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HWWA Discussion Paper

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Economic Ideas and Institutional Change: Evidence from Soviet Economic Discourse 1987-1991

ABSTRACT

In recent years, institutional and evolutionary economists have become increasingly aware that ideas play an important role in economic development. In the current literature, the problem is usually elaborated upon in purely theoretical terms. In the present paper it is argued that ideas are always also shaped by historical and cultural factors. Due to this historical and cultural specificity theoretical research must be supplemented by historical case studies. The paper analyses the shift in ideas that took place in Soviet economic thought between 1987 and 1991. This case study, it is argued, may contribute to our understanding of the links between ideas and institutions. More specifically, it sheds new light on the issue of whether the evolution of economic ideas is path-dependent, so that they change only incrementally, or whether their development takes place in a discontinuous way that can best be compared with revolutions.

Keywords: Economic Ideas, Philosophy of Science, Institutional Change, Historical Specificity, Soviet Union, Transition.

JEL classification: B 24, P 27

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1 Introduction

In recent years, institutionalist and evolutionary economists have become increasingly aware that cognition, that is, the way people make sense of their social environment, plays an important role in the process of institutional change.¹ As usually when a new problem attracts the attention of economists, the discussion focuses first on its methodological and theoretical aspects. I do not want to deny at all that such theoretical work is important to define the problem and its place in economic science. However, as I will argue in the following, I hold that in order to understand the interplay between scientific ideas, ideology and intellectual traditions in the process of institutional change, it is necessary to supplement theoretical analysis with historical case studies.

If “ideas matter” (Denzau and North 1994, 3) in the process of institutional change, the key question is: How can we find out how people in a given society perceive their social and economic environment? My basic idea, which I have developed in two methodological papers (Zweynert 2002 b; Zweynert 2005), is that the most promising way to answer this question is to analyse how the members of a society communicate about economic affairs. The present paper is an attempt to realise this methodological programme. My historical case-study of Russian economic discourse between 1987 and 1991 is based on an in-depth analysis of the major Soviet economic journals and three general newspapers and journals (*Novyi mir*, *Literaturnaia gazeta*, *Kommunist*) of the period between 1987 and 1991.²

There is little doubt that the evolution of “habits of thought” (Veblen), or “shared mental models” (Denzau and North) is strongly influenced by the cultural traditions of the society concerned. As culture for its part reaches far back into the history of a society, any study of the cognition of social reality inevitably encounters a problem that Geoffrey Hodgson (2001) aptly refers to as “historical specificity”. This does not mean, however, that it is useless to formulate general theories about the connection between cognition and institutional change, but historical specificity reminds us of the limits of “explanatory unifications in social science” (Hodgson 2001, 23) and explains why it is necessary to supplement general theorising by historical case studies.

1 There is now a growing specialised literature on the links between the cognition of social reality and institutional change (for an overview see the anthologies edited by Streit, Mummert and Kiwit 2000; and Egidi and Rizello 2004; as well as the monograph by Martens 2004).

2 Some of these sources have also been published in English translations in the journal *Problems of Economics* (now *Problems of Transition*). Where such translations exist, I refer to them, otherwise the translations are mine.

The aim of this paper is not only to illustrate the economic debates that have taken place in the last years of the Soviet Union. I also hope to contribute to the solution of a problem that has recently emerged in the theory of institutional change as a result of the reconsideration of ideas and ideology. This problem concerns the relation between the gradual and path-dependent evolution of mental images of social reality and sudden shifts in these images, which are not seldom caused by the emergence of new ideas within society, or with the import of new ideas from abroad.

In the next section I shall formulate the implications of this problem in theoretical terms. This will be followed by my working hypothesis in section three. In section four I will define my understanding of Soviet ideology and in section five I will briefly elaborate upon how the idea of *perestroika* related to Soviet dogma. Sections six to eight illustrate the early debates in the leading Soviet economic journal *Voprosy ekonomiki*, the inflow of liberal ideas and the eventual decline of Soviet ideology. In section nine I will try to answer the question whether the changes that took place in Russian economics between 1987 and 1991 were of a gradual or of a discontinuous nature.

2 The theoretical problem

As Stefano Fiori (2002) has shown in a remarkable paper,³ Douglass C. North's joint work with Arthur T. Denzau marks a potential break in his theory of institutional change. This theory is thoroughly gradualist in both outlook and scope. It is gradualist, because North, despite regularly emphasising the mutual dependency of formal and informal institutions, in the end clearly argues in favour of a priority of informal over formal constraints of human behaviour.⁴ At first glance, Denzau's and North's analysis fits in smoothly with North's gradualist vision of institutional change: The decisive feature of shared mental models is that they are deeply intertwined with culture and history.⁵ And because, once widely accepted, the dominating shared mental models in a

3 In this section I will mainly follow the lines of Fiori's argumentation.

4 This becomes evident from numerous passages in his writings, which read for example as follows: "Institutions typically change incrementally rather than in discontinuous fashion. How and why they change incrementally and why even discontinuous changes (such as revolution and conquest) are never completely discontinuous are a result of the imbeddedness of informal constraint in societies. Although formal rules may change overnight as the result of political or judicial decisions, informal constraints embodied in customs, traditions and codes of conduct are much more impervious to deliberate policies" (North 1990, 6).

5 According to Denzau and North, it is the "cultural heritage" that "provides a means of reducing the divergence in the mental models that people in a society have and also constitutes a means for the intergenerational transfer of unifying perceptions" (Denzau and North 1994, 15).

society produce economies of scale, their evolution is path-dependent (Denzau and North 1994, 22) and they usually change only incrementally.

Now if “institutions clearly are a reflection of the evolving mental models” (Denzau and North 1994, 22),⁶ and if the latter usually change only incrementally, how can such phenomena as revolutions and conquests be explained? In order to answer this question, the authors draw on Thomas S. Kuhn’s ([1962] 1970) theory of scientific revolutions. This seems to be a promising approach, for the “paradigms” that are basic to Kuhn’s theory, are nothing else but institutions: they are constraints imposed upon the members of a certain scientific community in order to shape human interaction within the group. As is well known, Kuhn distinguishes between periods of “normal science” and “scientific revolutions”. In periods of normal science, which he ([1962] 1970, 35-42) characterises also as “puzzle solving”, research is “based upon one or more past scientific achievements ... that some particular scientific community acknowledges for a time as supplying the foundation for its further practice”, and the increase of knowledge within the paradigm is a cumulative process. Periods of scientific revolutions, by contrast, are “non-cumulative developmental episodes, in which an older paradigm is replaced in whole or in part by an incompatible new one” (Kuhn [1962] 1970). According to Kuhn, the main reason why the replacement of the old paradigm by a new one takes place in the course of a revolutionary process is that the representatives of normal science are able to hold down challenges to the paradigm for a significantly long period after discoveries have been made that contradict the prevalent doctrine.⁷ This causes an ever growing tension that eventually is released in a revolution.⁸

Denzau and North closely follow Kuhn by distinguishing between a “normal learning period” (= normal science) and periods of “representational redescription” (= scientific revolutions). Therefore it is surprising that the introduction of such an anti-gradualist element as “representational redescription” does in no way alter their gradualist vision of institutional change:

6 This assumption is certainly highly problematic, but I am willing to accept it here as a working hypothesis.

7 “Normal science ... is predicated on the assumption that the scientific community knows what the world is like. Much of the success of the enterprise derives from the community’s willingness to defend that assumption, if necessary at considerable cost. Normal science, for example, often suppresses fundamental novelties because they are necessarily subversive of its basic commitments” (Kuhn [1962] 1973, 5).

8 Stressing the parallel between political and scientific revolutions, he underlines that “like the choice between competing political institutions, that between competing paradigms proves to be a choice between incompatible modes of community life” (Kuhn [1962] 1973, 92; emphasis added).

Normal ideology with its ideological scholars and purists may attempt to resist change, but we expect that ideologies gradually change due to the changing meanings of their terms and concepts in other models, as well as changing use in common parlance. New concepts that have become important parts of the climate of opinion, both to the intellectuals and to the population en masse, can also get brought into the set of ideas in an ideology, as the gradual accommodation of Darwinism suggests. (Denzau and North 1994, 25).

It is evident from this quotation that Denzau and North cope with the challenge of Kuhn's theory of scientific revolutions by implicitly altering his basic assumption: If the attempts of the representatives of "normal ideology" to hold down change are doomed to failure, then no significant tension can arise between the old and the new, and ideas must necessarily change gradually. In the world described in this quotation, revolutionary ideological change is simply impossible. Obviously, the assessment of the whole issue depends on this one assumption. My main critique of Denzau and North, however, is not that they provide an inadequate interpretation of Kuhn's theory of scientific revolutions. In my opinion, the key question is whether one can really apply a theory that is concerned with the change of *scientific* ideas to the evolution of *ideological* ideas.⁹

3 The working hypothesis

It is well known that Kuhn himself showed little sympathy for the attempts to apply his methodology to the social sciences (see e.g. Kuhn 1992). The decisive problem of these attempts is that in the social sciences political ideologies play a much greater role than in the natural sciences.¹⁰ As Joseph A. Schumpeter has convincingly argued, in the construction of theories the economist is necessarily guided by a certain "vision", by a "pre-analytic cognitive act that supplies the raw material for the analytical effort". And as this vision was "ideological almost by definition", he concluded that "there is a wide gate for ideology to enter into this process. In fact, it enters on the very ground floor, into the pre-analytic cognitive act ..." (Schumpeter 1967 [1954], 41-2).

9 Yet this is what the subtitle "Ideologies and Institutions" promises.

10 It has to be emphasised that Kuhn ([1962] 1970, 175) explicitly acknowledged that also in the natural sciences "constellation of beliefs, values, techniques, and so on shared by the members of a given community" are part of the ruling paradigm. Nevertheless, he insisted that the primary determinants of the outcome of a scientific episode are to be found within science, and hence are not due to external factors, such as political ideologies.

Yet what do we mean by saying that ideology is a necessary element of economic theories, and what role exactly does it play? For my argumentation it is of central importance to be aware that ideology always fulfils a double function. In the words of Warren J. Samuels:

Ideology ... provides definition of both systemic reality and values: it provides a set of preconceptions of what *is* and of what *ought* to be. ... [I]deology encompasses both valuational-political-normative judgments and the cognitive system of thought which channels and structures description. (Samuels 1977, 470).

This double function of ideology as something that helps people to structure sense perceptions and enables them to substantiate moral judgments is displayed both in science and in political ideologies. There is, however, an important difference with regard to the weighting of both these aspects. It seems to be justified to assume that in science the main function of ideology is to channel and structure perceptions, whereas the politician's perception of the environment is often directly guided by his value judgements and their normative implications. If we move from the natural sciences to the social science economics, political ideals necessarily come into play. This means that not only the role of ideology increases significantly, but also that the normative function of ideology gains importance over its descriptive function. Similarly, we can differentiate within economics itself: When we move from 'pure theory' towards ideas on economic policy at least as a general tendency¹¹ the function of ideology changes increasingly from its descriptive to its normative function.

These reflections on the dual role of ideology in economics are crucially important with regard to the issue of whether the evolution of ideas is path-dependent and gradual, or whether they develop discontinuously in a way that is best compared to revolutions: The more ideology comes into play in the first place, and the more it shifts from its descriptive to its normative functions, the less likely ideas are to change discontinuously. This is so, because this movement can also be described as a movement of decreasing rationality. According to Kuhn's theory, the scientist who has to make a choice between two competing sets of ideas will make a highly rational choice between them – although she is also partly influenced by "values" and "constellation of beliefs" (see above).¹² By

11 I am aware that it is often difficult to draw a clear border here, because sometimes even the 'purest' theory is an expression of a political ideal, and of course also economic policy can be analysed in a strictly theoretical manner.

12 In keeping with the economic theory of human behaviour proposed by Gary S. Becker (1976) and others, however, her choice will be significantly influenced by consideration of her career chances or, more generally, the constraints imposed upon her by the scientific community. As much as these constraints may make her decision less rational in view of scientific progress, they have nothing to do with her general Weltanschauung: The historical and cultural legacy of her society does not influence her choice or make it any more irrational.

contrast, as Schumpeter's use of the term "*pre-analytical* cognitive act" makes very clear, the choice of the economist between competing sets of ideas – albeit not being irrational, of course – is always significantly influenced by his general world view. If we now turn again from 'pure economic theory' to 'political economy' to ideas on economic policy-making, the choices individuals make between sets of ideas will be increasingly determined by their general *Weltanschauung*. Yet this *Weltanschauung* is not the result of a rational choice, but is closely connected with the individual's socialisation. And as this socialisation is strongly influenced by the cultural and religious traditions prevailing in a society, the evolution of general perceptions of the world can be assumed to be path-dependent and gradual.

This rough framework leads us to the following working hypothesis: Economic ideas, and especially ideas about economic policy, are located between the two poles of the natural sciences and political ideology. Hence, their evolution is determined both by a rational choice between competing sets of ideas, and by the general "habits of thoughts" or "belief systems" prevailing in the society concerned. As I have explained in the introduction, the fact that specific historical factors play an important role in this process makes it extremely difficult to theorise about it. As a first and much simplified approximation, however, the process of ideological change can be outlined as follows: When an economic and/or political ideology fails in a country, as in the Soviet Union, and has to be replaced by another one, usually ideas are imported from abroad which are hoped to lead out of the crises. This phenomenon can be compared with a paradigm shift and takes place within a relatively short period of time. Yet with time, the imported theory/ideology will gradually be re-interpreted according to the prevailing, historically and culturally determined belief systems. The degree to which this re-interpretation alters the original content of the imported theory/ideology depends mainly on two factors: First, on the degree to which the new set of ideas will fulfil the hopes connected with it and second, on the compatibility between the imported set of ideas and the prevailing habits of thought.

In the Soviet and Russian discourse on economic policy-making we may observe clearly how in a first phase Soviet economic ideology declined and was replaced with economic liberalism imported from the West. As liberalism did not fulfil the hopes placed in it, and as it was in sharp contrast to the prevailing intellectual traditions, in a second phase the Russian economic mind returned to ideas that were more compatible with the country's intellectual traditions. In the present paper I shall concentrate on the first of the two phases; the second phase will be dealt with in another paper.

4 What was Soviet Ideology?

Before analysing the reasons for the decline of Soviet ideology, I will explain how the term “Soviet ideology” is used in this paper. According to a common view, Soviet ideology rested on three pillars: On the pseudo-religious belief that Marxism-Leninism offered a ‘true’ interpretation of social reality, on democratic centralism (read: the dictatorship of the CPSU) as the guiding principle of political affairs, and on a centrally planned economy (see e.g. Shull 1992). If this characterisation of Soviet ideology was apt, the attempts to decentralize economic decision-making and to ease the ideological stranglehold of the Communist party that were undertaken in the 1960s would have to be seen as a renunciation of Soviet ideology, as the dawn of an ideological paradigm shift. The main problem with this interpretation of Soviet ideology is that throughout the *whole* history of the Soviet Union the terms “central planning” and “democratic centralism” underwent frequent re-interpretations which filled them with a wide range of meanings. Hence, if these were the central elements of Soviet ideology, it would be extremely difficult to define its content precisely.¹³

The political scientist Neil Robinson (1995, 20) has therefore suggested a different definition of Soviet ideology. He argues that the key elements of Soviet ideology were neither the planned economy nor ‘democratic centralism’, but rather a peculiar interpretation of history:

[T]he coherence in Soviet ideology derived from the idea of the telos of communism. As a part of the content of ideology, the concept of telos, the idea that the USSR was on a specific course of development, structured ideology because it shaped the party’s ontology.

In my opinion, it would be more precise not to speak of a Communist, but of a Soviet telos here. For Marxism was by far not the only source of the conviction that the Soviet Union was ahead of the Western countries on a historically pre-determined developmental path. Rather, its roots reach far back into the religious and intellectual history of the country. As I have argued in my study on 19th-century Russian economic thought (Zweynert 2002a),¹⁴ in Russian intellectual history a holistic vision of a ‘wholesome society’ can be detected which was in potential conflict with the Western European pat-

13 This problem becomes evident in the following statement of John A. Armstrong (1978, 50): “There is, however, another side to the unavowed flexibility of Marxist-Leninist doctrine. Because the basic tenets are actually subject to revision, there is no dogma in the true sense of the word. The dominant element in the Communist Party determines what is orthodox; those who cling to another interpretation, even one undisputed in earlier years, become heretics, and no exegetical appeal to the ‘classics’ can save them.”

14 For a short summary of the central theses of my book see Zweynert 2004a.

terns of life and thought (see also Buss 2003). Without being able to repeat my arguments here, I want to stress that Marxism proved so fruitful in Russia because it was highly compatible with the Russian intellectual traditions shaped by the legacy of Orthodox Christianity.¹⁵

In my opinion, the teleological interpretation of history as a path to the wholesome society and its role in Soviet ideology can best be understood in the terms of Imre Lakatos' ([1965] 1974) theory of scientific research programmes. These "research programmes" consist of two parts: Some very general theoretical hypotheses form the "hard core". The other part, the so-called "protective belt", consists of auxiliary hypotheses that supplement the hard core, and of assumptions that are basic to the initial conditions and observational hypothesis. The decisive point in Lakatos' theory is that the hard core of the programme "is 'irrefutable' by the methodological decision of its protagonists" (Lakatos 1974, 135), so that when anomalies are detected, this cannot be explained by the incorrectness of the hard core, but the cause must be searched for in the protective belt. According to this theory, the interpretation of history as a path to the holistic society, can be interpreted as the hard core of the Soviet ideological programme, for it was – throughout the whole history of the Soviet Union up to the late 1980s – excluded from ideological discourse (see Urban 1985, 217-18). The issue of the right means to cover the distance from the 'fragmented' or 'alienated' world to the wholesome society could be debated – and was indeed discussed constantly throughout Soviet history –, but the idea that this was the direction world history was taking and that hence the Soviet Union was on the right historical track, could not.¹⁶ To put it in Lakatos' terms, the centralised economy and 'democratic centralism' were the decisive elements of the protective belt of Soviet ideology. The growing contradictions between empirical reality and the official dogma led especially from the 1950s on to a continuous discussion about the right level of centralism both in the economic and the political spheres of society, in the course of which these terms underwent significant re-interpretation. In the 1960s and in the second half of the 1980s, these debates resulted in attempts at economic decentralisation within the system of planned economy.

15 In this respect I disagree with Pekka Sutela (1991, 130), who holds that "the Kautsky-Lenin single factory image of the socialist economy lies at the roots of Soviet economic thought". In my opinion this image was rather a modern version of the age-old Russian dream of the wholesome society.

16 However, this hard core of the Soviet ideological programme was not only defended on pain of penalties. Since it related to the future, it could not be exposed to empirical verification: All hints at the gap between ideal and reality could always be rejected by the argument that reality was necessarily imperfect but that society was at least moving in the right direction.

But did such debates and reforms not directly contradict the Soviet telos, according to which history was characterised by an ever growing homogeneity of society? They certainly did, but here another element of the protective belt came to the rescue of the hard core of official ideology: the dialectic method. According to this, all development can be attributed to the movement of antipodal forces. Applied to the developmental laws this means that under certain circumstances decentralisation could be regarded as the right means to stimulate centralisation.¹⁷ As we will see in the following, this was indeed the line of argumentation of the adherents of *perestroika*.

5 *Perestroika* and the Soviet Telos

At its June plenum of 1987, the Central Committee of the CPSU declared the economy to be at the “front line of *perestroika*” (Central Committee 1987, 72). In his speech Mikhail Gorbachev outlined his plan for a “fundamental reconstruction of economic management”. He motivated the necessity of radical economic reforms with the increasing scientific and technical backwardness of the Soviet Union compared to the Western industrial countries: While the latter had already “begun a structural *perestroika* of the economy, ... in our country scientific-technical progress has been frozen in” (Gorbachev 1987, 27). The cause of this phenomenon had already been outlined in a “Project of a new redaction” of the party manifesto (1985): Not only in capitalist, also in socialist society there could emerge contradictions between productive forces and the relations of production. Other than in capitalist societies, however, in socialism these contradictions were of a non-antagonistic nature, and hence could be solved by means of political reforms. The dogma that Soviet society had already reached the stage of full accordance between the productive forces and the relations of production, first formulated in the 1940s, had to be given up. As Soviet society was still on the road towards communism, the productive forces were still in motion. Yet the rigorous organisation of the relations of production had held back their evolution.

In order to overcome stagnation, the General Secretary of the CPSU (1987, 30-1) called for a “transition from mainly administrative to mainly economic methods of management at all levels, for a broad democratisation of management, an all-embracing activation of the human factor”¹⁸. This included the exploitation of “commodity-monetary re-

17 Exactly this had already been the line of argument of the reformers of the 1960s (see Sutela 1991, 60).

18 Deeply influenced by the general intellectual climate of this period, the economists who were later to play a key figure in *perestroika*, Leonid I. Abalkin (born in 1930), Abel' G. Aganbegian (1932), and Nikolai Ia. Petrakov (1937) from the 1960s on advocated a “humanisation” of economic life. The fol-

lations” and the implementation of “economic contention [*sorevnovanie*]”.¹⁹ In his speech at the June plenum of 1987 Gorbachev (1987, 29) himself raised the question of whether the economic programme of *perestroika* marked a break with Soviet ideology, and there is no reason to doubt the seriousness of his answer:

[W]hat we are already doing and what we intend to do should enhance socialism, it should remove everything that stands in the way of the development of socialism and checks its progress, open up its enormous potential on behalf of the people, bring into action all the advantages of our social organisation [*stroï*], and give socialism a modern face.

Obviously, Gorbachev did not question the conviction that the country was on the road to communism. Yet by admitting that over-centralisation in the past had reduced the speed of progress, he challenged a dogma that was dangerously close to the hard core of Soviet ideology: the infallibility of the Communist Party. His constant references to Lenin must be seen in this context. They were not merely attempts to justify controversial reforms, but a protective measure in order to defend the fundamentals of Soviet ideology.²⁰

However, in answering the question of whether the economic programme of *perestroika* challenged Soviet ideology, we need to distinguish two different levels: the intentional and the factual. The ideology of *perestroika* clearly did not intend a break with the Soviet telos. At the factual level, however, the reform programme bore an irresolvable contradiction: According to the Soviet telos, all aspects of social life were perceived as

lowing quotation from Leonid Abalkin’s book *The Economic Mechanism of the Developed Socialist Society from 1973* (216-6, my italics) is a typical example : “The present stage of social development is characterised by a strong increase of the role of the so-called human factor. Our time is the time of creators, a time, in which the role of creative energy, moral attributes and other refined instruments of the human soul is becoming particularly important. The implementation of a scientific organisation of labour, the realisation of a most rigorous labour regime, the exploitation of the achievements of the scientific-technical revolution – all this requires new habits and traditions, deep changes in the social psychology of the people”. The theory of the increasing importance of the human factor became official dogma under Gorbachev: In September 1986 a sensational article by the famous Soviet sociologist Tatiana Zaslavskaja (born in 1927) on “The Human Factor in the Development of the Economy and Social Justice” was published in the party organ *Kommunist*.

19 More specifically, the programme of ‘radical reforms’ consisted of three basic elements. The law on co-operatives and that on state enterprises aimed at re-establishing some private business (albeit to a rather limited extent) and at enhancing the independence of the publicly owned enterprises from the centre. Tightly connected with the growing autonomy of the enterprises, the reform of central planning aimed at implementing a new co-ordination mechanism between the central plan and the economic activity of the production units. The idea was that the centre would still guide and direct economic activity, but would cease to intervene in the every-day business of the enterprises. The third element was a radical price reform. It is crucial to understand that this ‘radical’ reform did not mean any more than that a wide range of administrated prices should be revised by the responsible state bodies.

20 As other authors have already dealt with the role of Lenin’s legacy and the programme of NEP in particular (see e.g. Bandelin 2002), I will not treat this issue here.

subordinated to the goal of the quickest possible development towards the wholesome society. Also, the economy was seen as something passive that could be organised in accordance to the necessities of historical development, of which the Communist party was thought to have full knowledge.

The idea of *perestroika* reflected this instrumental approach towards economic problems: Gorbachev and his economic advisors did not have the slightest doubt that the party was able to bring the conditions of production into accordance with the productive forces.²¹ This conviction went hand in hand with the belief that elements of the market economy could be freely combined with the planned economy. Whatever the intention, practical experience was soon to show that this principle was wrong. Indeed, the discussion on economic reforms between 1987 and 1991 is a story of how the omnipotence of the Communist Party regarding economic activity was increasingly called into question, until finally the existence of economic laws that were independent from political considerations had to be acknowledged.

6 Early debates in the *Voprosy ekonomiki*

In the second half of the 1980s Soviet science was still a true servant of politics, and consequently the party theses on the “fundamental reconstruction of economic management” dictated the issues to be discussed by the economists: What was the nature of the basic contradictions in socialism and how could they be resolved? As Russia seemed to have fallen behind in technical progress, what lessons could be drawn from recent developments in the capitalist countries? What was the right relationship between administrative and economic methods of management?

6.1 *The Economic Contradictions of Socialism*

Immediately after the “Project of a New Redaction of the Programme of the CPSU” had been published, a discussion on “The Economic Contradictions of Socialism” was set off in the 1986 January issue of the leading Soviet economic journal *Voprosy ekonomiki* [Issues of Economics].²² In the course of the debate, which lasted until May 1987, not

21 Pekka Sutela and Vladimir Mau (1998, 36) aptly speak of an „objectivity illusion“ that was typical for the key figures behind perestroika.

22 The debate was opened by a remarkable article by Valerii Kulikov on “The Contradictions of the Socialist Economic System as a Source of its Development”. The author started from the assumption that “all contradictions in an economic system originate from that between the productive forces and the

less than twenty-two articles on this topic were published. On the one hand the intensity with which the scientific community made use of the possibility to exchange views on an item that had been taboo for decades clearly showed their eagerness to overcome the ideological barriers of the past. On the other hand, the discussion also gave sad evidence that, as Leonid Abalkin (1987, 5), one of the initiators of the debate, wrote in a disappointed resume, “games with words and definitions” had become the main occupation of the Soviet economists. In this sense the debate on the inherent contradictions clearly confirmed, as A.I. Anchishkin, one of the spokesmen of *perestroika* within Soviet economic science, had put it in 1987, “that economic science ... proved not to be ready to answer the questions that were posed by the XXVII Congress, the January Plenum and by the whole of our development” (quoted after Sutela 1991, 3).

Nevertheless, in the course of this debate the suspicion was voiced for the first time that the problems of the Soviet economy might have their roots in a conflict between its bureaucratic organisation and some ‘natural’ economic laws.²³ One author even launched an attack on the heart of the Soviet telos: “It is indispensable to overcome the metaphysical notion of the nature of development, the idea that in its essence it is a process of overcoming contradictions” (Rakitskii 1987, 22).²⁴ This was indeed an attack on the holiest of the holy, and – for that – an extremely untypical statement in 1987.²⁵

conditions of production” (Kulikov 1986, 126). Yet this – from the point of view of Marxist economics – central problem of economic theory had been banned from Soviet scientific discussions in the 1930s and ‘40s, when it was officially declared that “with the victory of the socialist revolution, with the victory of socialism, the contradictions between the productive forces and the conditions of production have been eliminated and brought into full accord” (Kulikov 1986, 127. The author here quotes an article that was published in the journal *Pod znamenem marksizma* [Under the Banner of Marxism] in 1940). As another participant of the discussion remarked, it was this dogmatic certainty which had hindered the timely adaptation of the conditions of production, so that the outmoded economic mechanism had turned into an obstacle to economic development (Manevich 1986, 23).

23 For example, Yurii Pakhomov and Vitalii Vrublevskii (1987, 90) argued with reference to the experience of the 1970s and ‘80s that “if economic laws are ignored, they take ‘revenge’ – with disastrous socio-economic consequences” (see similar Borozdin 1986, 53).

24 In view of these statements, Abalkin had good reason to warn in his concluding contribution against drawing “one-sided” conclusions about the negative aspects of the planned economy and the necessity of de-centralisation. For according to the laws of dialectics, de-centralisation always had to be supplemented by a certain degree of centralisation (Abalkin 1987, 10).

25 Rakitskii’s article provoked a sharp conservative reaction by Kaisin Khubiev (1988), who explicitly defended the Stalinist textbook *Politicheskaia ekonomia: Uchebnik* [Political Economy: A Textbook] of 1954 against Rakitskii’s attack. On the editorial history of the 1954 textbook see Sutela 1991, 15-17.

6.2 Price formation

The ambition to turn from philosophical debates to the country's own, specific economic problems manifested itself in a discussion on "The Complex Solution of the Problem of Planned Price Formation"²⁶ that was opened by a contribution of one of the leading economists of *perestroika*, Nikolai Petrakov in the first number of *Voprosy ekonomiki* in 1987. The way in which he (1987, 47) introduced ideological novelties was typical of the first two years of *perestroika*: Marx had already argued that the social wants (= demand) determined the amount of social work that should be spent on the production of a product. Hence, the Soviet economists who had ignored the demand side could be accused of having dissented from the true dogma (see also Gatovskii 1987, 16; Borozdin 1987, 64). Nevertheless, the discussion was still about the "perfection of the calculation of planned production expenditures" (Petrakov 1987, 51), not about a transition to market prices.²⁷ It was therefore rather misleading that economists frequently laid claim to the attribute "radical", even though at the time they still believed that adequate administrative measures might achieve a more rational allocation of the production factors.

Some authors, however, did at least indicate the consequences of a demand-based price formation. One discussant, for example, stated clearly that in a planned economy the prices could simply not fulfil their most important task – to "exclude the less effective producers from the sphere of the creation of social products" (Evremov 1987, 52). And another, harshly criticising the warning of a conservative colleague that liberalisation of retail prices would endanger the equilibrium of the plan, bluntly accused him of being more concerned about the balance of the plan than about market equilibrium (Borozdin 1987, 69).

The discussion on price formation provoked sharp reactions from the conservative camp. One author in no uncertain terms defended the dogma that prices in socialism reflected nothing but "socially necessary labour time"; he consequently perceived the whole debate as "invented" (Kondrashev 1988, 96). Hardly surprisingly, especially GOSPLAN, making full use of its own Journal *Planovoe khoziaistvo* [Planned Economy], fiercely resisted a reform of price formation. And it was hardly coincidence that exactly at the moment when the debate on prices began in the then 'progressive' *Voprosy ekonomiki*, Anatolii Deriabin (1987, 81), who at the time was director of the In-

26 „Kompleksnoe reshenie problem planovogo tsenoobrazovaniia“.

27 Instead of making concrete proposals some authors formulated such vague ethical demands as the "democratisation of the order of price formation" (Komin 1987, 114).

stitute of Economics of the Soviet Academy of Sciences, appealed for “preserving the achievements of the Soviet price system”.

6.3 *The New Official Textbook of Political Economy*

The economic debates received a new stimulus, when in the February number of 1988 the new official textbook of political economy, written by a team of authors under direction of Vadim A. Medved'ev in close co-operation with Leonid Abalkin and Abel Aganbegian, was introduced.²⁸ At the very beginning of this 700-page volume the reader learns that

[t]housands upon thousands of facts and observations have inspired the human mind to the idea that also production and the people's prosperity are determined by a social factor, by some far-reaching laws of economic development, which are, however, hidden from direct observation. In order to elucidate these laws, both pure observation and mere description are insufficient. This is the task of science, which alone is able to penetrate into the essence of the evolving processes and to reveal the moving forces. (team of authors 1988, 21).

If the main task of economics as a science was to discover the laws governing the development of society, the negation of such laws could be “equated with a negation of science, its ability to discover behind the chaos of phenomena their coherence and logic” (team of authors 1988, 60). For all their ‘progressiveness’ the authors were still absolutely convinced that history was a “movement towards socialism” or in other words that social development was always characterised by the “growing wholesomeness” of society (team of authors 1988, 731).

Now it would definitely be a mistake to classify the book as conservative. Despite its emphatic defence of the hard core of Soviet ideology, it broke with a number of the dogmas forming its protective belt. As “[p]ractice has shown that the implementation of public property itself does not at all ... prevent the appearance of subjectivism and voluntarism in society” (team of authors 1988, 65)”, the issue of “socialist property” was paid special attention. And it was certainly no coincidence that in the same issue of the *Voprosy ekonomiki* in which the structure of the new textbook had been outlined, a discussion on the “Problem of Socialist Property” was set off.

²⁸ According to Sutela (1991, 113), “Medvedev was the nominal head of the team, while Abalkin and Abel Aganbegian reportedly did most of the work”.

6.4 Socialist Property

In the bold article opening this debate, Gennadii Gorlanov equated the institution of public property with “red-tapism” [*biurokratizm*], which had led to a deep-going alienation within socialism. The institution of state property, Gorlanov (1987, 37) argued, had led to

the actual expropriation of society as a whole, the great majority of its members, and to the appropriation of these resources by a variety of state institutions (ministries, regional administrative organs and other authorities).

This argument was vehemently supported by Gavriil Popov, who in May 1988 had become chief editor of the *Voprosy ekonomiki*:

[I]n practice, the workers’ sense of ownership [*chustvo khoziaina*] did not sufficiently compensate the abolished personal interest. There emerged, therefore, a situation, in which socialist property did not have a real owner – neither in the person of the worker, nor in that of the apparatus. This became the basic contradiction of the new organisational structure [*stroii*] (Popov 1988, 4).

Yet if state property was the main cause of the contradictions in socialist society, the attempts to carry out far-reaching economic reforms without basically changing the structure of property, had been an “illusion” (Kulikov 1988, 53). The majority of Soviet economists, however, still believed that “socialist alienation” could be overcome by a reform of socialist property that would transform “all social estates and groups, working collectives, territorial associations of workers, every person into real owners of means and results of working activity” (Abalkin 1989, 82; see also Voblenko and Prikhodko 1989, 110). Yet the anthropocentric demand to implement a “system of all-people [*obshchenarodnyi*] property” that would “not oppress the personality of the worker” (Abalkin 1989, 85), were usually not accompanied by concrete proposals how to achieve these goals.

By the second half of 1988 the contradictions between such demands and the collapse of the Soviet economy were hard to ignore. However, before dealing with the final breakdown of Soviet economic ideology, we shall look at how the ideology that soon was to replace the Marxist dogma, entered Soviet economic discourse.

7 The Inflow of Liberal Ideas

Liberal ideas were introduced into the Soviet economic discourse through two channels: First, through a discussion on the structural changes in the capitalist economies in the academic journal *Mirovaia ekonomika i mezhdunarodnye otnosheniia* [World Economy and International Relations, in the following *MEMO*], and second, through the liberal general-interest newspapers and journals like *Literaturnaya gazeta* and *Novyj mir*.

7.1 The MEMO-Debate on the Developmental Tendencies in the Capitalist Countries

MEMO was and still is published by the “Institute of World Economy” of the Soviet (now Russian) Academy of Sciences. Established in 1956, the year that marks the beginning of the thaw period, in the Brezhnev years it provided a niche for scholars who were more or less at odds with official Soviet economics.²⁹ The main task of the institute, to observe the economic development in the capitalist countries, offered the opportunity to deal with topics and literature that otherwise were strictly taboo.³⁰ In October 1986 the pages of *MEMO* became the scene of a discussion on “State Regulation and Private Business in the Capitalist Countries: The Evolution of Mutual Relations”, which was to last two and a half years. In a short prologue Viktor Kuznetsov defined the problem to be discussed: Since the early 1980s a wave of privatisation could be observed in the Western world, which not only contradicted Marx’s forecast of an ever-growing concentration of production, but which obviously had enabled these countries to restructure their economies very effectively and to revive economic growth.³¹ In unmistakable fashion he (1986, 87) demanded that the Soviet economists should not “shirk the new facts” and that “it would be a mistake to force these facts into theoretical schemes which are able to explain them only partially or in an unsatisfying manner”.

29 On the history of the institute see the series of articles by P. Cherkasov (2002a, 2002 b, 2003a, 2003b) and the voluminous monograph by the same author (2004). How tightly the establishment of the institute was connected with the thaw period clearly emanates from the opening speech of the funding director of IMEMO A.A. Arzumian: “As is well known, the personality cult has done much damage to scientific work. There was a time when our scientists saw their task only in repeating and popularising Stalin’s own statements. As a result, research was weakened considerably” (quoted by Cherkasov 2001a, 90).

30 As an excellent command of foreign languages was required for employment at the Institute of World Economy, its members were not only much more familiar with the Western economic systems, but also with Western economic literature than the average member of the Academy of Sciences.

31 As Vladimir Shkredov (1988, 28) noted in the official Party organ *Kommunist*, capitalism had received a “second wind” by adapting to the needs of the “scientific-technical” revolution. At the same time, in the Soviet Union both structural change and growth had been disrupted.

In the course of this debate the central principles of Soviet ideology came under fire from all sides for the first time. To those who believed in the correctness of Marx's prognosis, and who until the end of the 1970s had felt themselves confirmed by the increasing state intervention in the Western capitalist countries, the wave of re-privatisation obviously caused – as one of the liberal participants of the debate put it – “theoretical discomfort” (Kapeliushnikov 1987, 71). The controversy centred around the issue of whether re-privatisation was to be seen as a short-term phenomenon reflecting a neo-conservative trend, or as having ‘objective’ reasons inherent in the capitalist economic system.³² The majority of the *MEMO* authors tended towards the assumption that re-privatisation was not a result of fashion. Rather, they understood it as “the most natural” (Osadchaya 1986, 101; see also Kollontai 1987, 82) solution to the problems of capitalism that had been caused by the full employment policy of the 1970s. Quite on the contrary, Yakov Pevzner (1987, 60) argued, “the previous call for nationalisation was of a temporary character and caused by fashion, whereas the current reversal is based on a deeper assessment of reality ...”. Challenges of this kind did not remain unanswered by the conservative camp. A number of authors explicitly denied the fact that in the Western countries massive re-privatisation had taken place (see Shapiro 1987; Mochernyi 1987), or emphasised its temporary character (Pan'kov 1987, 76; see also Gnatovskaya 1987).

A discussion of the structural changes in the Western economies had the inestimable advantage that the problems of the Soviet economy could be elaborated under the disguise of a critique of Western “state monopolistic” capitalism. This becomes especially clear in Viktor Studentsov's article on “Bourgeois Nationalisation and Privatisation in the Mechanism of State-Monopolistic Capitalism” that opened up the debate. The author turned directly against one of the central pillars of perestroika: It had to be recognized, Studentsov argued, that even self-financing of the state enterprises was very unlikely to put an end to permanent state intervention, because it was “unrealistic” to hope that this would diminish political interference into the nationalised sector (Studentsov 1986, 93). In his preliminary résumé of the discussion, published in the 1989 January number of *MEMO*, the same author (1989, 16) gave a clear answer to the question “political power or economic law?” that had first been indicated in the context of the debate about the contradictions of socialism: State regulation “is effective only when

32 Kapeliushnikov, who, incidentally, is regarded as a pioneer of New Institutional Economics in Russia, answered this question in a way that according to the above-mentioned new textbook of political economy (published one year later) would have had to be classified as “unscientific”: He argued that the inclusion of observable phenomena into “general schemes” was not the main task of the economist, since it would be much more productive to deal with the specific question of the economic incentives provided by different organisational forms. (Kapeliushnikov 1987, 71)

it corrects, but by no means ignores or spurns the motives of the market agents. (...) If state measures contradict the interests of the economic agents, the latter either ignore them or search for ways of avoidance”.

7.2 *The Debates in the General-Interest Press*

In order to understand the difference between the discussion in the general-interest journals and newspapers on the one hand and scientific economic discourse on the other, one has to take into account that political economy was one of the most ideologised academic disciplines. Therefore it was unlikely to attract oppositionally-minded students.³³ And those who disagreed with the official doctrine, were extremely unlikely to make a successful career for themselves at an economic faculty. This explains why in journals like *Novyi mir* and newspapers like *Literaturnaya gazeta* economic issues were discussed in a much more radical manner than in the mainstream economic journals – indeed *MEMO* can be located somewhere between the two.

As early as in May 1987, that is on the eve of the June plenum, a sensational letter to the editor was published in the weekly journal *Novyi mir*³⁴. Under the provocative title “Where are the *Pirogi* meatier?” and needing little more than two pages, Larisa Popkova-Piiasheva,³⁵ who held a PhD in economics,³⁶ refuted all the ideological pillars on which the concept of *perestroika* rested. The idea that the Soviet Union had been excluded from world-wide technological and economic change had already been indicated by a number of authors in the *MEMO* debate. Popkova did little more than to formulate this idea without any hesitations:

I have a certain amount of experience studying the ‘third path’ along which West European social democrats have tried to lead their countries in the post-war decades. The ‘social democratic decade’ has most graphically confirmed Lenin’s conviction that there is no third path. One cannot be a little pregnant.³⁷ Either the plan or the market, either the directive or competition. (Popkova [1987] 1988, 45).

33 Sutela and Mau (1998, 37) even speak of “adverse selection into higher education in the social sciences”.

34 Already in the second half of the 1950s and in the 1960s *Novyi mir* had been by far the most liberal Soviet journal and had been regularly used by economists to launch reform proposals (see Sutela 1991, 74-5).

35 Popkova-Piiasheva published her articles under the names Popkova, Piiasheva and sometimes also Popkova-Piiasheva. This has occasionally caused confusion: One of her critics (Veber 1988) tried hard to bring out the fine differences between the views held by Popkova and by Piiasheva.

36 She herself drew attention to this fact by signing the letter with “Larisa Popkova, Dr. of Economics”.

37 Among the fierce reactions from the conservative camp there was an article with the remarkable title “Can’t one, nevertheless, become ‘a little bit pregnant’?” (Pozdniakov 1987).

Yet even where ‘third paths’ were practised, as in some of the socialist countries, it could be observed: “Where there is more market, the *pirogi* are meatier.” Consequently, the Soviet Union had been on the wrong historical track, and capitalism, which had been ‘artificially’ disabled not only in the Soviet Union, but also in the social-democratic post-war period, had not even reached full bloom yet:

Both Western socialists and our commodityists believe that the age of the pure market economy belongs irrevocably to the past. But I sometimes think that the Western world is still merely on its threshold, at the very beginning of the road. Free enterprise was for a long time stifled by the vestiges of feudalism and the activity of utopians of every ilk, as a result of which the twentieth century proved to be so bloody. It was stifled, but it seems to me that it was not smothered, and that it has a serious future whether we like it or not. We must look the realities straight in the eye (Popkova [1987] 1988, 48).³⁸

It is a fine irony of history that Larissa Piiasheva’s and Boris Pinsker’s book *Economic Neo-Conservatism: Theory and International Practice* (1988) was published in the book series “Critique of Bourgeois Ideology and Revisionism”. For what was in fact criticised in a remarkable enumeration were “national socialism”, “social-reformism”, “German social market economy”, as well as all other forms of social organisation that constrained full economic freedom (Piiasheva and Pinsker 1988, 4).

In a number of articles published between 1988 and 1990 Popkova-Piiasheva and her comrade-in-arms Pinsker demanded radical economic reforms and drew a bright picture of Russia’s capitalist future:

The expulsion of the weak and little effective producers guarantees a sharp and quick increase in labour productivity ... The resources for the modernisation of the tool and engine construction are released. And this will not be accompanied by a decline of the production of consumer goods. Quite on the contrary. There will be a very quick saturation of products for the people. (Pinsker and Piyasheva 1989, 186).

Part of this rosy picture was also that “someone will, for example, print and edit literature on economic liberalism – books of authors like F. Hayek and M. Friedman and the textbook by Paul Samuelson” (Piiasheva 1990, 10).³⁹ The political recommendations that followed from this attitude were concretised by Pinsker in 1990:

Therefore the simultaneous liberalisation of all prices and massive privatisation, i.e. the forced release of 60-70 per cent of the production property [proizvoditel’naya sobstvennost’]

38 Her close co-operator Boris Pinsker (1989, 187; translation after Yanovich 1991, 135) formulated the same idea as follows: “In the mid-1970s the old verdict concerning the deepening general crisis of capitalism became justified. However, the crisis was by no means generated by the anarchy of competition but by the growth of state expenditures and the increasing role of the state in social and economic life.”

39 She seemed not to be informed that an – albeit much abbreviated – translation of Samuelson’s *Economics* had been published in the Soviet Union in 1964 (see Sutela and Mau 1998, 72).

in the first months of reforms is the only chance of improvement with minimal danger for the social and political equilibrium (Pinsker 1990).⁴⁰

Popkova-Piiasheva and Pinsker's central theses regarding the principle incompatibility between the market and the plan lay at the heart of the liberal discourse in the general-interest journals (see e.g. Levikov 1988; Selyunin 1989, 172; Selyunin 1990). In an article on "Advances and Debts" that was published in June 1987, Nikolai Shmelev even argued that the violation of economic laws "is just as impermissible as the violation of the laws of the Chernobyl nuclear reactor" (Shmelev 1987 [1988], 40). It is interesting that in his attack on the dogma of full employment Shmelev referred to Milton Friedman's concept of the "natural rate of unemployment", but interpreted it wrongly as the number of those "who are seeking to change jobs" (Shmelev 1987 [1988], 21).⁴¹ His article, which was as sensational as Popkova-Piiasheva's letter to the editor, is also a striking example of how again and again Marxist terminology crept into the writings of the early Russian neo-liberals: Shmelev argued that a "relatively small reserve army of labour" was necessary in order to raise labour efficiency.

8 The decline of Soviet ideology

In the years 1989 and 1990 three factors finally paved the way to the decline of Soviet ideology: the increasing symptoms of crisis within the Soviet economy, the influence of Western neo-liberal ideas and the peaceful revolutions in the Central European countries and in the GDR. In 1989 it eventually became clear that *perestroika* had not fulfilled its promise to raise the standard of living of the population.⁴² Severe shortages of consumer goods as well as other performance problems led to the implementation of emergency measures: Some administrative controls were re-established, the state augmented its power over consumer prices and wages, and an unsuccessful attempt was made to tighten financial discipline. The economic decline clearly confirmed the supposition expressed time and again by liberal economists, namely that the plan and the market were incompatible. And especially the re-introduction of administrative controls

40 As Piiasheva-Popkova added in a "Prognosis of an Optimist", the transition to the market would not last more than three years, and inflation would not go beyond a tolerable level (Piiasheva 1990).

41 This is the definition of frictional unemployment, only forming a part of the NAIRU. Another author, S. Ershov, in an article, published in 1989 in the *Literaturnaya gazeta*, referred to the concept of the NAIRU when warning against full employment-policy (Ershov 1989, 11).

42 According to the CIA (1990), in the years 1986, 1987, and 1988 the Soviet Union had seen a modest growth in GDP and even a significant improvement in labour productivity. In 1989, however, both indicators turned negative.

raised the apprehension that *perestroika* would share the fate of the Kosygin-reforms of the 1960s (see e.g. Shmelev 1990, 29).

As mentioned above, a special chapter in the new textbook of 1988 had been devoted to the “socialist market”. This subject was first discussed in the *Voprosy ekonomiki* in July of the same year: In a rather conservative essay Aleksei Emel’ianov (1988) emphasised that market elements always had to be subordinated to the institutions of central planning. Emelianov’s paper received much unfavourable comment in two articles in *MEMO*, the authors of which already did without the adjective ‘socialist’ when discussing the market: In a contribution on “New Thinking and the Necessity of New Approaches in Political Economy”, Iakov Pevzner (1988, 15) forecasted that “it will take not a long time before the necessity of the market mechanism will become commonplace [*azbuchnaya istina*]” and Viktor Sheinis (1988, 16) even recommended the market as “one of the greatest achievements of human civilisation”. In the *Voprosy ekonomiki*, however, this issue remained in the shadow of the debates on socialist property and red-tapism (early contributions are Rakitskii 1988; Bunich 1988) until Leonid Abalkin set it on the agenda again in July 1989. In the course of this debate it eventually became clear that, as Al’bert Ryvkin (1989, 130) remarked in the January number of the *Voprosy ekonomiki*, in Soviet economics there existed no longer “a uniform theory, on which all economists agree”. One year before, Viktor Sheinis had already called for a “new general theoretical paradigm” which would allow to see the world “as it is, to imagine how it might become tomorrow, and to acknowledge how it will certainly not become either tomorrow, or the day after tomorrow” (Sheinis 1988, 15). As indicated in this quotation, the decisive reason for the growing divergence of theoretical views and political recommendations lay in the different possible interpretations of the course of history. This was summed up most aptly by Valerii Radaev and Aleksandr Auzan in September 1989:

The source of diversity of theoretical models of future socialism is obviously twofold. First, the present state of society and its historical significance are evaluated in different ways. Figuratively speaking, the road that has been travelled by socialism can be depicted as a straight line, as a zigzag, and as a blind alley. The strategy for overcoming the crisis is therefore also different: the extension, the ‘improvement’ of elements of positive experience accumulated in preceding phases; recognition of results of movement and rejection of methods of attaining them in the new forms of development; ‘backsliding’ and the search for a new road from the old historic ‘fork’. The proposed forms of the social system will therefore have a different hue – will bear the greater or lesser stamp of state socialism, state capitalism, or some other non-state forms of socialism. (Radaev and Auzan 1989 [1990], 71).

If Soviet history could be interpreted “as a straight line, as a zigzag, and as a blind alley” this was to say that the hard core of Soviet ideology was eventually cracked. Yet for understanding the further debates it is important to be aware that although the con-

viction was shattered that one was on the road to socialism, the general belief in the existence of 'objective laws' of historical development remained strong.

As outlined above, the *perestroika* economists, who saw themselves in the tradition of the reformers of the 1960s, had originally hoped to improve the planned economy by changing the forms of state property, by introducing self-financing of the state enterprises and by permitting co-operatives. The economic crisis eventually made it clear even to them that it was impossible to manage without the market. By appreciating the necessity of the market mechanism, they abandoned a further position, but they still did not give up their overall concept of fitting market elements into the socialist order.⁴³ It is no exaggeration to say that Leonid Abalkin intoned the swan song of the ideology of *perestroika*, when he outlined the future of the socialist economy in an article tellingly entitled "The market *in* the economic system of socialism" [my emphasis]:

The economic system that should form as a result of perestroika must combine: the highest effectiveness of production with the humanistic goals of its development; the increased differentiation of the remuneration of labour in accordance with the end results of labour and the developed system of social guarantees; the release of surplus labour power from production with general and effective employment; the rebirth of the co-operative system and the broad development of the public sector of the society; the formation of the socialist market; the intensification of its impact on production coupled with improvement of centralised planned management techniques." (Abalkin [1989] 1990, 6-7).

As convincing as such ethical demands may have sounded in the more or less stable situation of the preceding years, in 1989 it had become obvious that the country was at the threshold of severe crisis, which could certainly not be overcome by political slogans. In this situation, Evgenii Iasin's article "The socialist market or a fair of illusions?", published in October 1989, provided a rather blunt answer to Abalkin and Pe-

43 Absolutely in line with the previous discussions about "commodity-monetary-relations" and "socialist property" they argued that a socialist market would not contradict socialism, for the originally "bourgeois" phenomenon would be "realized in forms that are specific to socialism" (Abalkin [1989] 1990, 9). Nikolai Petrakov (1989, 138-9) also pointed out that socialism did not mean "to destroy the market, but to rule it". He clarified his position in a programmatic article on "Current problems of the Formation of a Market in the USSR": "The reform of price-formation can be realised in two alternative ways. The first alternative is the simultaneous general alteration of the level of wholesale, purchase and retail prices. The second is the stage-by-stage, frontal revision of all sorts of prices with a concurrent support of every stage by appropriate, stern controls over the growth of incomes of enterprises and households, the removal of the fond system of the distribution of material resources, the reduction of non-effective government expenditures, improvement of investment policy, changing the tax system, enhancing the roles of the banks and a normalisation of monetary circulation." This passage makes it absolutely clear that the 'radical' price reform and the establishment of a market were still not seen as a transition to price-formation on free markets for commodities and services, but as an implementation of 'rational' prices by the state authorities.

trakov. Not surprisingly, the paper was printed only “for discussion purposes” [v diskussionom poriadke]⁴⁴ in the official party organ *Kommunist*:

The time has come to shed illusions: there is no easy road to solving the economic problems confronting the nation. We have reached the point where decisive, even if painful and unpopular, measures are needed, where their execution can no longer be postponed because any delay will only complicate the operation. (Iasin [1989] 1990, 25).

The measures proposed by Abalkin and Petrakov, he argued, were still insufficient, for “we are missing the key that would combine everything into a whole programme” (Iasin [1989] 1990, 27). This key could only be provided by free prices: “Free prices coupled with the independence of enterprises and direct economic relations are the minimum from which the market begins“ (Iasin [1989] 1990, 28). Only four months later, in January 1990, Iasin clarified his position in an article in the *Voprosy ekonomiki. Perestroika*, he argued, had eventually shown that all attempts to realise ‘third ways’ between socialism and capitalism were doomed to failure because the market and the plan were antipodes (Iasin 1990 [1991], 33-35).⁴⁵

Another taboo was broken when in his above-mentioned article from January 1990 Al’bert Ryvkin directly attacked the intellectual fathers of the Kosygin-reforms of the 1960s, to whom not only Gorbachev (1987, 28), but also the leading *perestroika* economists Abel’ Aganbeg’ian, Leonid Abalkin and Nikolai Petrakov had referred to time and again. Ryvkin argued that Kantorovich, Nemchinov and Novozhilov’s adamant faith in the possibility to ‘optimise’ the socialist economy by introducing methods of linear programming was a highly questionable attempt at “social engineering”.⁴⁶ He (1990, 141) argued that this belief, while it had been typical not only of the Soviet economists but also of some influential Western economists such as Paul Samuelson, had been carried to the extreme by the Soviet “economic-mathematical school”. The author’s insistence on the impossibility to construct a perfect social mechanism clearly reflected the ideas of Popper and Hayek, although Ryvkin did not refer to the latter explicitly.

44 In view of the radicalness of the article the editors felt obliged to add the remark “that the assessments and proposals contained in the article express E. Iasin’s personal opinion” (25).

45 And Iasin’s reaction was by no means an exception. Within the first half of 1990 a number of authors had argued that the whole programme of perestroika had proved to be illusionary, because the market and the plan were incompatible (Kulikov 1989, 53; Loginov 1990, 3; Borozdin 1990, 22).

46 This assessment seems to be fully justified. For example, Vasili Nemchinov wrote in 1962: “It is especially important, at the present time, that economists should become social engineers and economics an exact science. ... An economist must be able to fine-tune the management mechanism of social production and to regulate the functioning of this mechanism. Only then will he be able to satisfy the requirements set upon him“ (quoted after Sutela 1991, 18).

9 Was there a paradigm shift?

From 1989 on, the leading economic thinkers whose works had provided the intellectual background to the neo-conservative revolution in Great Britain and in the USA eventually entered the Soviet economic journals. Friedrich August von Hayek's ideas were reviewed with much sympathy by Natal'ia Makasheva (1989) in *Voprosy ekonomiki*, and a translation of his "Competition as a Discovery Procedure" was published in the December issue of *MEMO*.⁴⁷ Simultaneously, Gavriil Popov gave a short introduction into the ideas of Milton Friedman (in *Voprosy ekonomiki*), which was followed by an anonymous, highly favourable review of "The Essence of Milton Friedman", and in July 1990 *Novyi mir* printed the first part of a Russian translation of Hayek's *Road to Serfdom*.⁴⁸ Obviously, Western liberal ideas had taken the place of the Marxist-Leninist dogma. But was there really a paradigm shift? Could one really say that the old teaching was "replaced in whole or in part by an incompatible new one", so that the Russian economic mind was re-built on entirely different foundations? In my opinion this was not the case.

Gavriil Popov's above-mentioned appraisal of Milton Friedman, I think, can be seen as extremely typical of the reception of monetarism by Russian liberal economists in the last years of the Soviet Union. The first key element of this interpretation was the thesis that in the 1970s, the capitalist and the socialist economies had encountered basically the same problems and that monetarism provided the solution to these problems:

This school [the monetarist, J.Z.], which initially seemed utterly 'fossilized', 'paternalistic', and 'nostalgic', began attracting more and more attention as the unquestionable limits to centralized management of human society and the contradictions, dangers, and dead-end streets of centralism in both social systems – capitalist and socialist – became increasingly apparent toward the end of the twentieth century. (Popov [1989] 1990, 101).

The second key element was the conviction that monetarism contained the right interpretation of the historical laws that determined the fate of mankind:

Beyond a doubt, many years of discussions between Kenyesians and the 'Chicago school' have a direct bearing on many problems of our perestroika and the measures that are proposed today to solve these problems. In the foreword to *Capital* K. Marx said to the German reader concerning the English foundation of his theoretical conclusions: "Is this not our history?" And added: „A country that is industrially more

47 It was supplemented by an article by Rostislav Kapeliushnikov on "Hayek's Philosophy of the Market".

48 It is clear from Hayek's "Preface to the Russian Edition" that a first Russian edition of the work had already been published in 1982. However, I was not able to discover any more details about this edition.

developed shows the less developed country only the picture of its own future“
(Popov [1989] 1990, 103).

The message of the Russian neo-liberals can be summarised as follows: The market economy is the natural organisation of economic affairs. Both in the Soviet Union and in the Western countries this natural order had been disabled – to a greater or lesser extent – by socialists and social democrats, and both in the Eastern and the Western countries by the end of the 1970s this had led to stagnation. Yet while, thanks to the neo-conservative revolution, in Western Europe and in the USA the right order had been restored, and society had been brought back on the natural road of historical development, the Soviet leaders and their economic advisors still dreamed about ‘socialism with a human face’.

Whether this was an apt interpretation of monetarism or not: In the context of the economic debate the Russian neo-liberals certainly contributed much to the eventual collapse of Soviet ideology. At the same time, however, it is quite obvious that in the Soviet context neo-liberal ideas were first of all received as an anti-ideology against the Marxist-Leninist dogma. As an anti-telos, this liberalism was deeply influenced by the very ideology it opposed: The Russian liberals were just as convinced to be bearers of an absolute truth, and in the end their liberalism was no less utopian than the vulgarised Marxism of their opponents. Especially Popkova-Piiasheva’s and Pinsker’s writings clearly indicate that neither of them was really interested in specific solutions to current problems; rather, they both believed that it was a relatively simple task to implement an economic order that accorded to the developmental laws of history.

The wrong interpretation of the NAIRU, one of the key concepts of the monetarist doctrine, shows clearly that the Russian neo-liberals were not in fact very much familiar with monetarist economics. Ruslan Dzarasov⁴⁹ (1993, 41) certainly had a point when he remarked in a harsh critique of shock therapy, that “nine out of ten of those who recommend monetarism today had never even heard the word two years ago and do not really have a clear understanding of its meaning even now”.

In the last years of the Soviet Union there took place a paradigm shift in the sense that the central notion of Soviet ideology – that the country had been on the holy road to the wholesome society – was replaced by the conviction that it had, in fact, been moving

49 It should be mentioned here that Dzarasov, an orthodox Soviet economist of the so-called Tsagolov school, had already in the 1960s belonged to the sharpest critics of the reformers (see Sutela and Mau 1998, 62).

towards a dead end. Yet the intellectual habit of imagining history as a purposeful process was by no means altered: The Soviet telos was replaced by a liberal telos. In this sense, the economic discourse of the last years of the Soviet Union does on the one hand give evidence of the significance of the international transfer of knowledge. The neo-liberal ideas imported from the West definitely played an important role in paving the way for the reforms of the early nineties. On the other hand, however, it must not be overlooked that the way in which these ideas were interpreted, clearly reflected intellectual traditions inherited from the socialist past, namely utopianism.

It is the key element of an utopian ideology that it is always related to the future, and hence for its sustainment “it is of crucial importance that reality should at least develop in the right direction” (Gerner and Hedlund 1989, 20). Yet as became evident very soon after the implementation of shock therapy, the road to recovery was much more painful and tedious than predicted not only by the Russian, but also by the Western neo-liberal experts. And as the neo-liberal doctrine still fundamentally contradicted the Russian intellectual traditions, almost nothing remained of it when it failed to fulfil its promises quickly. In this second phase of the transition debate, which started around 1993, we can observe how the ideas that had been imported from the West underwent a gradual adaptation to the path-dependent shared mental models prevailing in Russia. A further paper, dedicated to the Russian debate on shock therapy, will deal with this second stage of the development in detail.

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