as the rouble in the domestic circulation is weak? Should the government freeze large parts of the bank accounts of the population in order to eliminate the inflationary overhang? Or should the population be encouraged to use these roubles? The report does not give concrete answers to these questions. It is

interesting to note that the *Kommunist* in principle accepts the G7 report, but questions the practical possibilities of implementing the reforms. The journal states rightly that most of these recommendations had been previously discussed in *Kommunist*.

Soviet scientific institutions

In *Voprosy ékonomiki* 4/1991, under the headline *Sovetskie éksperty o doklade ékonomika SSSR: Vyvody i rekomendatsii* (Soviet experts on the report of the economy of the USSR. Conclusions and recommendations), the “Economic institute” and the “Institute of the world economy and international relations” commented on the G7 report.

The institutes feel that the report has some value in the sense that it reflects in some parts a good knowledge of the state of the Union. They agree in general with the analysis of the shortcomings of the economic system in the Union, and the need for a transformation to a market economy. But the report does not sufficiently take into account the actual situation in the USSR, such as the conflicts among the republics, the social and economic situation of the population. Furthermore, they contend that the report does not recognize that “shock therapy” could lead to shocks and resistance among the population which for generations had been accustomed to the Soviet economic system. In general, the institutes agree that the report is of very little practical value.

I feel that the institutions take surprisingly traditional standpoints, and agree with the *Kommunist* as to the limited practical value of the recommendations of the Report. The comments of other, individual economists are more interesting.

Individual economists' view of the G7 Report

Was it possible to preserve the Soviet Union as a united economic area with a common currency?

The USSR was a late reformer. This could be seen as an opportunity in the sense that the Union could use the experience from other reforming socialist countries. But there was no consensus about the relevance of such experiences. Another problem was how to deal with employment and social problems. Furthermore, inflation and foreign trade including the convertibility of the rouble were issues. Finally, what were the lessons for the Soviet Union?

The recommendation of safeguarding the Union as an economic whole was rapidly overtaken by events. But this does not mean that these problems were not discussed. With the break-up of the Union, co-operation with other Soviet republics was considered a natural way to go. Maybe a common currency could be kept. But Kireev (*Svobodnaya mysl'* 15/1991) observes that the Soviet republics are economically and socially different. It was not unreasonable that all these republics would approach economic integration in different ways. And as we know, this is what happened. Against this background, it is surprising that the G7 report looked upon the Soviet Union as a viable, if not maybe an optimal currency area.

A more optimistic attitude to continued and future co-operation among the Soviet republics is shown by Spandar'yan (*Kommunist* 8/1991) and Vol'skiĭ (*Kommunist* 6/1991). The latter emphasizes the advantages of specialisation among the Republics. This is an interesting observation because such specialisation was Soviet economic policy, not only in the Union but also in the economic co-operation with other socialist countries (SEV/CMEA).

Shock therapy versus gradual transition

A relatively thorough analysis of the transition problems was done by Starodubrovskii (*Voprosy ekonomiki* 2/1991). He is one of the few outspoken and well-reasoned "shock therapists" in the sources, and I will therefore go into some details of his reasoning.

His point of departure is that there is no easy road to the market economy. Yugoslavia started the reform process in 1955. Hungary initiated reform of the agriculture in 1957 and reform of industry in 1968. China began reform of agriculture in 1978, and reform of industry came a bit later. Poland initiated its first reform program at the beginning of the nineteen eighties. Yugoslavia, Hungary, and Poland describe their situations as critical. But none of these countries are prepared to abandon the road to market economy. Cuba is the exception.

According to Starodubrovskii, the reasons for the problems in these countries were a lack of consistency, the limitations of measures taken in connection with the complexity of searching for new ways, and the inertia of the administrative system of management, and pressure from the Soviet Union.

One problem with the introduction of free enterprises according to Starodubrovskii is that this could lead to emergence of monopolies in the field of consumer goods, and reformers have to be vigilant in this context. It is therefore important to establish equilibrium between demand and supply. This is the essence of stabilization of the market: first stabilization and then stimulating the dynamic development of the economy. One good example of such policies is the West German economic policy after the Second World War with Ludwig Erhard as minister for finance.

In the USSR, gradual reform will not lead to recovery. If the market for consumer goods has collapsed, gradual reform will not help because the process of collapse is cumulative. Such a process must be stopped, and this requires radical measures in order to very rapidly stabilize the economy. This is easier said than done. The necessary measures will be painful for large strata of the society, and there will be protests in order to safeguard the social security system from the uncontrolled (*stikhiinye*) forces of the market. The measures taken by the Chamber of peoples' deputies at the beginning of 1990 were not sufficient. They were too gradual and will not lead to the stabilization of the market.

He refers to the Polish reforms in 1988, where the stabilization efforts failed because of the attempt at gradual reform. In support of his theory of shock therapy, he also cites other negative instances from other SEV/CMEA countries. But there are also good examples. The shock therapy in Poland in 1990 is such an example. In this case, fundamental measures taken were free price formation of 90 percent of all goods, interior convertibility of the currency where the government established the rate of exchange, reduction of the deficit of the governmental budget, and wages freeze. This led to a stabilization of the market. In Poland and also in Yugoslavia, thus conditions were in this way established for stimulating the growth of production.

The notion of “collective ownership” had played an important role in the Soviet discussions. Starodubrovskii approaches this question, and notes that there has been a certain development via redemption of leased enterprises. However, according to the Yugoslav experience, there have been contradictions between short-term and long-term interests. Such enterprises seem to be more interested in short-term gains than the long-term investment necessary to create conditions for the introduction of new technologies. He therefore recommends the development of different types of joint-stock companies and limited liability companies. It is necessary to establish a critical mass of private enterprises. Methods have to be acquired for regulating the market including the banking system, the legal system, and the state. Starodubrovskii concludes that it is very important to use experience [of how to solve conflicts among different social forces.

As has been mentioned above, it is easier to find proponents of a gradual transition to a market economy than “shock therapists”. One type of gradualist argument is that the USSR is a special case, and that experiences from the early reformers cannot be applied.

Loginov (op.cit. *Voprosy ékonomiki* 5/1991) refutes the idea that experiences from the East European reformers could be of direct use to the USSR. It is impossible to find a country with an economy even remotely similar to that of the Soviet Union. One such Soviet characteristic is the weakness of the consumer goods sector. The reason for this is the dogmatic Soviet approach to the theory of reproduction of Karl Marx. Furthermore Poland, Yugoslavia and Hungary have a tradition of private and co-operative enterprises in food production. Prices there reflect market conditions. This is not the case in the USSR. Market economies in the capitalist countries emerged as a result of a very long process. Like Starodubrovskii (op, cit. *Voprosy ékonomiki* 2/1991), Loginov argues that decisions taken by the Supreme Soviet did not sufficiently create the preconditions for transition to market economy. It will have to take time to implement this transition to market economy.

Vol'skii (*Kommunist* 6/1991) argues that there are no historical experiences of a transition to a market economy of a country of the size and structure of the Soviet Union, with all its national and territorial inconsistencies. So was the case also in Imperial Russia. Vol'skii quotes a paper from 1907, written by an association of industrialists and merchants, to argue that foreign organizations could not serve as a model for Russia when considering Russia's climatic, ethnographic, and other wholly

unique conditions such as the way of life.. He argues that transition to a market economy of the Soviet Union should be carried out gradually, with different timetables for different sectors and types of enterprises. Kollontaí (*Kommunist* 9/1990) argues in the same vein.

Starodubrovskii stressed the importance of a critical mass of private enterprises. Other participants in the debate had their doubts if it would really be possible to create such a critical mass in the short run.

Khanin (*Kommunist* 12/1991) is sceptical to “shock therapy” along the same lines as Maiminas (*Svobodnaya mysl’* 16/1991). With the lack of experience of private enterprise, there are now painful choices to make in the Union: wait (for centuries) while capitalistic production will grow organically, or speed up this process by contriving methods for acceleration of privatization. He does not believe that there are really a sufficient number of persons who could be the final owners of enterprises in a process of massive privatisation. He feels that such a leap is fraught with catastrophic consequences. A hurried “throw into the abyss of the market” of persons not familiar with markets, and under conditions of weak market infrastructures, will mean that the privatised enterprises and banks will exist in a totally disorganised economy. This will compromise market and private ownership in the eyes of the population.

Kireev (*Svobodnaya misl’* 15/1991) is highly critical of the “shock therapy” of the Soviet Union in the existing international context. He fears unpredictable and irregular aspects of such a strategy. The west is interested in the economy of the Soviet Union as long as they feel that the USSR is a stable trading-partner with an organised market, convertible currency, and which avoids irregularities and unforeseeable acts. Also important in this context is that the country has a market-oriented programme which is understood by western countries and institutions. The main task for the Soviet Union is to formulate such a programme, which will be different from those of the Eastern Europe but should draw upon relevant experiences from these countries which could be useful.

Social problems and employment

Kollontaí (*Kommunist* 9/1990) argues that an active social policy will be needed. However, such a policy should not be limited to building dwellings, improving the health services and the educational system, and supporting retirees and needy groups. More important will be a fair and equitable distribution of the burdens of transformation of the economic system. To mitigate negative consequences of the functioning of the market alternative, employment possibilities must be created according to Kollontaí. Kollontaí has in mind individual working activities, co-operatives, contract work, and leasing. He also argues for a review of priorities and argues in favour of massive investments in sectors producing consumer goods at the cost of converting defence industries. It is also important to get the state’s finances in order (*ozdorovlenie gosudartsvennikh finansov*).

Penkin (*Kommunist* 15/1990) is a good example of an economist who studies labour market theories in the market economies. I will therefore dwell at some length on his

contributions. He provides an overview of the development of such theories in the market economies starting with Keynes. He analyses Keynes' theories, as well as the later criticism. He continues with the monetarists and Milton Friedman, the neo-liberals, and the neo-classics.

Thereafter he discusses the development of the labour market, using data from the International Labour Organization (ILO). One of his theses is that technological development, such as computers and other electronic devices, gives possibilities of what he calls a growing separation of man from the direct process of production. I observe that this is similar to the Marxist concept of alienation. At the same time, in Penkin's opinion this development makes possible a more flexible organisation of work. This flexibility has strengthened the economists who stress the importance of human capital.

The consequences of this development have been segmentation of the labour market (*segmentatsiya rynka truda*), more part-time employment, concentration on training and formation of the labour force, and the raising of salaries for specialists to retain them in the enterprises.

Another characteristic of the labour market in the market economies has been the gap in the link between economic growth and the dynamics of the employment. This development became a challenge for economic science. Penkin describes how the rate of unemployment fell in the USA in the nineteen eighties, when Europe was suffering from "eurosclerosis", attributed by some economists to the lack of flexibility of its labour markets.

However, against the link between deregulation of the labour market and the acceleration of structural improvement, objections were raised in reference to cases such as Austria and Sweden, where a developed social security existed at the same time as it could be shown that such countries did not suffer from "eurosclerosis".

Furthermore, it was argued that the technological development caused a reduction of employment. Penkin does not agree. He does not use the expression "lump of labour fallacy" but seems to mean it. Thus, while it is true that technological development may decrease the demand for labour, it also increases such demand in other sectors or regions. He refers to West German studies using input-output models (*modeli zatraty - vypusk*) which find that the loss of places of work during a certain period had been compensated to the level of about 85 - 90 percent. Penkin observes that evidently the Keynesian policy did not work, and that the neo-conservative currents, as well as the concept of NAIRU (*estestvennii uroven' bezrabotnitsa*, the natural non inflationary level of unemployment), became important in the analyses. He also discusses the concepts of voluntary and involuntary unemployment. With "voluntary" he means "frictional".

In the present situation (1990 - 1991) in the USSR, involuntary unemployment is more important than the frictional one. One reason for this is the widespread non-profitability of the enterprises, as well as low level of labour productivity.

He argues that there is a strong casual link between employment and the dynamics of investment. The problem for the Soviet economy is that transition of the present system to a market system requires a decrease of the hypertrophic investment volume, which will lead to increasing rate of unemployment.

A more gradual transition to market economy will also have these immediate negative consequences, but to a lesser extent. The Polish experiences also argue against "shock therapy".

One problem has to do with scientific-technical progress, taking into account the hidden unemployment (labour hoarding) in the Soviet economy. Similar to other economists Penkin also notes that no less than 45 million workers in the Soviet Union are manual workers with low productivity.

Many economists looked into different measures of labour market policy in market economies, in order to mitigate the social consequences of unemployment. These measures include job centres, encouraging more labour mobility, re-training, further education, transfer, unemployment benefits, and early retirement pensions. Penkin underlines that the measures envisaged are mere palliatives. More important is that the government pursues a policy of economic growth, price stabilisation, interior market equilibrium, and financial stability.

Degtyar' (*Kommunist 11/1991*) analyses experiences of social policy in Eastern Europe. She feels that insufficient analysis (*prorabotka*) of the social aspects until recently has been a generally weak part of the economic reform programs. The extreme complexity of social problems are underestimated or ignored. Degtyar' argues that at the same time, unrealistic promises are made that the transition to the market economy will take place without social conflicts and a lowering of the standard of living. In a number of countries, large social programmes are undertaken without material and financial support. Examples are Bulgaria at the beginning of the nineteen nineties, and Poland in the nineteen eighties.

There were exaggerations of the dangers of the transitional period, converting market into a sort of "social scarecrow" (*sotsial'noe pugalo*). Degtyar lists some arguments used in this context: stereotypes of the consciousness of the masses, insufficient level of sociological research (particularly know-how concerning social prognoses), an absence of a functioning mechanism for exposure and concordance with regard to different types of work - individual, team, group, social .

There were fears of rising social tensions. The sources of these fears were the events in 1956 in Hungary, in 1968 in Czechoslovakia, and in 1970 in Poland. It was therefore considered necessary to build into the economic mechanism shock absorbers, which held back the growth of economic efficiency. Particularly important in this context was unemployment and growing wage differentials.

In 1990-1991 this situation changed in most of the East European countries according to Degtyar'. Detailed programmes were formulated which aimed at social protection of the population. The programmes were of course different depending

upon the situation in each country.

Hungary, Poland and Yugoslavia went a long road to market conditions, with reforms coming from above. In the general consciousness, a kind of “pre-market” situation was created. Czechoslovakia followed in principle the same pattern as Hungary, Poland and Yugoslavia, but had at its disposal intellectual economists that could elaborate programmes for economic reforms. In Bulgaria and Romania, the transformation to a market economy did not begin until the crash of the Soviet economic system. GDR was a special case because of the German reunification.

Degtyar notes the feminisation of poverty. In this respect, Degtyar’ is unique. Normally, problems of reform and transition were not analysed in gender terms. However, the standards of living in the East European countries were normally higher than in the USSR. She also analyses the formation of the welfare states, and the “neo-conservative revolution” in the western countries.

Inflation

A fundamental problem in the last years of the Soviet economy was inflation. A related problem was inflationary overhang, in the form of *inter alia* the citizens’ properties in enormous savings accounts. What is to be done with the prices? Such questions had an influence on private property and fairness.

As is now known, hidden and suppressed inflation (*podavlennaya inflatsiya*) was a problem in the Soviet economy. In perestroika, this problem came out into the open. In January 1991, the Ministry for Finance tried to mop up this overhang by announcing that 50 and 100 rouble notes would no longer be legal tender. There were also limits set on the amount that could legally be exchanged. These were measures akin to confiscation. In April, consumer prices increased substantially, and a growing number were liberalised. Most wholesale prices were liberalised. In 1947 (14 December), there had been a real confiscation of currency. Cash roubles were changed in a ratio of 10 to 1. Savings accounts up to 3,000 roubles – corresponding to about six months’ average wages - were not affected, but amounts in excess of 3,000 roubles were. These harsh measures had long-term effects on the perceptions of the economists, and the population in general. (Nove 1992 p.316)

How to deal with the inflationary overhang? Confiscation was of course a possibility. Most economists argued against confiscation. Fedorov in his article (*Kommunist 8/1990*) is an example. He emphasizes that construction of a society based on law should not start with illegal acts. Instead of confiscation, Fedorov proposes the selling of property, apartments, imported goods, foreign currencies etc. Gaïdar (*Kommunist 2/1990*) approaches another similar problem, *viz.* the so-called unearned incomes (*netrudovye dokhody*), i.e. incomes that are not earned from work. Bearing in mind the ideological situation, it is not surprising that there were ideas to confiscate such money. Gaïdar criticises such ideas, and argues instead in favour of stabilising the market. Confiscation of money will only lead to increasing the inflationary pressure when people empty their savings accounts. The only solution is that the government

comes to grips with the budgetary deficit, and thus will not be in need of the savings of the people to cover the deficit.

Vol'skii (*Kommunist* 6/1991) is one of the few economists who are in favour of a temporary freezing, during a defined period, of bank accounts of the population in order to come to grips with the inflationary overhang.

Fedorov and Gaidar also point to the necessity of limiting the growth of credits, and consequently including non-cash money (cf. Appendix 4), in order to reduce the growth of the money supply. Furthermore, the establishment of independent economic agents is necessary. Thus there should be a distinction between the regulating power of the government and the producing activities of the enterprises. The government could be the owner of enterprises, but maintaining this distinction is important. In such cases, the state enterprises could be transformed into limited companies.

Gaidar and Fedorov's contribution to the debate is very similar to Kornai's recommendations. They also argue that enterprises, which have acquired foreign currency, should be able to keep the money in the hope that others could buy the currency in the market. In the Soviet system it is necessary to reduce the growth of the monetary supply, including the money on the accounts of the enterprises (cf. Appendix 4). The unrealistically high exchange rate of the rouble must be adapted to economic realities by creating a monetary market. It is necessary to begin the process of unfreezing (*razmorazhivanie*) the prices.

Foreign trade

The Soviet Union, was to a very large extent, an economically isolated society, which was aiming at military strength in a threatening environment. Autarky was considered a strategic necessity. With the transformation of the Soviet economic system to a new "mechanism" with some of the characteristics of a market economy, this isolation began to be looked upon as irrational. We have seen above that some economists argued for more co-operations with foreign companies, in the forms of concessions and joint ventures.

After the failed coup d'état in August 1991 and the suspension in Russia of the CPSU, the question of integrating the Soviet Union in the international division of labour became a burning issue. In this context, the importance of a balanced economic development of the USSR is put forward. But Kireev (*Svobodnaya mysl'* 15/1991) writes prosaically that the interest of western countries in the Union is not very great. Experience shows that the rest of the world can live quite well without the USSR.

There are at least four types of problems that were being addressed regarding foreign trade:

- The necessity of opening up the Soviet economy to foreign trade, and integrating the economy in the World economy.

- What types of goods and services should be imported?
- What types of goods and services should be exported?
- The convertibility of the rouble.

Economists in favour of such international integration criticised the differences between words and deeds - not an unusual criticism in other fields during this period (cf. Spandar'yan and Shmelev *Kommunist* 12/ 1990). Also in this context, the lack of knowledge in the Soviet Union of the functioning of foreign market economies was cited as a major problem. It has been noted Loginov (op.cit. *Voprosy ékonomiki* 5/1991) was one of many economists that addressed this question.

As early as 1989, Gaïdar (*Kommunist* 2/1989) raises this problem of Soviet unpreparedness. He writes that the relations between Soviet enterprises and foreign partners on projects to be implemented in the USSR are characterised by incompetence and credulity on the part of the Soviet negotiators. There are many instances of sloppy preparations by the purchasing Soviet institutions. It seems that Soviet enterprises hardly understand that their foreign partners are seeking profits in their co-operation with Soviet institutions. There is also a lack of knowledge and information with regard to the way capitalist markets function. Gaïdar states that foreign enterprises have noted that problems of the quality of delivered product (e.g. machinery). rarely lead to grievances or claims against them, but are dealt with by quarrels among Soviet partners. Mistakes are often covered up by referring to trade secrets. Unnecessary losses have had to be sustained by the Soviet economy. It is necessary to come to grips with such problems if the USSR will be integrated in the world economy, because gone are the days when the Soviet Union could shut itself off from the world economy by adopting naive self-sufficiency and protectionism.

However, Spadar'yan and Shmelev (*Kommunist* 12/1990) have a more "quasi-mercantilist" attitude to international trade. They argue against import of goods that could be produced in the USSR. They take as an example the import of agricultural products - while at the same time enormous amounts of such goods produced in the Union are destroyed because of faulty distribution and stocking. Real economic security does not necessitate importation to cover shortages, but rather should be based on encouraging the development of the Union's export potential.

In the short run, however, Spadar'yan and Shmelev argued that it is necessary to import consumer goods including food products. This could be financed through exporting goods from the enormous stocks of material that exist in the Union, including armaments. In the long-term, import will serve as a source of foreign capital, technology, and management experience.

Regarding Soviet exports, there are arguments for promoting goods with a high value-added instead of export of raw material. In this way, more foreign exchange could be earned. The Soviet export promotion was very weak and should be strengthened. In this context, existing state monopolies should be abolished and the enterprises should be more independent.

For the same reasons, they recommend specialization and concentration of the Soviet export. Japan is mentioned as a successful instance of such an export strategy: yesterday shipbuilding, chemical and metallurgical products, today cars, domestic electronics, and tomorrow electronics and other high-tech products.

Efforts should be made to attract foreign credits and avoid the emotions hitherto associated with such a policy. The existing Soviet foreign debt should be re-analysed in order to reduce short-term credits and credits for operative purposes.

Economists who had argued that all markets were more or less regulated started to look for possible economic partners for the USSR. Of great interest to the development of the Union was the participation of the Western economies. It was for some economists a *sine qua non* for the transition of the USSR (Khanin, *Kommunist* 12/1991).

With the dismantling of the SEV/CMEA, Kireev (*Svobodnaya mysl'* 15/1991) maintains that it is impossible to establish organised links with the former socialist countries. He argues, however, that the road to integration passes through these countries. Once their crisis has been overcome, they will be middle-developed countries.

Convertibility of the rouble

The non-convertible rouble was considered an efficient firewall against negative foreign economic influences. Since 1928, the use of the rouble outside the Union had been prohibited. This led to the necessity of establishing coefficients between the rouble and foreign currencies, including also the aims of import and export. In 1987, more than three thousand coefficients were in use.

Integration of the Soviet economy into the World economy does not necessarily mean abolishing all types of currency control. Currency control had also been common in market economies, but the convertibility of the rouble became an important issue in the debate.

Fedorov, among many others, (*Kommunist* 8/1990) deals with this issue. He writes that there are foreign currencies in use in the domestic market of the USSR. Fedorov estimates that the illegal amount of dollars circulating in the domestic market amounts to 500 million. Using the black market exchange rate, this amount could be estimated to 10 billion roubles, corresponding to almost 10 percent of the supply of cash money (cf. Appendix 4). In practice the use of dollars has caused a depreciation of the rouble, which is indicated by the black market exchange rate. The price of one dollar had in 1989 and 1990 changed from 5 - 7 to 15 - 20 roubles.

Fedorov is in favour of the convertibility of the rouble, but emphasizes that this could not be done in one or two months as is prescribed by adherents of shock therapy. It will take a rather long time before the rouble could be fully convertible in trade and in financial operations. Shock therapy could be dangerous.

He is not very clear why shock therapy could be dangerous. However, it is possible to interpret his analysis to mean he believes that a number of time-consuming institutional changes are necessary before the rouble could be fully convertible.

To begin with, Fedorov brings to the fore problems which were household items in the Soviet debate. As a result of these problems, the government is not yet able to regulate a market economy. Many enterprises are not able to stand up to competition and would have to cease. This is not acceptable from a social standpoint. A realistic approach is the introduction of partial convertibility as economic reforms are carried out.

International experience indicated that a programme for convertibility of the rouble should be founded on the following principles:

- Progressive development of market conditions and weakening of the planning system, as well as active use of economic levers for regulation, and abstaining from administrative levers.
- Decentralisation and reduction of the role of the federal budget.
- Separation of enterprises and banks from government, even if government is an owner of the bank or the enterprise.
- Gradual opening of the economy through reduction of restrictions to trade and currency regulation.
- Development of the possibilities of using the rouble in foreign markets.
- Decentralization of external borrowing.
- Successive implementation of a unified policy regarding activities in foreign and domestic markets. The Central Bank (*Gosbank*) should be independent.

Somewhat surprisingly, Fedorov believed that even before a price reform, a unified exchange rate of the rouble should be implemented.

7.3. Obstacles and public choice.

The main question in this section is to look at the analyses of how different groups of the population reacted to the proposals of a transition to a market economy. Sources are based on articles in *Kommunist* and *Voprosy ékonomiki*.

Attitudes among the population

According to many authors, the first problem in transforming the economy in the direction of a market economy is the necessity to change the negative attitude of large parts of the population towards market conditions. Since at least 1928, market economies were described in very negative terms in the Soviet media (*Kollontai*, *Kommunist* 9/1990). Many economists were aware of these psychological problems.

Thus Loginov (*Voprosy ékonomiki* 5/1991) is preoccupied with these psychological problems. He feels that there is an absence of elementary economic culture in the Union. Such a culture is a necessary quality of the businessman. He mentions *inter alia* being well informed, competent, respectful to partners, and honest. Market in the

Union is often associated with the saying “if you don’t deceive, you do not sell” (“*ne obmanesh’ – ne prodash’*”). It will take time to change such attitudes.

Mashits and Chernysheva (*Kommunist 17/1990*) explain that the market is the organization and production for the sake of success with the consumers, or in other words for profit. In addition, the market is organizing trading of goods, capital, labour, information etc. This system is not compatible with fixed prices. One early instance of such an attitude was Zoteev and Hewitt (*Kommunist 13/1989*)

Yugoslavia had a long experience with reform. The Yugoslav professor Zhivanov (*Kommunist 17/1989*) writes that the Stalinist system, and later the practical socialism, as well as Maoism, formed corresponding types of personality. Collectivist values and discipline turned into submission to commands from above, and into limiting intellectual independence, and submitting to pressure from collective thinking. Exceptions were occasionally visible in Hungary and Poland. A moral renewal is therefore necessary.

Stationary structures in the shape of personalisation of the economy also became evident. Khanin (*Kommunist 12/1991*) argues that this had been the case also in the command-administrative system, but now had become more open. He observes that almost all of the elements of the command-administrative system had been destroyed. De-stateisation and privatization go on at full speed. From the summer of 1990, a number of combinations, associations, and holding companies have been organised. But the main owners are predominantly the “*nomenklatura*” and the Mafia. They have turned out to be very powerful. It may be noted that in the Soviet folklore the word privatizatsiya was expressed as *privatikhvatsiya*. *Khvatat’* means grab.

Different group interests

The existence of different economic and social groups with separate interests was not unknown to the Soviet economists. There are no explicit references to the public choice school in the sources, even though Mansur Olson is mentioned once. But as I have noted earlier, the questions of influential groups arguing for different types of regulations in their favour or opposing reforms were issues in the Soviet discussion as early as 1989.

The strikes among workers were a new experience in the Union, even if the possibility to allow strikes had been cautiously hinted at. Gaïdar (*Kommunist 2/1990*) points in this context to growing politicizing of the reform process. Successful actions by some interest groups stimulated demands from other such groups. Miners and employees of the railways, as well as farmers and co-operatives, strive to protect their interests. Conflicts are solved by printing banknotes and thus create “conflict inflation”.

Gaïdar feels that it is politically difficult and not popular to try to balance the demands of different social groups. There is an interest in limiting the tax burden, slowing down the rate of inflation, and getting rid of the budgetary deficit. In contrast to these endeavours stands the ambition to keep the ineffective economic structures by using

guarantees, which can be realized only by unreasonable taxes and inflationary financing. Von Hayek would gladly have accepted such comments.

Zhivanov (op.cit.) deals with the structure of interest groups for and against reform. He refers mainly to Hungary, Poland, and China. It is worth noting that he writes that he bases his analysis on scientific research, but without really giving an account of his sources. In the socialist vocabulary, there was traditionally a tendency to ascribe opinions to different social and economic groups. But Zhivanov indicates that organisations and groups in the society e.g. the working classes, the parties, the trade unions, cannot as such be identified as supporters or adversaries to reform. He thinks that there were spokesmen for reform in practically all important groups in the society. In the economic spheres, supporters of reform are to be found among leaders of enterprises whose rights will be extended by the reforms. Another group is workers and engineers, who see the possibilities of more efficient work and higher earnings. But only certain strata of this group really support reforms. They are the young, more energetic, and more active people with higher professional qualifications. Parts of the intelligentsia are supporters. Supporters are also to be found in the government structures, among more dynamic and creative people who are aware of the present negative tendencies and want to change this situation. They also see possibilities of promotion in their work.

Here Zoteev and Hewitt (*Kommunist 13/1989*) were more pessimistic. They feel that the overwhelming majority of the administrative apparatus is sceptical to new ideas, and that their practices reflect this scepticism. They quote John Stuart Mill, who wrote that even the tsar could not stand up against the bureaucracy. They provided a number of instances in support of their statement, and mention for example that the state orders function as reins on the enterprises. Kiselev (*Kommunist 8/1990*) feels that the extractive industries form a pressure group for increasing the production of raw materials, irrespective of economic motives.

Zhivanov (op.cit) states that there are nuclei of managers and bureaucrats in all sectors and at all levels whose interests are threatened – privileges, power, influence, and lack of control of their work – and therefore oppose the reform. Zhivanov describes these groups as clans, tribes (*plemena*), and families. They control the situation in their ministries or in their local communities through institutional and non-institutional channels. Among the opponents are also to be found parasitic strata who earn money through illegal activities .

There are opponents against reform, such as adherents of the old system of practiced socialism. They sometimes advocate a return to the Stalinist system of the strong hand. Maoist and “the new left” also belong to the opponents, as well as advocates of “populist socialism”. They argue for fairness and egalitarianism, and that the reforms point to a return to capitalism.

All these groups illustrate different attitudes to reforms. The majority of the working people are unsatisfied with the present system. Some expect that the reforms will improve their situation, while others are afraid that their situation will deteriorate. The present system has guaranteed small wage differentials, employment, pensions,

social security, and avoidance of physically demanding activities. Other characteristics are low intensity of working activities, minimal responsibility for the quality of production, and the low level of discipline at the place of work. However, the reforms suggest a move towards more rigorous working conditions, responsibility for the quantity and quality of production, and economic prices instead of centrally established process. Reforms in socialist countries have also stoked fears of a reduction of the standard of living. Many people oppose such reforms if they see that not all groups in the society are prepared to tighten their belts. Thus considerable groups of the working people assume the position of observers.

Kollontaí (op.cit. *Kommunist* 9/1990) seems to be aware of the "observer attitude", and writes that it is necessary to start building confidence among the population concerning the economic activities of the government. The population must be convinced that the government acts in the interest of the population. Attempts to change the system will meet with resistance from the command-administrative system.

Degtyar' (*Kommunist* 11/1991) writes that the reform process cannot take place without the emergence of societal-political conflicts. Therefore, only the government can carry out such reforms, and then with the confidence of the majority and the support of a consensus of the essential political forces. The social policy must be formulated in a dialogue and in concordance with the interests of the citizens and the government. From an ideological point of view, the most interesting result of the analyses of the economists is that adherents and opponents of reform could not be analysed in terms of a Marxist class analysis. A more or less "tired observer" attitude among different strata of the population seems to be prevalent.

Furthermore, the absence of reference to the public choice school is conspicuous if we consider the Soviet and other communist economists reasonably good knowledge of market economics and the public sector's economic dominance. After all, James Buchanan (Nobel laureate 1986) and Gordon Tullock published *The Calculus of Consent* already in 1962. Since then, the public choice school has grown in influence and importance, and should have been known to the Soviet economists. This is all the more conspicuous because the reasoning of the communist economists has a lot in common with the public choice school. The economist were definitely very interested in experiences from other reforming socialist countries. Such experiences were helpful in evaluating problems of transition also in the Soviet Union.

7.4. Summary and stationary structures

With few exceptions, the Soviet economists argue for a gradual transition to a market economy. In addition, the social policy must be adjusted to the real possibilities of the society. Degtyar quotes Kornai, who has written that the primary focus should be the resources, and not what is done in analogous sectors in other countries.

In the process of solving social tasks, the role of government will change fundamentally. The policy of the government must be predictable, and based on principles and norms set forth in agreement between government and organisations of labour and enterprises.

There is an almost common understanding the following measures have to be undertaken.

In the present period, when the social protection of the population is a burning problem, the social role of government must be strengthened. In the new conditions the local institutions must be given a more important role.

In the dialogue with different interests of the society, the role of the government will be to co-ordinate their demands with the available resources of the society.

It was at this time a consensus that transition to some kind of a market economy had become unavoidable and necessary. There was a positive reception of market economics. The discussion was conducted in terms of whether "shock therapy" or gradual transition should be pursued. As I see it, a discussion in these terms to some extent was based on well-defined alternatives, since the G7 report did not recommend shock therapy, as is evident if the report's recommendation is compared with the analysis in appendix 2. This means that the discussion was somewhat twisted, but nevertheless it was a paradigm shift.

Advocates for a gradual transition were focused on two types of arguments. The first type focused on practical difficulties of the transition. It was held by some economists that the recommendations would be difficult to carry out in reality. The G7 report was criticised for not sufficiently taking into account the actual situation in the Soviet Union, and for not proposing practical solutions, even if its analyses were largely accepted. It can be argued that the proposal to see the Soviet Union as an optimal currency area was not a realistic alternative, when taking into account the different economic structures among the republics. Also there were social problems and unemployment that would be difficult issues, but would be worse with shock therapy.

The other type of arguments focused on Russia's special historical and cultural experiences in comparison with the market economies. Russia was different from these countries. It was therefore irrational to use experiences from other reforming countries. They were not remotely similar to the Soviet Union. There are no historical experiences of a transition to a market economy remotely similar to the Soviet Union. Poland, Yugoslavia and Hungary had a tradition of private and co-operative food production, and could not be used as models for the Soviet Union. It was also argued that in the Union there were not a sufficient number of persons with competence in running private enterprises. The adherents of a gradual transition discussed this in terms of institutional economics and economics of trust.

The few economists who argued in favour of shock therapy used to a large extent experiences from other reforming countries. Therefore it was argued that gradual transition, as in the first Polish reforms, illustrated quite clearly the dangers of gradual reform. The reasons for their problems were lack of consistency in the reforms. A good example of successful shock therapeutic reforms was Poland's reforms in 1990.

Marxist-Leninist theories were abandoned, including the labour theory of value. Leninism had been reinterpreted.

Different social and economic interests had come to the fore. From a Marxist point of view, it is worth noting that at this time such interests now cannot be definitively ascribed to well-defined social and economic groups. The discussion was conducted in terms similar to that of the public choice school, yet without explicit reference to such theories.

The stationary structures are visible, particularly regarding attitudes among the population. In the dire economic and social situation, there were in different groups favouring a strong state power and the social security of the old system. The egalitarian attitude was prevalent in different groups. The personalisation of economic exchange still represented an obstacle to the transition to market economics.

Referring to the analyses in part two of this thesis, we are now dealing with a gradual transition to the market, where negative and positive influences from other reforming socialist economies became important. Western influences also manifested themselves in the form of a less ideological interest in market economy economics.

PART 8. REFLECTIONS ON THE DEBATE

In this part of the dissertation, I will reflect on some salient points of the debate in the context of the purposes of this dissertation as defined in chapter 1.1.

Which were the influences on the debate? Evidently, the actual economic and social situation in the Soviet Union based on official statistics was of primary importance. Another domestic influence was the communist ideology, as well as explicit demands of the leadership of the party. Economists were supposed to support the Soviet economic system and perestroika. The theoretical discussion was intended to be a stabilizing factor. From 1990-1991, the task became to analyse the possibilities of transition of the economy to market conditions. But even before 1990, there were some contributions voicing a systemic criticism, or near-systemic criticism. Such contributions consequently became a destabilizing factor regarding the safeguarding of the Soviet economic system.

An interesting question is if there were international influences from other socialist countries or from market economics. Such influences were visible in 1990 and 1991, and regarding influences from other socialist East European countries also before 1990. In the first part of the perestroika period, there were attacks on market economic theories as a part of the endeavour to theoretically defend the Soviet economic system. These attacks, as well as other evidence, indicate that Soviet economists had a fairly good understanding of market economics.

This is of course not the same thing as stating that there was a direct influence on the debate of market economics. There are in my sources before 1990 no direct explicit references to market economics, apart from the attacks in the first years of perestroika. Furthermore, when attacking at the beginning of the period, for example supply-side economics, monetarism and more specifically the Arrow-Debreu theorem and rational expectations, they did not use the western, Keynesian inspired criticism of such theories, which would have been a very effective criticism indeed. There are

also other market economic theories that could have been attacked from a Marxist-Leninist point of view.

However, in the discussion before 1990 there were contributions the gist of which were very similar to concepts such as forced growth, production possibility frontier, and aggregate production function. They used in practice tools offered by market economics. But there were no references to such theories. This means that it is not possible to strictly prove if the Soviet economists were directly influenced by market economics before 1990. This is an epistemological problem, even if it is highly likely that there were such influences. A support for this conclusion is provided by the speed and professionalism with which the Soviet economists debated the G7 report. This discussion in my opinion cannot be explained by a hastily acquired knowledge of such theories. Also, the contributions of socialist market economists such as Kornai speak in favour of this conclusion.

The conclusion in this thesis is therefore that at least the years 1989 and 1990 were formative years as preparation for the transition to a market economy. Furthermore, in these years the theoretical discussion had a dissolving effect on the dominating socialist economic theory.

In my opinion, the labour theory of value was the Achilles heel of Marxist-Leninist economics. Marx developed his theory as an analysis of market economies. It was not adapted to a system where prices were established from above, and very often unchanged for long periods. Marx claimed to have solved the transformation problem but his solution could not be applied to the Soviet system of price determination, even if many economists tried to come to grips with this problem. This theory was openly abandoned at the end of the period 1985 -1991.

However, the Soviet economists did not avoid problems in the planned economy. The Stalin and the stagnation periods were criticized. The law on state enterprises did not arouse enthusiasm. "Contradictions" is a positive dialectic quality as a driving force of the development to communism where there will be no contradictions – the end of history. Thus discussing contradictions could be seen as an accepted way of criticizing the system.

At the beginning of the period, perceptions of reality were to a large extent based on official information provided by the Soviet authorities. During the last year of the period, it became evident that at least large parts of the statistics were misleading, and served *inter alia* to indicate that the Soviet Union economically was catching up with the USA – the benchmark - and would in a short time surpass the leader of capitalism.

However, I have reflected on the question as to why Soviet economists in our period did not use mathematical methods such as input-output analysis, and why the mathematical school had lost its influence. One possible explanation could be that Soviet economists were aware of the shortcomings of the information available. Evidence of such reflections was voiced in the debate already in 1987.

Another aspect was that the existence of a black market was minimized, but that the awareness of the importance of such illegal activities came to the fore during the last years of the period. By the end of the period, a more open discussion on the black market became possible. Safeguarding the Soviet economic system through radical reform was discussed under the slogan “Back to Lenin”, meaning a sort of a socialist market economy based on the NEP.

An almost classical issue is what Lenin’s intention was with the NEP. There is a common understanding that Lenin did not abandon his aim of creating a socialist economy, but he opted not to utilize the harsh measures of his successor. It is well understood that Marx and Engels did not produce a theory on the economic constructions of socialism. It was also clear that Lenin intended that the NEP should be applied seriously and for a long time. But what would have happened after the NEP? War communism or something else?

From 1989, when the dismal economic situation became evident, there are new tendencies in the discussion. The first of these tendencies is the resurrection of the mathematical school, and more surprising, marginal analysis. Also, an interest in the experiences of reforming socialist countries in Eastern Europe came to the fore. By the end of the period, there was also a more pronounced systemic criticism of the Soviet economy. But with a few exceptions (influenced by von Hayek), there were arguments in favour of market, albeit a regulated market.

The fundamental structure was the accepting of a powerful state authority that defined also the intellectual activities. An essential part of stationary structures was the distrust with regard to workers and farmers by the leaders of the society. Discipline campaigns were frequent in Soviet history. It was evident however that those campaigns did not have long-term effects. Other solutions were discussed. One such solution was to increase the influence of the workers on the enterprises. They should have the feeling that they were co-owners or co-managers. Another way of expressing the same attitude was to come to grips with alienation. Also, the importance of individual labour and co-operatives outside the kolkhozes and leasing were mentioned. These measures were introduced with scepticism and an apparent lack of enthusiasm. Self-financing and self-administration of the enterprises were invoked as the main solution.

Another way to tackle such problems was by widening wage differentials. The problem here was the idea that the Soviet Union was economically and socially an egalitarian society, a structure that can be traced back to the *obshchina* (the farmers’collectiv) in tsarist times. We know that this idea was not based on reality, but it played an important role. However, economists argued that such egalitarian qualities referred to the future communist society, and not to the socialist one, which had to allow for remunerations according to work performed.

By the end of the period, it was indicated that incomes in reality were not distributed according to work performed. Also, other systems such as closed distributors serving the elite, black market, and nepotism played important roles. Systemic analysis was

used to criticize the labour theory of value. It was then also recognized that hidden and open unemployment existed in the Soviet Union.

I have used the term “endgame” as a headline for the analysis of the discussion in 1990 and 1991. At this time, it became possible to discuss more or less conflicting group interests very much in line with the public choice tradition. However this theory was rarely mentioned.

At the end of the period, a new discussion took place, *viz.* gradual transformation versus “shock therapy”, inspired by the G7 report. We have observed that this discussion was somewhat astonishing. The recommendation of the report cannot be interpreted as shock therapy in the sense that characterized “the year of Gaïdar” or the recommendations of the future Harvard group. Adherents of shock therapy were rare in the sources. The majority of the participants in the discussion argued for a gradual transition, using arguments very much in line with stationary structures. Economists argued for the necessity of assistance from market economies

PART 9. CONCLUSIONS.

The first and foremost purpose is to analyze the Soviet economic debate in the period of 1985-1991. What were the themes and aspects of market economics that were of interest of the economists? Was the theoretical thinking among Soviet economists influenced by market economics and experiences from other Socialist reforming countries in Eastern Europe? Did they use the theoretical tools offered by market economics?

The themes of market economics that were discussed were by and large a reflection of the questions that the economists struggled with in order to tackle central problems in the Soviet theory of planned economy. These aspects, which are analysed in depth in the dissertation, are the following: price formation, ownership, remuneration and equality, labour market, different types of regulated markets and finally transition to market economy. In the years 1985-1989, the economists defended the socialistic theoretical system and attacked the central aspects of the market economy. The socialistic theoretical system was not questioned, and the role of the economists was to defend the planned economy from western influences. If certain ideas and principles of market economics were deemed as functioning methods, it was argued that these could be integrated within the socialistic economic system. In other words, the supremacy of socialism and the role of a strong state coordinating the economic activities could not be questioned. In the years 1990-1991, the economists’ thinking became more and more influenced by market economics. It is fair to say that as a result of their struggle to defend socialism against market economics principles, market economic thinking gradually started to dominate the economists’ thinking.

In fact, already in 1987 there were outspoken and open-minded discussions in the Soviet Union about the role of market economics, and its advantages compared with planned economy. However, in this first phase of the debate, only a few articles advocated directly or indirectly a transition to a market economy. From 1990 onwards, these contributions become more and more frequent, and in the end of this

thesis' period of study, the majority of the articles in the debate argued that market economics were superior to a planned economy.

It is not the conclusion of this thesis that the Soviet economic debate was directly influenced by market economics and experiences from other Socialist reforming countries in Eastern Europe. It can, however, be argued that the Eastern European debate inspired the Soviet economists to discuss certain problems within the socialistic theoretical thinking, but it is hard to detect any direct consequences in terms of market economics theory.

The second purpose of the thesis is to analyse if the economic debate played an important role in the transition from a socialist planned economy to a market-oriented economy. Did the economists have a dissolving or stabilizing effect on the dominating socialist theory? Is it possible to consider the period 1986-1991 as constituting "formative years" in preparation for a transition to market economics, as reflected in the G 7 report presented in 1990, which argued for such a transition through an inter alia programme for macroeconomic stabilization?

The conclusion in this thesis is that the economists tried to defend the socialistic theoretical economic thinking, but failed in the end. The economists were not able to solve central problems of the planned economic thinking which became more and more obvious as the economic crisis deepened. In this sense, the economists' thinking did not have a stabilizing effect on the dominating socialist theory. However, it is not correct to say that they had a dissolving effect on socialist theory, since their role was rather passive and marginalized in the end of the period,

The third purpose is to analyze to what extent it is possible to identify stationary structures in the Soviet economic theoretical debate in the period 1985-1991. Another and more difficult question to be answered is if, and to what extent, stationary structures could have contributed to the failure of a linear transition to a market economy.

It can be argued that stationary structures played a role in the Soviet economists' thinking. Their recommendations to come to grips with central problems in the planned economy seem to stem from old structures, existing long before Soviet times. For example, they all seem to agree, with some exceptions, that the solutions to the societal and economic problems have to come from above. The implemented measures have to be prepared and developed by an elite represented by the state. Important reforms could never come from beneath, from ordinary people, or small and large companies operating in the system. The idea to create a socialistic market could also be interpreted as a result of stationary structures, namely the personalisation of economic exchange. Another stationary structure that can be observed among the Soviet economists is the negative attitude towards ordinary people and their abilities to be productive without control from above.

APPENDICES

APPENDIX 1

DRAMATIS PERSONAE

RUSSIAN TITLES

Graduated (*okonchit'*) from the economic faculty of a university is referred to in this thesis as "economist". There were in the USSR two academic titles awarded after approval of a scientific thesis, namely the lower "kandidat nauk" and the higher "doctor". Kandidat corresponded to the American PhD or the former Swedish licentiat. To clarify the difference, "kandidat" is referred to as "candidate" and "doktor" as "doctor". The Soviet Academy of Sciences ("Akademiya Nauk") is presented as "AN", and its Institute of Economics as IE. "Academician" indicates a member of the Soviet Academy of Sciences.

Participants in the round tables, but not otherwise referred to in this thesis, are indicated with * (project law on state enterprises), # (bourgeois concept on scientific-technical progress under socialism) and ⌘ (the right to obtain work).

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APPENDIX 2.

WHAT IS “SHOCK THERAPY”? A CONCEPTUAL ANALYSIS WITH PARTICULAR REFERENCE TO RUSSIA

“In a country plagued by hastily conceived shortcuts, the greatest test of Mr Putin’s presidency will be to avoid another one.”
(The Economist April 1st - 7th 2000, p. 20)

1. BACKGROUND

1.1. Introductory remarks.

Rapid versus gradual economic transition was an important aspect of the debate on measures concerning the post-communist economic transition to market economy. The use of the past tense merits emphasis and explanation. All the former command economies are now of course in many respects in different economic and social situations as compared to when the transitions were initiated in 1989-1992. More or less successful economic policies have brought the transition economies into new situations where the issues are different. The terms “shock therapy” or “big bang” have fallen into academic disuse (with some exceptions), the reason being that such terms tend to blur the distinction between changes that can and must be carried out rapidly and those that cannot (Slay, p.50). Still the debate has considerable economic historical interest as part of and background to the general economic and social debate in Russia.

It is difficult to find in economic history instances of “quick fixes” regarding the transition from one economic system to another. Indeed, the “agrarian or the industrial revolutions” were long-term processes. The economic historian might therefore well argue that the burden of proof rests with the advocates of shock therapy.

As I have noted elsewhere, the economic and social development of Russia has been dismal after 1985 and 1991. Some critics have argued, of which the above quotation from The Economist is an example, that one reason for this development is precisely the application of shock therapies. Other commentators have argued that in reality there has been no shock therapy in Russia.

However, a closer reading of the debate indicates that the concept “shock therapy” is not unambiguous. There are of course a large number of scientific studies on shock therapy. In this appendix, the ambition is not to cover this vast field but an attempt to select “typical” ideas. This means that we are dealing with to some extent unfair summaries, ignoring nuances and complicated reasoning.

There has also been a discussion on ethical issues regarding the activities of foreign advisors and their relations to established interest in Eastern Europe. These interesting questions are not dealt with in this paper.

As has been indicated, the intention in this appendix is to try to sort out the meaning of shock therapy. Thus the intention is not to evaluate the merits and failures of shock therapy or gradual transition respectively.

Bearing in mind that our main interest is shock therapy, this paper deals mainly with the period 1990 - 1993.

This appendix could be read separately from the main text of the thesis.

1.2. The parade of plans.

As we have noticed, a number of plans to come to grips with the flagging Soviet economy were presented in 1985 - 1991. During the years 1985 - 1987 Gorbachev initiated limited reforms of the system with the slogans:

- Accelerating the rate of economic growth (*uskorenie tempov rosta*).
- Reconstruction (*perestroika*) of management and planning.
- Get the scientific-technical developments moving (*kardinalnoe uskorenie nauchno-tekhnicheskogo progressa*)

In 1987/88 a radical reform (*radikal'naya reforma*) was launched.

In 1989 the Abalkin Programme argued in favour of a sort of socialist market economy. The State Planning Authority (Gosplan) presented its own plan. The then Prime Minister Ryzhkov tried to make a compromise between Albakin and Gosplan - in reality a retreat from Albakin. Eventually Ryzhkov presented a modified version of his original plan.

In 1990 the Shatalin plan became the last attempt to construct a Soviet economic reform programme. At the same time government experts under the leadership of Ryzhkov elaborated at different programme. Academician Abel Aganbegyan elaborated a compromise between the two programmes. The Supreme Soviet did not take a decision and Aganbegyan presented on behalf of president Gorbachev "The President's Plan" in October 1990.

The result of the "parade of plans" resulted in a complete failure and confusion, and in December 1991 the Soviet Union was dissolved.

With the possible exception of the Shatalin plan, all these plans tried to safeguard at least some characteristics of the Soviet economic system. With the dissolution of the Soviet empire and the independence of The Russian Federation, the situation changed completely. The Russian President Boris Yeltsin declared in his "state-of-the-federation" speech on 28 October 1991 before the fifth session of the Russian Congress of People's Deputies that the Russian Federation would become a normal country with democracy and market economy (Hedlund 1999, p. 119). The political door seemed now to be open to a transition to a market economy.

However, even before the dissolution of the Soviet Union, the G7 in Houston in 1990 asked the World Bank, the IMF, the OECD, and the EBRD to elaborate a report on the Soviet economy and was willing to support economic reforms in the Soviet Union. Also, in June 1991 a group, including *inter alia* the Russian economist Grigorií

Yavlinskiĭ and the American economist Jeffrey Sachs, presented an economic reform programme and recommendations for western support to the programme. The programme became known under the headline “Grand Bargain”, “Window of Opportunity” and in Russian “Shans na soglasie”.

The stage was thus set for a discussion on ways and means for the transition of Russia from a “command economy” to a “market economy”.

2. THE CASE FOR SHOCK THERAPY

2.1. Introductory remarks

“Shock therapy” became a household word among economists and politicians, and could almost be said to be a headline of a consensus of sorts among Western economists and also some Russian economists.

One of the most prominent shock therapists was and is the Swedish economist, Anders Åslund. From 1991 to 1994 he belonged to a group of western advisors who worked closely with the Russian government, and he has extensive experience working with other countries in transition. His book “Därför behöver Östeuropa chockterapi” 1993 (Therefore Eastern Europe needs shock therapy) could reasonably be seen as an authoritative source in our context. Unless otherwise specified, the description of the meaning of “shock therapy” is based on Åslund’s book.

2.2. What is capitalism and what was dysfunctional in the Soviet economy?

The aim of shock therapy was to change as quickly as possible a Soviet-type command economy into a capitalist market economy.

Then what is capitalism?

According to Åslund (op. cit. pp. 19-35) capitalism is composed of a complex structure with a large number of elements:

- Market relations have to exist among the economic subjects of the economy.
- If a market is to function normally, the economic subjects must be independent, *i.e.* the right of ownership must have been established. It is comparatively easy to encourage establishment of new private enterprises. Privatisation is a more complicated but necessary task. The former command economies to a large extent lacked western type of economic legislation.
- Reliable institutions are necessary. A reliable and enforceable legal system must exist.
- There must be constitutional guarantees that all these elements will remain in force.

A prerequisite of a market economy is a functioning and integrated monetary system. As we have seen, this was not the case in the Soviet system. The account money of the enterprises and the cash money of the population were in principle kept apart. There was also price discrimination in favour of privileged groups of the population, particularly “the nomenklatura”.

The currency was not convertible. One problem in the transition is how to find appropriate ways to make the currency (or a new currency) convertible. Liberalisation of prices, domestic trade and production may be politically difficult but is theoretically easy. There are simply a number of restrictions that have to be abolished. Liberalisation of foreign trade is a more complicated matter, bearing in mind the different kinds of trade barriers that existed in the Soviet Union/Russia and internationally. In this case, there are arguments in favour both of quick and gradual liberalisation depending upon the restructuring of the economy.

Macroeconomic stabilization is needed as a balancing force and mainly financial policy, monetary policy, exchange rate policy and incomes policy.

An interesting aspect of the democratisation process is the establishment of a basic social security system. The social welfare systems in the communist economies were inadequate in relation to the level of economic development. The state or the public sector in the command economies was of course very big and inefficient and must be reduced in relation to the GDP. The hierarchical structure of the command economy made the system dysfunctional. The scarcity of reliable information is another problem. The administrative structure with enormous trade organizations was organised according only to the needs of the command economy. The transaction costs were high. The civil servants were to a large extent engineers. There were few lawyers and social scientists. The knowledge of foreign languages was weak and consequently the possibilities of acquiring knowledge from other countries very limited. The systemic change also meant a demoralisation of the civil servants. Corruption is another problematic aspect. It should also be added that the public sector had low status in the public opinion.

2.3. Historical analogies

From an institutional point of view Åslund (op. cit. pp.35-40) refers to some historical economic and social transitions as parallels to the transition from a command economy to a market economy:

- The 1848 revolutions in Europe. Åslund sees the revolution as a transition from a feudal economy to a market economy. The rudimentary governmental structures could not cope with the emerging market economies. Thus the rational answer to the transition problems was *laissez-faire*.
- The recent macroeconomic stabilisation process in Latin America. Hyperinflation (as in the command economies with the exception of Hungary and Czechoslovakia) necessitated a struggle to reduce the inflation rate. Massive institutional alterations such as independent central banks, balanced budgets, efficient systems for tax collections, internal and external liberalisation and privatisation's took place.
 - Central and Eastern Europe after World War I. Macroeconomic stabilisation occurred after the establishment of national currencies and independent central banks. The League of Nations provided financial assistance. The lesson is the importance of currency reforms combined with a stringent macroeconomic policy.

- Germany after 1945. Of particular importance was the presence of a strong political leader (Adenauer) and a competent “chief economist” (Erhard). The constitution reduced the number of parties represented in the Bundestag. Thus the reform programme was democratically and firmly established.

2.4. Reasons for shock therapy and what to do?

Macroeconomic stabilisation after a very high rate of inflation can be carried through only by a coherent package of swift and radical measures in order to establish credibility and to stem inflationary expectations.

The evident objection is that fast transition will create mass unemployment and cause enormous social costs. According to Åslund this has not happened. The economic and social downturn has been deeper in countries that have applied a gradual transition. Quite simply, there is no gradualist alternative which causes less suffering. Very often there are only limited possibilities to finance a budgetary deficit in a period of high rates of inflation. The administration of tax collection is normally weak and budgetary reductions are therefore the only way to balance the budget. Subsidies must be reduced and consequently prices must be liberalised in order to avoid more subsidies.

The transition to the new economic system must be consistent. It is impossible to establish a convergence between the two systems. Taxes must be unified and prices liberalised.

It has been argued, however, that in reality it is impossible to undertake enormous changes very fast. This may be true, but is in fact an argument in favour of rapid transition. It is necessary to act fast in order to create a critical mass of systemic changes and thus avoid economic and social unrest.

The budget restrictions applied to state enterprises in the command economy were soft. Thus money was freely available while goods, services, and labour were scarce. This is what Janos Kornai called soft budget restrictions. Tougher budgetary restrictions are prerequisites for stabilisation and market behaviour.

There is a need for foreign competition in order to create a real market. In the command economy there was often only one domestic producer of a certain product. In the short run, foreign enterprises will be the only competitors available. Furthermore, there will be a large number of bottlenecks that can be taken care of only through import. Only private entrepreneurs can estimate export possibilities.

A swift transition will reduce the possibilities of corruption in the public sector. Rapidity reduces the time for discussion and a comprehensive package makes it difficult to identify winners and losers. Thus it is easier to gain political support and reduce opposition. The reform government must be able to present a vision of the future. Inevitably the transition will cause a lot of suffering among large strata of the population. A programme of rapid transition will increase credibility. The population

will accept temporary hardship if it is convinced that the development to capitalism is on the right track.

To try to impose a time limit on the discussion seems to be an essential aspect of the recommendations of structural adjustment and shock therapy. Thus Mario Soares in 1983, upon taking office as prime minister of Portugal, declared, that “this Government will be austere, uncompromising, and unpopular if that is what is required to achieve economic recovery”. (Rodrik p 9). Economists very often see two conflicting perspectives. Good economic policy should produce favourable results and thus also be good politics. However, the carrying out of such good economic policy is often viewed as requiring strong, autonomous, maybe authoritarian leadership. Chile under Pinochet is one example. If in the end good policy is good politics then the Chilean example indicates that such an idea may imply the suspension of normal democratic procedures (Rodrick, p. 10). This had not been the case in Russia but, as we have seen, the policy of the Gaïdar government (“the kamikaze approach”) was seen to require some disregard for the role of the State Duma, which eventually revolted.

However, it might be objected that the transition to a market economy implies a long learning process, which renders fast transition impossible. Economic institutions develop organically and cannot be transplanted. But small business is easy to learn. Acquiring business ethics and legal aspects, however, is a long learning process. Corruption based on the old system is the main threat against such a process. Therefore the learning process objection is not valid.

Furthermore, it is argued that the population is imbued with socialist and egalitarian values. Therefore they will not accept capitalism’s larger income differentials. But this argument does not correspond with experience from Eastern Europe, where a large number of private enterprises have been created.

The lack of information makes possible only elementary economic policies. It is necessary to quickly establish a critical mass of private business and market relations. Otherwise the market will work poorly and corruption will prevail.

Jeffrey Sachs was in many respects the intellectual leader of the shock therapists. In a televised speech before the Solidarity Parliament Caucus (Poland) in September 1989, he summarised the ideas. Among his points were the following:

1. It is necessary to take common-sense action.
2. You won’t succeed if you don’t.
3. If you act dramatically and make an impression, you will get money from the West.
4. Do something brave.
5. Figure out how much society can take, and then move three times quicker than that.

6. If you jump into the market economy, you will be first in line for credit - that's a promise. Inflation will vanish and the standard of living will begin to rise within six months." (Quoted from Wedel p. 48).

2.5. The sequence of reforms should be the following (Åslund):

1. Democratization. The Communist party loses power.
2. Necessary legislation should be elaborated and adopted before the initiation of systemic change. Meanwhile financial improvements and education efforts should be initiated.
3. Adoption of a large package aiming at macroeconomic stabilisation, as well as internal and external liberalisation.
4. Parliamentary elections should take place at the beginning of the implementation of the reform package.
5. Privatisation based on legislation and transparency should take place after the introduction of market process.
6. Structural change is a long-term process that will take time.

2.6. Hypotheses

There is no clear difference between structural adjustment *per se* and shock therapy. As we have noted, shock therapists admit that structural change is a long-term process.

However, as Rodrik has remarked (op. cit. pp.12 ff), a new orthodoxy in development thinking has emerged. Williamson dubbed this orthodoxy "The Washington Consensus". This consensus is composed by the following political desiderata (Williamson, pp. 26 ff.):

- Fiscal discipline in the public sector.
- Redirection of public expenditure toward neglected fields with high economic returns and the potential to improve income distribution, e.g. health, education, infrastructure.
- Tax reform, including the broadening of the tax base and cutting marginal tax rates.
- Financial liberalization with the objective of market-determined interest rates including preferential interest rates.
- Unified and competitive exchange rates.
- Trade liberalisation including the abolition of quantitative trade restrictions.
- Elimination of barriers to direct foreign investment.
- Privatisation of state enterprises.
- Abolition of regulations that impede the entry of new firms or restrict competition.
- Provision of legal property rights.

Shock therapists and gradualists seem to agree on these points.

Williamson (pp. 562 ff) has outlined a number of hypotheses about the conditions under which policy reforms are possible and also the ways in which economic and social policy reform can be promoted. It is evident that all shock therapists (or for that matter gradualists) do not agree on all these hypotheses. Some of them are even contradictory. It should also once again be emphasized that my intention here is not to test or evaluate these hypotheses. I am only interested in the conceptual analysis.

1. Policy reforms take place in response to crisis, which has the effect of “shocking” countries out of traditional policy patterns and disorganising interest groups that have no fundamental interest in policy reforms.

2. Particularly Jeffrey Sachs has underlined the importance of external intellectual help and conditional foreign aid.

3. Authoritarian governments are best at implementing reform.

4. Policy reform is inherently right wing and is likely to be introduced by such governments.

5. The honeymoon hypothesis: A government is likely to have greater freedom of manoeuvre immediately after taking office.

6. A reforming government needs a solid base of legislative support.

7. If a reforming government does not enjoy a strong base of support, the government can compensate for this lack if the opposition is fragmented.

8. A social consensus of becoming a “normal European country” could be an important factor impelling reform.

9. A visionary leader prepared to take a long-term view regardless of short-term political risks is important.

10. A coherent and united economic team is preferable to people with conflicting views.

11. Economists must have key political positions.

12. There must be a comprehensive reform programme relative to the needs of the situation and capable of rapid implementation.

13. Voodoo politics. The electorate will never vote for policy reform. Reformers should promise to solve economic problems painlessly and should only reveal their true intentions after having won office.

14. Media. The reforms should effectively use the media.

15. Chances of successful reform will be enhanced if losers receive compensation.

16. To enhance reform, the emergence of influential political groups that can appreciate the benefits they are reaping from reform programs should be accelerated. Andrei Shleifer and Maksim Boisko, two leading shock therapists, have formulated this hypothesis somewhat more bluntly and slightly differently: "Unless the stakeholders are appeased, bribed or disenfranchised (sic!), privatisation cannot proceed" (Hedlund 1999 p.10).

Some of these hypotheses are not controversial, but evidently some of them are.

It seems unlikely that serious gradualists or even shock therapists would argue in favour of right wing or authoritarian reform governments. In the current debate it is not easy to find left wing politicians in the western democracies that would support big government ownership of industry. Furthermore, the conventional wisdom tells us that there is a relationship between market economy and democracy (3, 4). The relationship is somewhat complicated. Thus it is difficult to find democracies that are not market economies. But there are dictatorships that are market economies. It is also not very likely that reformers would recommend outright lies from the reform government about its intentions (13). Of course the Gaïdar government did not seek collaboration with the state дума but it did not conceal its programme (cf. "Naperegonki c krizisom".) Gaïdar did not seek a solid base of legislative support in the дума (6).

"The influential political groups' hypothesis" maybe controversial. Shock therapists may argue in favour of the economy of "robber barons" comparing the transitional economies with USA at the end of the 19th century. Gradualists may underline the importance of a middle class of entrepreneurs and draw our attention to the need of an independent juridical system able to rein in "the robber barons". Furthermore, shock therapists seem to believe that economists should play an important leading political role in the reform process. Gradualists tend to underline a broader political approach.

Economists and economic historians may reasonably agree on "the crisis hypothesis" (1 above). Evidently, if there is no crisis it is difficult to argue in favour of reform. It is likely that in a crisis situation a reform government may enjoy a honeymoon with the electorate (5). "The normal European country" hypothesis" (8) is a proposition in the same vein. These hypotheses do not seem to be controversial.

In his article in Moscow Times, February 5, 2001 Åslund insists on the "crisis hypothesis". He argues that the problem of the reforms of 1992 in Russia "was that the change of system was not credible. A greater discontinuity, or shock, was needed. Black Tuesday, the exchange-rate crisis of October 11, 1994, was a sufficient shock to make financial stabilization possible in 1995. Yet, Russia needed the financial crash of August 1998 to be so shocked as to realise that the market economy had to be cleaned up. Similarly, Poland required two financial shocks, one in 1981 and one in 1989, before it got onto a sensible reform track.

3. WHAT WENT WRONG IN RUSSIA?

3.1. Introductory remarks.

With regard to the dismal Russian economic and social development there have been two types of comments with relevance to shock therapy. The first type of argumentation holds that the Russian case is not an appropriate example of pros and cons for shock therapy, the reason being that in reality there has not been any shock therapy in Russia. The other type of arguments concentrates on theoretical and practical shortcomings of the shock therapy theories.

3.2. Shock therapy did not occur or the patient did not follow doctors' orders.

In February 1994 the liberal economist Andrei Illarionov (later an advisor to the Russian president Putin, and earlier the leader of the prime ministers' group for analysis and planning) published an article in the *Izvestiya* with the headline "There has been no shock therapy in Russia" (*V Rossii shokovoí terapii ne bylo*). In the article he criticises the policies of the Gaïdar and Chernomyrdin governments along the aforementioned lines.

According to Illarionov, shock therapy means essentially tough (*zhetskaya*) monetary and financial policy in a country with hyperinflation (50% or more a month). Such a policy will help to attain within two or three months a monthly inflation rate of 2-3% ("shock). The inflationary overhang will disappear and enterprises will rapidly start to adapt to the new price conditions - low inflation rate (therapy). In order to attain this goal the only way is to decrease the monthly growth rate of money supply to 2-3 %. Such measures are a *sine qua non* in shock therapy. The experience of Poland and all the more so Estonia shows that such a policy is possible and provides economic growth. A negative instance is Romania, where the government listened to vested industrial interests and tried to pursue a policy of "moderate inflation", when in reality there was high inflation and negative economic growth.

The Russian development was even worse than in Romania. Russia experienced a high rate of growth of money supply and inflation, and negative economic growth. Shock therapy in Russia could not be said to have failed because there was no shock therapy. Illarionov quotes one of the architects behind the Polish shock therapy, Dombrovsky, who has said that either the therapy will be a shock or there will be no therapy.

Jeffrey Sachs (Sachs 1995) argues: "Russian stabilisation has been a continuing story of missed chances, by the Russians and the West." The stabilisation programme of 1992 should have included a number of elements. Which were they and what went wrong?

1. Introduction of national currencies for the successor states of the Soviet Union should have taken place. As a matter of fact, the IMF opposed the early introduction of national currencies, and recommended a coordination of monetary policies in the former Soviet republics under IMF auspices. This piece of advice practically guaranteed highly inflationary policies in the non-Russian republics and, as a result,

Russian ended up extending credits to other republics. In Russia at that time there was support for a separate national currency among the reformers. The hard line opposition generally opposed this measure, still dreaming of a reunification of the Soviet Union. According to Sachs, a move on a national currency with backing by the West and the IMF could have caught the opposition off guard.

2. A budget deficit of between 5 to 10 percent of the GDP financed by non-monetary means, e.g. treasury bills.

3. The IMF recommended that Russia should aim for a balanced budget, without the need for Western or IMF financing of the deficit. Sachs argues, however, that the fiscal crisis in Russia was deep and Russia could not without external help reduce that deficit to normal OECD levels. Such external financing in order to cover the deficit in a non-inflationary way was not discussed until 1994.

4. The exchange rate of the new Russian currency should have been pegged as a nominal anchor for monetary stability and backed by a restrictive credit policy and a Western-financed stabilisation programme. Until 1994, the IMF advocated a floating exchange rate in spite of stabilisation experiences from other countries.

5. Early introduction of non-monetary instruments of deficit financing (treasury bills and bonds). Western advice concentrated on deficit cutting, rather than on non-inflationary deficit financing. There was little effort to help spur Russian treasury bills as an alternative to central bank financing.

6. There should have been comprehensive rescheduling of Russia's debt, bearing in mind the heavy burden of debt servicing. In 1994 such negotiations had dragged on without result.

Åslund (1995 pp. 3 ff.) argues that Russia has become a market economy. Thus "the characteristics of a socialist economy have been replaced by those of a market economy." There are no chronic shortages, including labour scarcity. All kind of markets have emerged such as inter-enterprise markets for goods and services, and markets for money, foreign exchange, capital, credit, shares, and property. Even state enterprises are on their own and work for profits.

Åslund admits that the Russian legal system is poor. But this is an issue of lowering transaction costs and improving efficiency "and does not disqualify Russia as a market economy".

Private ownership is not firmly established on a large scale. Åslund feels, however, that "The fundamental issues are the mutual independence of enterprises from one another (as well as from the state) and their profit orientation. Under such conditions, owners will forcefully try to ascertain their property rights."

Inflation is a problem but is a market economic concept and does not disqualify as long as it does not rise to hyperinflation (more than 50 percent during one month), which endangers magnetisation and entices strict regulations.

According to Åslund, Russia, however messy and imperfect, is a market economy, and has been so at least since the end of 1993.

In his article in Moscow Times, February 5, 2001, Åslund is even more positive: “Russia achieved 7.6 percent growth last year, and this is not only the result of high oil prices and devaluation. In 1998, barter was seen as the invincible scourge of the Russian economy, with some arguing that it was naive to believe that the Russian economy would be normal within the foreseeable future. But barter peaked in August 1998 at 54 percent of all industrial transactions, falling to 21 percent in August 2000. The Russian economy is now largely monetized, and all kinds of structural improvements are occurring.”

In “Economic Reform versus Rent Seeking” (Åslund and Olcott 1999) Anders Åslund and Mikhail Dmitriev analyse the Russian reform programmes from 1991 up to 1999. They seem to be more critical of the Russian economic and social development as compared with Åslund’s judgement in 1995. Dmitriev is a scholar-in-residence at the Carnegie Moscow Centre.

According to Åslund and Dmitriev, the main themes of the reform agenda in Russia have been deregulation, stabilisation, and privatisation. But little was actually implemented. (Op. cit pp. 121 ff.) “The reformers fought for the liberalisation of commodity prices, but they lost. As the domestic commodity prices were kept artificially low, exports could not be liberalised. The fear of starvation in the winter 1991-1992 made it politically impossible to unify the exchange rate, which would have eliminated import subsidies. The reformers tried to liberalise domestic trade but with limited success. Gaïdar pushed for considerable freedom for enterprises, but his efforts were rebuked.”

The reformers had opted for a balanced budget in early 1992. However, subsidised credits and import subsidies and other such quasi-fiscal expenditures became the dominant fiscal problem. Åslund and Dmitriev designate the Central Bank as the main culprit.

Personal enrichment was not primarily a result of privatisation. “Russian enterprise ownership is reasonably well distributed, but it has not become effective ownership.”

Like Sachs, Åslund and Dmitriev feel that the worst failure of the West was not to financially support the stabilisation programme in early 1992.

In his article in Moscow Times, Monday, Feb.5 2001, p 10, Åslund further argues that “We Did Too Little”. Thus, grants to Russia have been extremely limited. However, Western aid has been effective. The economic thinking has been transformed to a considerable extent as a result of Western technical assistance. The Soviet Union was a lawless corrupt kleptocracy. The transformation from complete state ownership to a private sector that contributes no less than 70 percent of overall GDP depends to a large extent to the technical contributions of USAID and the World Bank. The real alternative would have been Belarus. EBRD has shown that Russia is not particularly corrupt among transition economies, being at roughly the level of Latvia or Lithuania.

However, the IMF should have provided funding to Russia's true reformers in 1992 and should have acted to break up the rouble zone at that time.

The IMF's well-financed reform package of July 1998 was the IMF's "finest hour". When the Kiriyenko government was blocked from carrying out the reforms, financing was withdrawn. After the 1998 crash, Russian governments have done that with excellent results. It is possible that Åslund feels that shock therapy after all has been successful.

As good shock therapists, Åslund and Dmitriev feel that economically, the solution to Russia's problems was "obvious" (op.cit. p.92). The adoption of these obvious measures could have saved the Russian people a great deal of suffering. Why were hardly any of these measures undertaken? The answer is that rent-seeking interests in Russia were so strong that they overpowered concern for common good. "Moreover, the competition among the rent seekers was so fierce that they could not halt their behaviour but drove themselves to financial collapse."

3.3. Shock therapy is inherently wrong

The conceptual criticisms against shock therapy in Russia are based upon the assumption that the shock therapy does not take account of historical and institutional facts.

Hedlund (Hedlund 1999 p.9) quotes the Russian economist Leonid Albakin:

"Furthermore, the implementation of universal schemes for financial stabilisation, which by their nature ignore the specific make-up of the concrete historical conditions of this or that country, is shown to be of little use.....No less important for growth are such parameters as historical traditions, the spiritual constitution of the population, norm systems, the level of legal consciousness, in a word, all which appears as institutional factors in a socio-economic system."

Hedlund also quotes Douglas North's Nobel lecture, in which he spoke about the role of institutions: "The implication is that transferring the formal political and economic rules of successful market economies is not a sufficient condition for good economic performance."

According to North (cf. *Institutions, Institutional Change and Economic Performance* 1990) institutions are:

- Formal rules that may be changed overnight by politicians.
- Informal norms that change gradually.
- Mechanisms of enforcement make sure that the formal rules are upheld.

The interplay between these components determines social change.

The critical question then will be under what conditions individuals having elaborated over a long time a set of informal norms will allow a changed environment to influence their mental models of the world around them (Hedlund op.cit. p 14). What has to be analysed is the Russian path dependence, a historical economic analysis

trying to understand the reasons why particular sequences of events in the past influence current conditions (Hedlund op.cit , p 279).

Hedlund sees path dependencies in Russian history including both tsarist and Bolshevik Russia. If historical economics had been part of the analysis, the problem of rapidly transforming Russia in a “normal” western democratic market economy would have been formulated in another way than the shock therapists did.

Vladimir Gligorov (Gligorov 1993) argues that the transformation of a socialist system must take time. Transformation requires institutional change and a restructuring of the balance of power in the political system. Gligorov also argues that social sciences have not established any form of definite desirable or possible institutional construction. Consequently, there cannot be a capitalist model into which individuals can be “shocked” or to which a society can be transformed through a big bang.

The UNDP is highly critical to shock therapy or big bang. Thus “foreign capital was not integral to the strategy, but was a *deus ex machina* introduced to temper the hardships caused by the failure of shock therapy. Privatisation was even more problematic. Its role was largely political, namely, to cut the government controlled sector down to a size that would make a return to the Soviet state and its central planning impossible. In other words, privatisation was not necessary from an economic perspective to ensure the success of the transition.” (Transition 1999. p 30).

Gerner, Hedlund and Sundström (1995) are highly critical of practice and theory of shock therapy. They strongly object to Lawrence Summers, then chief economist of the IBRD, who in 1991 stated “Spread the truth – the laws of economics are like the laws of engineering. One set of laws works everywhere.” In the history of economic theory, this is not a unique situation. An obvious example is Kenyes’ seminal “The General Theory of Employment, Interest and Money”. Eli Heckscher in *Economisk Tidskrift* 1946 analyses “General Theory” from an economic-historical angle and criticises it because of its pretensions of formulating an economic theory valid for all historical situations.

Gerner, Hedlund and Sundström argue that there is a link between the merchants of Venice in the 13th century and the economists in Scotland in the 18th century. This link consists of humanism, Renaissance, Enlightenment and Cartesianism with its emphasis on its rational moment. Also, institutional economics is an objection against the theory that one size fits all.

3.SUMMARY AND CONCLUSIONS

As we have been able to establish, “shock therapy” is to some extent an ambiguous concept. In the following section I will try to discern some common traits of this theory or ideology, or at least a common denominator of sorts.

To begin with, it is evident that the shock therapy idea was brought to the fore in connection with the transformation of the undemocratic command economies of

Eastern Europe into democratic market economies. There are some similarities between theories in the field of development economics and transition economics. Development economics deals first and foremost with developing countries, in which in many cases the question is how to transform developing (in reality stagnating and authoritarian) economies to democratic market economies. It is evident, however, that the situation in the so-called developing economies was quite different from the situation in the transition economies. However, it seems clear that “the Washington Consensus” plays an important role in western thinking both regarding developing countries and Eastern European countries. In the case of developing countries a more or less gradualist approach has been common. The term “developing” indicates gradualism.

Now and then it is argued that the economic and social transformation in Eastern Europe is historically unique. Therefore we have no experience of such situations and there is no theory to help us. Thus Slay (p.31) writes: “The controversy also reflects the unprecedented nature of the post communist transition and the lack of well-accepted conceptual and policy frameworks for its conduct and analysis.” An economic historian could well argue that all historical changes are more or less unique. When it comes to economic theory e.g. Hedlund and Gligorov have argued that an institutional approach could be very helpful indeed.

The intention of shock therapists is to rapidly transform dictatorial command economies into democratic market economies. In the case of Russia, this endeavour is implied to correspond to the wishes of a majority of the Russian population. This may be true. But as Gligorov has remarked, one conceptual problem in this context is the definition of a capitalist market economy. Would Russians opt for an American style of capitalism or a continental European style, or a Malaysian style, or some other version of capitalism? Or is modern China an alternative? Even the communists in Russia nowadays in principle accept political democracy, and a least a modicum of market economy. But it should be noticed that the old debate between slavophiles (Russia is a unique country that must develop its own culture and has got no reason to imitate the inimical west) and zapadniki (westernisers) is to some extent an ongoing business, albeit with new nuances and overtones.

The term “therapy” may indicate that the patient has been healthy (e.g. market economy, etc.) but is now sick (e.g. command economy, etc.). The problem is how to cure the patient, or how to restore the health of the patient. However, as we have described elsewhere, Russia’s experience of market economy and democracy is very limited indeed. Autocracy and personalised, often extra-legal or illegal, economic relations have been normal.

There are in Russian history a considerable number of historical experiments endeavouring to westernize Russia. We may refer to the reforms of Peter I (modernizing the administration and the armed forces, as well as technical development), Catherine the Great (enlightenment, modern legislation), Alexander II (abolishing serfdom, a modicum of local self-government), Nicholas II (the first dumas), Stolypin (modernization of the economy) and the Bolsheviks. One common

experience is that these reforms from above have not been very successful and have been followed by sometimes violent reactions.

Now, it would be unfair to pretend that shock therapists ignore historical experience and analogies (cf. Åslund). But they look for analogies that may be relevant for Central and Eastern Europe but not necessarily when it comes to Russia.

There is Russian criticism in this context including the view that local knowledge was not sufficiently taken into account. Thus Abalkin states that "In all discussions with Russian representatives, as a rule, one can hear an opinion that the American technical aid is, by and large, directed toward satisfying the interests of Western consulting firms (creating jobs and incomes for their employees) It is more and more often mentioned by the Russian side that Western consultants are ill-prepared for working in Russia, have poor knowledge of our economic, legal and psychological realities." (Leonid Albakin, "Evaluation of USA technical aid in the course of democratic and economic transformation in Russia. " Paper presented at the George Washington University, February 26, 1996, pp.12-13. Quoted from Wedel p 59). Wedel (pp 63,64) writes: "Many in the region believed that Western consultants continually undervalued local citizens' high degree of skill and experience, trademarks, and land. Such belittlement irritated many Central and Eastern Europeans, who, while they may have resented the socialist system, also resented the tendency of aid providers to deny national accomplishments prior to socialism and to devalue what the region's inhabitants had achieved under socialism in spite of that system's limitations. "

In this way, shock therapy theory implies that historical and modern experiences, also from other countries, are applicable to Russia.

However, shock therapists normally admit that the transition is a long-term process. The shock in itself seems to imply three elements:

1. By rapidly and drastically reducing the supply of money and thus killing the monetary overhang, hyperinflation will come to an end and the enterprises will quickly adapt to the new non-inflationary situation. Tougher budgetary restrictions fall within this category.
2. A comprehensive and consistent reform programme must be elaborated as quickly as possible.
3. Legislation (private ownership, banking regulation, bankruptcy etc.) will rapidly have to be elaborated and passed by the parliament. It does not seem that privatization *per se* is a controversial issue. A gradualist may, however, ponder the question about who is to buy the state enterprises in a rapid privatisation.

Rapidity is necessary because it reduces the time for discussion. A comprehensive package makes it difficult to identify winners and losers.

Probably, even gradualists would agree that it is imperative to immediately come to grips with hyperinflation.

However, with respect to norms, it could be fairly easy to change legislation. But to change the second layer in North's institutional theory is probably a more time-consuming process. It is interesting that Åslund and Dmitriev seem to implicitly admit that this is the case. They draw our attention to rent seeking as one important reason why shock therapy failed in Russia or why there was no shock therapy. Rent seeking, however, is a common trait both to the authoritarian tsarist system and in the Bolshevik system. Rent seeking is part of the informal norms that, as we know, change only gradually. Furthermore, independent mechanisms of enforcement are difficult to establish in an old, corrupt juridical system. In a legal system that is not reasonably predictable, it is difficult to imagine the rapid emergence of a "western" entrepreneurial class.

Åslund in his more optimistic judgement in 1995 admits that there are shortcomings in the immediate results of the shock therapy, but seems to be confident that these are only temporary and will be overcome.

One possible interpretation of this idea is that in spite of Russia's negative experiences with reforms from above, economic "laws" will ensure a development in the right direction.

Evidently, shock therapy in this context is at odds with institutional theory. Shock therapists seem to feel that rapidity in the aforementioned sense will quickly lead to the emergence of an entrepreneurial class and a well-functioning juridical system.

Shock therapists like Sachs and Åslund are of course proponents of democracy. Democracy is essential in the market economy. But in advocating rapidity, shock therapists seem to try to avoid a public discussion. The public opinion in the transition economies is not sufficiently well-informed and knowledgeable regarding obvious and necessary ways to rapidly introduce a market economy.

Berend (p. 201) quotes in this context Andrzej Kozminsky of Warsaw University, who, discussing the difficult initial period of Polish shock therapy, states: "It is not surprising (.....) that Balcerowicz wanted Polish society to swallow such bitter medicine as quickly as possible before the massive support for the new government evaporated and foreign help was diverted towards other Eastern European countries starting the transition process."

The Russian economist Vladimir Mau writes (Williamson, p.435-36): "Count Sergei Witte, a prominent reformer under the czars, used to say that there were two essential elements for radical reforms in Russia: absolute monarchy, because you need not pay attention to your critics if His Majesty supported you, and speed, because somebody might persuade the czar to change his mind before the reform could be made irreversible."

Jeffrey Sachs thinks more or less along the same lines, (Williamson pp. 505, 507) feeling, evidently, that constructing a social consensus should not be recommended. "This is mostly not the case. In deep crises, there simply is no consensus to build upon, only confusion, anxiety, and a cacophony of conflicting opinions."

And:

“Few Russians understand the source of Russia’s current inflation, least of all the governor of the central bank.”

Evidently, shock therapeutic democratic theory implies that a democratic elected government, as a strong executive must have a fairly free hand between elections.

Another conclusion is that shock therapists seem strongly to believe in economic “laws”. As we have seen, the policy measures to be taken are “obvious”, and the shock therapists know what to do on the basis of their knowledge of the economic laws. Economists should play politically important roles in the reform governments. The population at large, the politicians, and the specialists in the reforming countries must more or less be forced to swallow the bitter medicine.

A belief in economic “laws” may logically lead to a conclusion that “one size fits all” or a version of “la pensée unique”. In Gerner, Hedlund and Sundström (1995) it is argued that there was no economic theory analysing the transition from a dictatorial command economy to a democratic market economy which takes into account the historical and cultural differences between Russia and the market economies.

APPENDIX 3.

MAIN POLITICAL EVENTS 1985-1991

1985

March. Gorbachev becomes the new General Secretary of the Soviet Communist Party (CPSU).

April. Plenary of the Central Committee of the CPSU. Uskorienie tempov rosta (acceleration of the rate of growth).

May. Tighter discipline. Anti-alcohol campaign.

1986

Congress of the CPSU. Glasnost' (freedom of expression from Russian "golos", voice), perestroika (reconstruction), demokratizatsiya.

April. The Chernobyl disaster.

December. Anti-Russian riots in Alma Ata, Kazakhstan. Release of Sakharov from administrative exile. He returns to Moscow.

1987

Small strikes in many corners of the Union.

Law of State enterprises attempts to convert Soviet economic enterprises to a system of self-financing. Prices still centrally fixed.

August. Demonstrations in the Baltic republics against the German-Soviet pact of 1939.

October. Yeltsin resigns from the Politbureau.

1988

Radikal'naya reforma in a pre-crisis situation (predkriziznoe sostoyanie).

CPSU-conference. "Back to Lenin". "De-stateisation" against command-administrative system, state governed by law (pravovoe gosudarstvo), civil society (grazhdanskoe obshchestvo).

June. Pro-Karabach general strike in Armenia.

1989

March. General elections for the Congress of People's Deputies. More candidates for every seat. Free debate. People not accepted by the authorities were kept out. The powers of the Congress were merely advisory. The meetings were televised live.

April. Demonstration in Tbilisi violently suppressed.

July. Miners' strike led by unofficial trade unions in Kuzbass, Donetsk, Karaganda, Vorkuta.

November. Moscow demonstrations against radical reform. Plans by the National Salvation Front. "Down with the Abalkinisation of the whole country".

1990

January. Violent suppression of nationalist rising in Baku.

February. Competitive elections for republican Supreme Soviets in all Soviet republics.

February. Moscow demonstration by people demanding political democracy.

March 11. Lithuanian Supreme Soviet declares independence of Lithuania.

March 14. Gorbachev first (and last) president of the USSR but not elected by popular vote. Article 6 of the Union constitution was revised to allow, in vague terms, organised political competition. Multi-party system. Parliamentary elections in the republics. As a result of the elections Yeltsin becomes chairman of the Supreme Soviet of Russia.

March 30. Estonian parliament announces the beginning of transition to independence.

May. Latvia's Supreme Soviet votes in favour of restoring Latvia's independence.

May. Yeltsin is elected president of the Russian Supreme Soviet.

July. Declaration of sovereignty of the Ukrainian parliament.

September. Disputes over the sovereignty of the republics in relation to the Union and the validity of republican laws over the Union laws. (Parade of sovereignties, parad suverenitetov). Precedence of republican laws over federal laws. (War of laws, voına zakonov).

Winter 1990-1991. Attempt to impose more central control. Military suppression of demonstrations in Vilnius.

1991

January 1. Freeing of forty percent of wholesale prices.

January. To mop up surplus roubles, the minister of finance announces that 50 and 100 rouble notes are no longer legal tender. Limits to the amount that can be legally exchanged. Massive strikes in Belorussia. Most wholesale prices are liberalised.

February. Striking miners and Yeltsin call for the resignation of Gorbachev.

March. The Warsaw Pact was dissolved.

March 17. Referendum of the new Union Treaty. The Baltics refuse to take part arguing that they had never voluntarily and lawfully joined the USSR. Georgia, Armenia, and Moldavia boycott the referendum. Among the participating republics the answer is overwhelmingly yes.

April. Gorbachev approaches "the old communists". Death toll in Vilnius and Riga. Gorbachev advocates a new Union Treaty with power greatly devolved on the republics.

June. The SEV/CMEA is dissolved.

June 6. Yeltsin is Russia's first democratically elected president.

August 19-21. Failed coup d'état. CPSU suspended. Strikes against the plotters. Gorbachev resigns from the Party leadership.

August-September. Most Soviet republics declare independence.

September 6. USSR recognises the independence of the Baltic states.

December 8. Belovezhskaya Pushcha Accords. Russia, Ukraine and Belarus dissolve the USSR. The Commonwealth of Independent States, CIS (Sodruzhestvo nezavisimikh gosudarstv – SNG) is formed. Eventually all former republics with the exception of the Baltic states will enter the SNG.

December 25-26. Gorbachev resigns as president of the USSR.

APPENDIX 4. FIVE-YEAR PLANS, EQUALITY, AND ECONOMIC LEGISLATION

FIVE YEAR PLANS

PERIOD	NUMBER	PERIOD	NUMBER
1928-32	1	1961-65	7
1933-37	2	1966-70	8
1938-45 second world war	3	1971-75	9
1946-50	4	1976-80	10
1951-55	5	1981-85	11
1956-60	6	1986-90	12

EQUALITY

One of the most important official notions in the Soviet ideology was that the Soviet Union was an egalitarian society. However, the economic reforms at least from the end of the period 1985 - 1991 led to an increasing inequality of incomes. Thus the World Bank in its World Development Report 1996 (p. 69) wrote: "In Russia, where inequality rose sharply, the top quintile in 1993 received fully 20 percentage points more of total income than the top quintile in 1988, mainly because an explosive increase in the relative share of the very richest but also because of increasing wage dispersion. Income dispersion between sectors in Russia has also risen. The energy, banking, and related sectors all made major gains, with the biggest losers being agricultural workers, followed by workers in culture, education and health."

The impression emerged that something new and regrettable in this respect was happening by the end of the period 1985 -1991. Viktor Legler noted in *Novyí Mir* in April 1991 (*Uroki kooperatsii, lessons from co-operatives*) that again the emerging market economy took in many respects uncivilized forms. But this was as a whole unavoidable (*neizbezhno i neobkhodimo*).

Now it is of course difficult to estimate income distribution in the Soviet Union as compared with the situation in market economies. Samuelson and Nordhaus (1989, p.842) write "recent estimates of income distribution indicate that, except for the absence of a super-rich class, the income distribution in the Soviet Union and Eastern Europe shows a striking similarity to that in Western countries". Also "the privileges of the capitalist class have been replaced by generous benefits for the ruling party elites." Also Kornai (1992 pp.316 ff.) compares Gini coefficients for a number of countries. According to one estimate the Gini coefficient for Sweden in 1970 was 0.25 and for the Soviet Union in 1973 0.27. The Lorenz curves for the two countries look very much the same. As a matter of fact, the distribution of after-tax

money income in Sweden was, according Kornai, more equal than in the Soviet Union.

Hanson (2003 p.242) underlines that dispersion of money incomes underrates material inequality. The principle of material inequality was "to each according to her or his official rank and also place or residence". High official rank gave access to items often unobtainable to other people in a shortage economy. Moscow was better supplied than other agglomerations. The same is true for provincial capitals in relation to other provincial towns, and so on.

ECONOMIC LEGISLATION 1986 - 91. (USSR laws and decrees,if not otherwise indicated)

1986. Law on Individual Activity

1987. Law on State Enterprises

1988. Law on Co-operatives

1989. Decree on Leasing (arenda)

1990. Enterprise Law

1990. Russian Law on Enterprises and Entrepreneurial Activity. All kinds of enterprises were allowed (individual entrepreneurship, sole proprietorship, general partnership, limited partnership, joint stock partnership). The shares of closed joint stock companies could not be traded publicly. They became a means of insider privatisation. The shares of open such companies could be traded without restrictions.

1991. Russian Law on Foreign Investment.

1991. Presidential decree "On the Liberalisation of Foreign Economic Activity on the Territory of the Russian Federation".

Comments

Enterprises

The intentions behind legislation on state enterprises were gradually to give more independence from the branch ministries (vedomstva). The idea of workers' self-management was introduced.

Foreign investment

With a number of restrictions and prohibitions foreign enterprises were allowed to conduct business in the USSR.

(Åslund 1995 pp 223 ff)

Diversification

As is evident from the following table, the diversification and privatisation had not gone very far at the end of the 1985-1991 period.

Russian Employment by Ownership 1991

	Thousands	Percent of total
Total employed population	73,809	100.0
State sector employees	57,188	77.5
Leased enterprise employees	5,590	7.6
Joint stock company employees	1,068	1.4
Economic association employees	795	1.1
Social organisation employees	679	0.9
Joint venture employees	141	0.2
Collective farm workers	3,945	5.3
Co-operative workers	2,901	3.9
Individual labour	342	0.5
Private subsidiary agricultural workers	1,078	1.5
Private agricultural workers	83	0.1

Source: The World Bank. *Statistical Handbook of the Former USSR*. Washington D.C., 1994, p. 492.

Quoted from Åslund 1995 p. 224.

APPENDIX 5.

EXPLANATIONS

ORGANISATION

CPSU. Communist party of the Soviet Union.

Economic councils, *sovnarkhozy*. 1957 - 1965. Civilian industrial and building enterprises of other than purely local significance were placed under regional economic councils, resurrecting the name of regional economic institutions under war communism.

Enterprises. *Predpriyatya i o"bedineniya*. Enterprises and associations of enterprises (trusts). We use only the word enterprise.

Goskomstat. State statistical authority.

Gosplan. State planning commission.

Gospriem. State system for quality control.

Gossnab. State supply committee.

SEV, Comecon, Council of mutual economic assistance, (SEV - Soviet ekonomicheskoi Vzaimopomoshchi) 1949 - 91. A trading bloc essentially consisting of bilateral trade agreements between member states. Members: Albania to 1961, Bulgaria, Cuba, Czechoslovakia, German Democratic Republic (GDR) to 1990, Hungary, Mongolia, Poland, Romania, USSR, Vietnam.

PRODUCTION AND OUTPUT

Forces of production, *proizvoditel'nye sily*. In Marxist theory they are dynamic and consist of land, labour, capital, and technology, each of which is constantly changing in quantity and/or quality as a result of changes in population, discovery, innovation, education, and so on.

Relationship of production, *proizvodstvennye otnosheniya*. In Marxist theory they are static as being the definite relations into which humans enter in the course of production in their social life. These relations correspond to a definite state of development in their material productions. In capitalism these relations are defined by ownership (private) and wage system.

Measurement of aggregate output. There are a lot of statistical difficulties when comparing Soviet output with output in market economies. The Soviet Union and other socialist countries did not use the System of National Accounts (SNA). Their system was the Material Product System. The departure point of this system is a distinction between "productive" and "non-productive" activity. Gross output on the macro level - social product (*obshchestvennyy produkt*) and net output - national income (*natsionalny dokhod*), net material product (*chistii obshchestvennyy produkt*) refer only to the production sphere and ignore the output of the service sphere. The

assumption in Marxist political economy is that the service sphere does not generate value. Consumption of services is only a secondary distribution of national income. (Kornai 1992).

Consequently the production is divided into two categories *viz.*

class one or A - means of production;

class two or B - consumer goods.

Price formation up to 1990. Classical socialism.

In this context, an objective description is presented. Critical observations are left to the Soviet economists in our material.

In principle most prices were regulated. There were, however, some exceptions. Obviously the black economy was such an exception. It covered illegal activities such as resale of goods stolen from state enterprises, extortion, the running of prostitutes, and illegal distilling of vodka. Other examples are tuition by teachers and bribes to medical staff. Hanson notes that "by the time the Soviet Union collapsed, there was almost no service that was not susceptible to this kind of corruption." (p. 13)

Spare time repair was another "grey" area. Deliberate faulty construction details were an example. Such faults could be taken care of by state constructions workers moonlighting at a price.

Cultural products such a sculptures and paintings could be sold freely. The control was realized was by the necessary admission to the official unions of painters, writers, actors, or illustrators.

Household plots in the agricultural co-operatives were legal. They had to deliver part of their products to the state. The surplus could be sold on the kolkhoz markets where prices were not directly controlled and could fluctuate.

Hanson (op. cit. P.13) quotes estimates according to which in the 1970s and 1980s the sum of legal, semi-legal, and illegal activities could have amounted to around 10 percent of Soviet GDP. Thus around 90 percent of production was planned with determined prices. The problems that the pricing authorities had to meet have been analysed by Kornai (1992, pp. 149 ff.)

Thus in principle, every single producer price was determined officially by the price authorities, which did not have information on the production of all goods. Consequently their calculations were to a large extent based on information by the firm or a body superior. The most important principles for price determination were the following:

- Producer prices had to reflect the socially necessary costs. In practise the authority applied a kind of cost-plus principle. This meant that to the actual cost was added the firm's "normal" profit and other net-income payments to the

budget. The price calculations were based on average cost and not on marginal costs. The use of land and the use of capital was not counted as costs. The level of nominal wages was unrealistically low. The cost of imported goods was not reflected adequately due *inter alia* to the arbitrary exchange rates.

- Prices should encourage producers to perform specific tasks. Thus, for instance, fertilizers and machinery got low prices in order to encourage the use of modern technology.
- Prices should be stable. There was a fear of inflation.

Most of the principles outlined above were applied also to consumer prices. Two more principles could be added.

- Prices were determined in a way that did not reflect the demand of the population but in a way that was considered desirable.
- Prices should be used for the purpose of income distribution.

Price reforms in the USSR. As has been noted, prices should be stable. This meant that state-determined procurement prices sometimes had to be changed dramatically. For example, in 1954 and 1956 state procurement agricultural prices increased substantially. In comparison with 1952 (100) averaged procurement prices rose to 251 in 1956. The free co-operatives under perestroika could charge higher prices than other enterprises. Under Kosygin in 1965 there was also an attempt to price reform. Thus revision of wholesale prices implied that “normally working enterprises” would make a profit. The principle was a cost-plus-profit-mark-up basis and was implemented. There was no major revision until 1982. However, in practice capital came to be treated as a free good. (Hanson pp. 103 ff) With the impending collapse in 1991 there were substantial increases in prices. Uncontrolled prices rose rapidly, and barter trade expanded. (Nove pp. 413 ff.) Co-operatives from 1988 became a special case. They could charge prices set by themselves. Somewhat problematic was that the law allowed co-operatives to be formed attached to (*pri*) state enterprises. An enterprise could then buy services from such a co-operative and thus arrange for unmonitored circulation of cash. If the co-operative was run by the wife of the enterprise’s director or another close relative such transactions were facilitated. (Hanson 2002, pp. 207 ff.)

We have observed that the labour theory of value prevented a system of payments for natural resources. Such a system was introduced in The Russian republic in 1991 when this theory had been abandoned. (Sätre Åhlander pp.126 ff.).

OTHER CONCEPTS

Accumulation, *nakoplenie*. Use of the part of the incomes of an enterprise for expansion of production and increasing on this basis the output of goods and services.

Commercial calculation, self-financing, *khozraschet – khozyastvennyí raschet*. System of financing Soviet enterprises from their net earnings. Thus the enterprises are not evaluated on their gross output (*val*).

Forced growth. Concept used in Western studies of socialist economies.

“Forced” means that acceleration of tempo is forced upon the enterprises from above. The system tries to run faster than its capacity allows. Kornai (1992, p.197) summarizes the characteristics of the system as follows:

1. Very high investment and low consumption proportions.
2. A specific set of priorities.
3. Accelerating utilisation of the obvious potentials for extensive quantitative drive at the expense of quality.

The Beveridge curve (Kornai op.cit. p. 212) is also of interest in the context of forced growth. The curve is a graphical description between the level of unemployment in an economy and the level of vacancies. The horizontal scale measures labour surplus.

Indifference curve shows consumption bundles that give the consumer the same level of satisfaction. Income effect is the change of consumption that results when a price change moves the consumer to a higher or lower indifference curve. Substitution effect is the change in consumption that results when a price change moves the consumer along a given indifference curve to a point with a new marginal rate of substitution, which is the rate of which a consumer is willing to trade one good for another (cf. e.g. N. Gregory Mankiw, *Principles of Economics*, Harcourt College Publishers, Orlando 2001).

Money. In the Soviet system enterprises paid one another in non-cash (*beznalichnye*) or account roubles in the State Bank, as an offsetting alteration to the accounts of the enterprises involved. Cash roubles (*nalichnye*) were to pay wages and could not be used for other routine payments. Thus inflationary pressure could exist in one monetary circuit without spilling over to the other circuit.

Balances. Material, semi product, and product balances were important parts of the planning process in order to allocate priority products. The sources side of the balance included production, imports, and reduction of stocks. The other side dealt with uses of the sources – production use, exports, consumption by the population, and the increase of stocks.

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