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Vladimir Mau

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Soviet Economists on the Road to
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Institute for Economies in Transition, BOFIT

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Bank of Finland
Institute for Economies in Transition (BOFIT)

PO Box 160
FIN-00101 Helsinki
Phone: +358 9 183 2268
Fax: +358 9 183 2294
bofit@bof.fi
www.bof.fi/bofit

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Searching for Economic Reforms: Soviet Economists on the Road to Perestroika²

Is Soviet-type socialism reformable? The debate has been going on for decades. Russia and China, Hungary and Poland - these and many other countries demonstrate that there are different paths of exit from orthodox Soviet socialism (communism). The question of the comparative efficiency of one model or another will remain open until the process of transformation finds its logical conclusion.

The complexity of the post-communist development of Russia strengthens the argument of supporters of the Chinese model for market reform. Consequently the question arises: why did the Soviet Union not implement gradual, careful transformation? There is no simple answer. Perestroika and the rapid collapse of the communist regime in the USSR were results of a complex combination of economic, political, intellectual and psychological problems. They came into existence by the mid-1980s and would require their own special analysis. The aim of this article is much more modest: to illuminate and analyse the process of forming the intellectual basis for the reforms that M.S. Gorbachev tried to implement. This process led in the end to the collapse of the communist system.

Strictly speaking, the debate on the reform ("improvement") of the Soviet economic system has been going on since the early months of the Soviet era. The most fruitful periods in this respect were, of course, the 1920s and 1960s. Nonetheless, we begin our analysis with the economic debates of late 1950s and early 1960s. At the time Soviet economists were dealing with the problems of an already mature economic system. The political climate in the country gave rise to quite sincere polemics for a period of time. Of course, censorial limitations existed, but the mistakes of that period were for the most part sincere. Therefore, the narrow mindedness of some of the conclusions of economist-reformers reflected the actual level of understanding of the USSR's economic problems, which was specific to Soviet economics. This fact explains the many problems and contradictions involved in the practical implementation of Soviet economic reform in both the 1960s and 1980s.

Using terminology popular in Soviet science, we can define the subject of this article as the debate on improving the economic (or management --these terms are used interchangeably in this paper) mechanism of the USSR. The problems of the economic mechanism became the subject of one of the last chapters written on socialist economic theory. The conceptual process can be followed in the stormy debates that took place before the economic reforms of 1965. Since the late 1960s there has been a formal confirmation of this chapter within the framework of the political economy of socialism.

This article consists of two sections. The first section characterizes the main

¹ Deputy Director, Institute for the Economy in Transition, Moscow.

² A paper presented in the conference on socialist reform economics in Berlin, 6-8 October 1995.

threads of the economic debates that led to the reform of 1965. This was the last great attempt to transform the national economy within the framework of the Soviet regime. The second section considers the orthodox and reformist views concerning the type of transformation that was needed for the Soviet economy. These economic debates eventually led to the formation of an ideology that became the basis for the economic policy referred to as perestroika. Overcoming of this ideology became one of the most important factors in the design of Russia's economic policy in the early years of its post-communist development, 1992-1993.

1 Economic science and the reforms of 1965

The main defects in the economic system were more or less obvious and were discussed frankly in the Soviet economic literature of the late 1940s and early 1950s. This was in spite of the strict political and ideological censorship of the times. There was overly centralized decision-making and bureaucratic planning as well as a lack of interest on the part of economic agents (enterprises) in economic growth, in increasing production capacity and in improving the quality and range of products. More than that, if for whatever reason an enterprise became successful, it immediately came under the pressure of so-called planning from the achieved level: regardless of the presence or lack of resources, the enterprise was subsequently assigned even more demanding tasks. The advantage of its hard work (extra profits) was confiscated by the government, for distribution to weaker enterprises. This corresponded with the official view of the national economy as a single complex³. Each production unit, once registered in the plan, was to operate for the good of the entire society. Practically, it meant the absence of a mechanism for weeding out inefficient enterprises (bankruptcy was not an option) and the presence of powerful equalizing forces in the economy⁴.

Throughout the 1950s there were three models available for understanding the microeconomic functioning of the Soviet system and hence for improving it.

First, the orthodox view of the plan was that of a law that had to be obeyed without question. The basis for this approach was the interpretation of the centralized plan as an "economic law" of socialism as well as the thesis that there could not be any true interests of economic agents which would differ from those of the national economy. Consequently, the existence of individual enterprise interests was considered a survival of the past that had to be rooted out. As a result, the analysis did not take into consideration the problem of development and implementation of the governmental mechanism for impacting the interests of economic agents. The way to overcome the defects of the planning system, for its part, was seen in improved methods of developing the central plan, in the political strength of planning bodies, in more and more strict control over the operations of enterprises as "plants of one and the same factory", and in increasing the civil and criminal liability of enterprise

³ Here one can see a direct association with the theory of a "single factory", whose roots can be found in the works of the founder of Marxism and which played the central role in the Marxist models of socialist economy in the first third of the 20th century.

⁴ The latter was well understood on a high political level. Nevertheless, in spite of the seemingly all-powerful regime, leadership of the USSR only at best stated the problem but was never capable of overcoming it. Statements of that kind were seen already in the documents of the communist party in the middle of the 1950s. "Instead of ensuring the fulfilment of the plan of accumulation by each enterprise, some ministries are compensating lack of working assets of badly working enterprises at the expense of the former", as was stated in the resolution of the July plenum of the central committee of the communist party in 1955. (**KPSS v rezolyutsijakh i resheniyakh syezdov, konferentsii i plenumov TsK**, part 8, Politizdat Moskva, 1985, p. 525)

managements for not fulfilling the plan⁵.

Second, the problem of the economic mechanism was reduced to the definition of the best set of centrally established goals to be given to enterprises. There would be one or a few target figures to be achieved. Establishing incentives for achieving such targets would motivate enterprises to take on and accomplish taut plans. That was a step forward compared to the orthodox concept of socialism, because it actually admitted the presence of individualistic interests on the part of economic agents. The authorities were given the task of encouraging these interests, instead of suffocating them. The economic literature of the 1950s advocated a significant reduction in the range of indicators to be centrally defined (in number and scope, the figures flowing out of Moscow sometimes became absurd). The writers began to look for key indicators (each representing a group of indicators) which would connect the directive plan and the incentive to grow in the most effective manner. Thereby the problem of improving the efficiency of the economy was narrowed down to the formal question of finding an appropriate set of planned indicators.

Third, by the middle of the 1950s an entirely new direction of analysis was set out, one which did not view a plan as a set of figures given to the enterprise. The root of the problem of improving the economic system was seen in changing the character of the relationship between the enterprise so as to make the enterprise more independent and to change the incentive mechanism for producers. This model presented the most interesting theoretical results and had a defining impact on subsequent economic debates. The central idea became the thesis that it was necessary to abandon the critical role of the level of fulfilment of the directive plan as the basis for measuring the results of an enterprise's activities, regardless of what kind of figure was in question (physical or financial). It was shown that such "judgment by the plan" created the main wrong incentive of the Soviet economy. This was because it made it advantageous for an enterprise to understate its capacity and overstate its resource requirements and so make it easy to fulfil its plan and still gain as much profit as it would for fulfilling a more demanding plan.

The first works to derive these conclusions came out in the early 1950s⁶. But the most extensive treatment took place after the early 1960s as a consequence of Khrushchev's destalinization of Soviet society. The article by E.G. Liberman "Plan, profit, reward"⁷ in *Pravda* launched one of the most extensive discussions of the entire history of Soviet economics. Among the key discussants of how the functioning of the Soviet economy could be improved were A.M. Birman, L.V. Kantorovich, E.G. Liberman, V.S. Nemchinov, V.V. Novozhilov, as well as their younger colleagues -

⁵ In 1947 and 1949 even some special resolutions of the government were adopted, which established criminal liability of managers and other officials for systematic violation of the tasks of planned deliveries of goods. (See **Direktivy KPSS i Sovetskogo pravitelstva po khozyaistvennym voprosam**, part 3, Gospolitizdat, Moskva 958, p. 233-234, 368-371).

⁶ The thesis of giving up the critical role of the plan was clearly formulated for the first time in 1955 by the economist from Kharkov, E.G. Liberman, in his article "Khozraschet i materialnoe poshchrenie rabotnikov promyshlennosti" (**Voprosy ekonomiki** 1955:6). These ideas had an even deeper resonance after the publishing of an article by the same author in **Kommunist** (1956:11). Actively supported by a number of famous economists (first of all V.S. Nemchinov), these ideas caused strong debate and resistance by economists who supported a much more conservative course.

⁷ **Pravda**, September 9, 1962.

L.I. Abalkin, A.G. Aganbegyan, N.Ya. Petrakov, B.V. Rakitsky and others⁸. These polemics, referred to in the West as "the Liberman discussion", led the leaders of the USSR to an understanding of the necessity of reforming the Soviet economic system. On the basis of this discussion, V.S. Nemchinov formed what was at the time the most comprehensive conception of renewing the socialist economic mechanism. This he called the "self-supporting (self-accounting) system of planning"⁹.

The following aspects of Soviet economic transformation were the main conclusions to come out of the polemics of the early 1960s:

- decisive extension of enterprise independence, not only in fulfilling plans but also in planning itself. The state should provide the enterprise with a few parameters (directive indicators) which would serve as a general framework for its economic activity (first of all, a criteria for dividing profits);
- not to reward enterprises for fulfilling and especially exceeding plan targets;
- reorientation of incentive system towards sales, i.e. demand;
- using financial figures instead of volume figures as criteria for enterprise results;
- rewarding incentive funds to enterprises as a percentage of profit that is fixed for a number of years. This could also be a certain percentage of profitability calculated on the basis of a special scale. Thus economists came to the conclusion that it was necessary to reorganize the national economy on the basis of a redistribution of value added by means of taxation. On the other hand, it was not yet a question of finding instruments for the normative management of the economy; nonetheless it was only a few steps short of a normal system of taxation;
- finally, elimination of "funding" (planner-prescribed supply links) and the start of free trade in the means of production¹⁰. From the viewpoint of transforming the Soviet economy to a market economy, this route offered the best prospects at the time. Perhaps that was the best possibility legally available under the prevailing totally communist ideology, because the next step would have been to admit the necessity of legalizing private ownership and entrepreneurial activity.

⁸ Among the most interesting works of this period we can mention: N. Antonov, "Pribyl -- osnovnoi pokazatel", **Pravda** September 14, 1962; V.Nemchinov, "Za interesovat predpriyatie v bolee napryazhenom plane", **Voprosy ekonomiki** 1962:11; V. Chernyavsky, "Sut dela", **Ekonomicheskaya gazeta** 1962:45; A.M. Birman, **Nekotorye problemy nauki o sotsialisticheskome khozyaistvovanii**, Ekonomika, Moskva 1963; V. Trapeznikov, "Za gibkoe ekonomicheskoe upravlenie predpriyatiyami", **Pravda** August 17, 1964; E. Liberman, "Eshche raz o plane, pribyli i premii", **Pravda** September 20, 1964; O.K. Antonov, **Dlya vsekh i dlya sebya**, Ekonomika, Moskva 1965.

⁹ V.S. Nemchinov, **O dalneishem sovershenstvovanii planirovaniya i upravleniya narodnym khozyaistvom**, Ekonomika, Moskva 1964; V. Nemchinov, "Sotsialisticheskoe khozyaistvovanie i planirovanie proizvodstva", **Kommunist** 1964:5.

¹⁰ A.M. Birman was one of the first to raise this question, in his article "Sto millionov gaek", **Ekonomicheskaya gazeta** March 30 1963).

The conclusions of the direction described here, as they were espoused in the mid-1960s, were in fact inconsequential and contradictory. They did not offer solutions for the entire gamut of major problems regarding the national economy which would inevitably be encountered in the practical realization of the recommendations that had been put forth. One exemplary area was the need to tackle the question of the rights and functions of enterprises and managements, including the question of the authorities' responsibility for making decisions which were ineffectual but obligatory to the enterprise. In general, the question remained open as to whether to preserve the traditional Soviet system of economic management based on a large number of government entities authorized to issue plan targets.

Moreover, one could discern that the recommendations of economist-reformers were based on the preservation of the traditional, mainly quantitative, interpretation of the task of growth. That compromised the basic understanding of "taut planning", since the key to the concept was first to increase production capacity, which was in turn linked to the increasing of profits and profitability. Consequently, the question of the quality of growth continued to receive inadequate attention, which meant that questions of improving products and of the material base of production were also slighted. In the model offered here, the only way enterprises could affect their profitability was to increase production capacity and realize the consequent savings on nominal permanent costs.

A new understanding of the role of the fundamental features of the Soviet economic system was not achieved. It would, of course, have been hardly possible to overcome these features in practice while remaining within the framework of the communist economic and political regime. This situation led to the obvious internal contradictions in the concept of improving the economic mechanism. On the one hand the concept suggested the use of long-term norms, but on the other it argued for preserving the system of centralized annual and quarterly planning of output. It suggested the orientation of enterprises towards profit maximization, but the pricing question was virtually ignored, as was the question of how the existing pricing mechanism was to provide economic agents with adequate information about consumer demand. Researchers (possibly for political reasons) largely ignored questions of the high degree of exclusivity in the domestic economy as well as the chronic shortage of goods. Such shortage strengthened the monopoly position of the producer and rendered essentially useless all economic tools oriented towards consumer needs.

The reformists of the first half of the 1960s encountered strong opposition from conservative and moderate economists. The orthodox objections were mainly politically and ideologically oriented, ie the reformists were accused of forsaking the fundamental features of the socialist economy¹¹, which included highly centralized planning, rewards based on plan fulfilment, and the use of prices mainly as an accounting tool. It was naturally suggested that instead of experimenting in this way it would be better to focus on the technical improvement of planning by making the range of the planned indicators and methods of calculating them more precise. Greater use should be made of the computer as a tool for improving the quality of direct

¹¹ As M. Feodoritov wrote about this subject in **Kommunist**, we are "on the way of turning socialist enterprises into communist ones and enhancing moral motivation. Adoption of a self-financing system of planning would mean giving up this high objective". ("Sotsialisticheskoe khozyaistvo i planirovanie proizvodstva", **Kommunist** 1964:15, cited on p. 51).

centralized management of national economy¹². Taking into account the ideological nature of the objections presented here, one sees that there was a clear understanding of the end result of the reformists' recipe, that is a denial of the fundamental basis of the Soviet economic system and, consequently, the demise of socialism in its Soviet form.

There were also less ideological objections, which for the most part applied to reformists' statements concerning re-evaluation of the role and potential of the pricing tool in the Soviet economic system. It was also asserted that relying on profits and profitability as incentives might not encourage enterprises to reduce plan targets but rather to increase production costs and prices so as to force users to buy more expensive goods (since profit was calculated as a percentage of production costs). It was also argued (not without justification) that in the current Soviet economy commodity and money-related values do not contain enough information about the relative efficiency of an enterprise. The point of this discussion was seen by these economists as a search for the ideal system of indicators, although the real debate had long since moved beyond that point.

Most of the objections of conservative economists were well taken, within the logic of the 1930s model. But what would they ultimately lead to? Two alternative scenarios come to mind. Either they would lead to the preservation of the old inefficient economic system and an attempt to somehow modernize it or to a renewed search for ways to reform the Soviet economy, with the understanding that sooner or later a new political problem would surface - the need to reject the fundamental characteristics of the system.

The economic debates of the 1960s were not merely ivory-tower discussions. They resulted in the economic reforms of 1965, which comprised the most important attempt to reform the Soviet economic system¹³ since the NEP. A reform is not a scientific discussion. It is a political act which results from complex interaction between diverse political forces in a given society at a given time.

The reform was initiated by the new Soviet leadership and its head, the general secretary of the central committee of the communist party of the Soviet union, L.I.

¹² A. Zverev, "Protiv skhematizma v reshenii slozhnykh voprosov", *Voprosy ekonomiki* 1952:11; A. Vorobyova, "Iskhodnoi bazoi stimulirovaniya mozhnet byt tolko plan", *Voprosy ekonomiki* 1962:11; M. Fedorovich, "Nado smotret vperyod", *Ekonomicheskaya gazeta* 1962:45; B. Glusker, *Metodologiya postroeniya pokazatelei plana*, Ekonomika, Moskva 1963; M.Z. Bor, *Ocherki po metodologii i metodike planirovaniya*, Ekonomika, Moskva 1964.

¹³ In western economic literature it is often called the "Kosygin reform" after the chairman of the council of ministers who indeed stood behind the reform and made the political decisions involved in its realization, or the "Liberman reform". The reform was announced at the plenum of the CPSU in September 1965. Conceptualization was expressed in the joint resolution of the central committee of the party and council of ministers "O sovershenstvovanii planirovaniya i usilenii ekonomicheskogo stimulirovaniya promyshlennogo proizvodstva". Each paragraph of the resolution was later specified in separate normative acts of the government. (See *KPSS v rezolyutsiyakh i resheniyakh syezdov, konferentsii i plenumov TsK*, 9 ed., Part 10, Politizdat, Moskva 1986; A.N. Kosygin, *Ob uluchshenii upravleniya promyshlennostyu, sovershenstvovanii planirovaniya i uluchshenii ekonomicheskogo stimulirovaniya promyshlennogo proizvodstva*, Politizdat, Moskva 1965; *Khozyaistvennaya reforma v SSSR. Sbornik dokumentov*, Pravda, Moskva 1969.

Brezhnev. Because the main features of the reform had been set out during the tenure of N.S. Khrushchev, it continued to be associated with him to an extent which brought certain conceptual contradictions and complicated the attitudinal positioning of the party elite. Consequently, the reform of 1965, as it was outlined in official documents, contained many contradictions. It combined orthodox ideas of state ownership with conservative views on the dominant role of planned indicators (the reassessment of which was the centrepiece of the reform concept). There were also reformist suggestions for increasing the role of the price mechanism as a regulator of the economy. It was clear from the selection of people to work for the government on the problems of economic reform that the situation was paradoxical. The fundamental ideas for change were developed by one group of economists while normative documents were prepared by another group, generally of much more moderate persuasion. The practical implementation was carried out by yet a third group, a number of whom were out-and-out opponents of the central ideas of the reform.

Reformation of the Soviet economy entailed a steep decrease in the number of planned indicators given to the enterprise "from above". It used the five-year plan as the basic mode of planning. The value of supplied output and profits (or in some cases profitability), as well as fulfilling the supply-plan for the most important groups of products were the indicators to be used as the basis for enterprise evaluation. Thus, the 1965 reform programme was clearly a combination (or rather mix) of all possible the options available for organizing the economic mechanism: working for the the plan, for fulfilling certain normatives and for reaching end results. The key element nevertheless continued to be the question of planned indicators, not that of a complex reform of the entire economic mechanism¹⁴.

It is only natural that the lack of substance in the concept of economic reform itself did not help in its realization. The reform played an important role as the means for selecting the political direction of further development. At the time, Soviet leaders encountered two clear alternatives. The first one was to start the evolutionary process of "manageable" economic reforms leading to gradual transformation of the society in its economic, social and political aspects¹⁵. The second alternative was to return to the old economic system, declining all essential modernization and leaving only some formal signs of a connection between the new measures and earlier reforms.

In practice the development took the latter direction, which was a result of the conservative political atmosphere of the 1960s in the USSR. It was a conclusion of another phase of the "socialist cycle": between 1966 and 1970 the economy became a little more dynamic, but at the same time there were certain macroeconomic imbal-

¹⁴ The reason for choosing the value of output as the basis for evaluating an enterprise was quite understandable: it was assumed that the output of goods meant that the supplier admitted its necessity, and the more units produced the better the results for the enterprise. There were, however, two aspects that were not taken into consideration: first, the shortage nature of the Soviet economy, which distorted the informative meaning of output, and second, the unresolved question of free trade in the means of production and the preservation of the administrative boundary between supplier and user ("funding"), which contradicted the valuational role of output and limited its usefulness to a sufficiently weak sector of the economy - the trade of consumer goods.

¹⁵ The same choice was made by the Chinese leadership a decade later, having started in 1978 the movement from the traditional socialist model to a mixed, but mainly market, economy. The USSR did not make the same choice, and that to a large extent determined its exit from socialism in the 1990s.

ances¹⁶. Enterprises with increased independence did not have the incentive to strive for the kind of effective management that is natural in a market economy, ie that which satisfies consumer demands and minimizes production costs. The emphasis on delivered output again induced producers to increase production costs. The general mood of political liberalization which accompanied the economic reform represented a danger to the communist leadership of the USSR, headed by L.I. Brezhnev. Together with the "Prague spring" experience, this was totally unbearable and demanded an immediate and strong reaction.

At the end of the 1960s the prevailing political climate in the country and attitude towards the heritage of economic reform became worse. A number of articles appeared in the press strongly attacking the theoretical foundation of economic reform because it "undermined the centralized management of national economy"¹⁷. One such attack (though not the most heated) was stated as follows: "Some economists consider socialism as a form of commodity production and the law of value as the main regulator of the development of socialist economy. But the law of value cannot carry out its regulating function without competition and free price formation. For this reason the supporters of this point of view inevitably demand unlimited freedom in production, economic and commercial activity of our enterprises and therefore act as opponents of the centralized management of the national economy"¹⁸. One must agree that despite his negative evaluation of the reformists' recommendations, the author pinpointed the problem very well. He was perhaps even more perceptive than the economist-reformers of the 1960s themselves. The latter generally did not want to give up centralism and sincerely believed in the possibility of combining the market mechanism with the "advantages" of Soviet socialism.

Political attacks followed soon thereafter, including some very unpleasant (for the times) accusations of "market socialism"¹⁹. Censorship was getting tighter, the possibility of publicly discussing economic problems was becoming more and more limited. Actual economic conditions in the country were getting worse and the technological gap between the USSR and industrial western countries was widening. However, the stream of so-called oil dollars started flowing in 1973 and for about a decade afforded an opportunity to save the situation and postpone the start of real reform.

¹⁶ The problems of the socialist cycle of reproduction were analyzed by Ye.T. Gaidar in the book **Ekonomicheskie reformy i ierarkhicheskie struktury**, (Nauka, Moskva 1990, p. 112-119), by which he meant the sequence of periods of state investment activity together with a stiffening political regime and decreased economic efficiency and periods of relative liberalization of the regime accompanied by some improvement in efficiency and often also a wave of inflation. Liberalization is usually followed by stiffening (rather for political reasons) with the re-establishment of the macroeconomic balance traditionally associated specifically with a socialist system of management.

¹⁷ One of the first statements of this kind was in an article by N.A. Tsagolov, M.V. Solodkov and S.S. Dzasarov, "Khozyaistvennaya reforma i nekotorye voprosy politicheskoi ekonomii sotsializma", **Vestnik Moskovskogo universiteta. Seriya ekonomika** 1968:11).

¹⁸ S.S. Dzasarov, "Tovarnye otnosheniya i polnyi khozyaistvennyi raschet", **Vestnik Moskovskogo universiteta. Seriya ekonomika**, 1968:6, cited on p. 13).

¹⁹ For example, recommendations of the scientific conference of the chair of political economy of the economic faculty of Moscow State University, 10-15 February 1969, "Tovarno-denezhnye otnosheniya v sisteme planomerno organizovannogo sotsialisticheskogo proizvodstva", **Vestnik Moskovskogo universiteta. Seriya ekonomika**, 1969:4.

2 Theory of economic mechanism and the theoretical background of economic perestroika

The economic reform of 1965 gave an impulse to discussions about the management mechanism. In the wave of reform, the problem of the "improvement of the mechanism of economic management" became a separate (and also the most dynamic) part of the economic theory of socialism. On the other hand, for political reasons many of the problems could not be subjected to analysis. This had a negative impact on the course of the second half of the 1980s, when Soviet leadership again tried to carry out serious economic reform based on the research of reformist economists.

If in the 1960s there had been a jump in the quality of analysis of the problems of reforming the Soviet economic system, then the following two decades were a time of accumulation and systematization of the received doctrine and of a struggle between reformist and orthodox communist economists. It should also be noted that neither groups of economists favoured the preservation of the status-quo in regard to the management mechanism. Both agreed on the necessity of serious reform. However, the two groups differed widely in respect of the orientation of the reform.

We now consider the most typical viewpoints of the two groups as expressed in the 1970s and early 1980s.

From the orthodox perspective, the only way to ensure the manageability of the economy was to enhance the role of the directives method of managing economic life. These economists criticized (strongly, but not always conspicuously) those deviations from the model of the 1930s that had taken place in the 1950s and especially in the 1960s.

The centrepiece of ideology and practice in this model was, of course, the centralized directive plan. The improvement of the economic mechanism assumed as its starting point enhanced competence on the part of the planning centre. It would be able to determine for each individual enterprise the product assortment, resource sources and consumer base. All this was supposed to be given to production units in the form of directives, and the units were to emulate in the fulfilment of assigned tasks. Clearly, the main element of this system was the national economic plan, which reflected the "interests of the society in the form of a directive, as a complex of directive tasks" and therefore included as wide a system of indicators as possible. Their number was limited only by the technical possibility of determining them centrally. Technical and to an extent social reasons were behind another feature of this model: economic centre, as a rule, refers not to a single authority but to a hierarchy of management bodies directly connected so as to ensure the setting of orders for enterprises. Prices and other value indicators played an auxiliary, accounting role, being used only because the centre was still unable to do all the necessary calculations in material values. Therefore it is natural that among these indicators priority was given to the gross output indicators, which were, according to these economists, not really price-based but rather accounting values²⁰. It is clear that this sort of develop-

²⁰ For example, N.A. Moiseenko, M.V. Popov, **Demokraticeskii tsentralizm -- osnovnoi printsip upravleniya ekonomikoi**, Izd-vo LGU, Leningrad 1975, p. 83, 109; same authors, **Upravlenie sotsialisticheskoi ekonomikoi**, Izd-vo LGU, Leningrad 1981, p. 127-141, V.F. Kotov, **Stoimostnye kategorii v planirovanii promyshlennogo proizvodstva**, Ekonomika, Moskva 1980, p. 166-167.

ment of the plan could not ensure its stability throughout the planning period. Consequently, plan implementation must be under daily supervision of the centre, which can and must continuously adjust the plan. "A plan being fulfilled is a plan being constantly corrected" - this is the conclusion of the model²¹. One has to admit the consistency of the argument, although this conclusion implies a basic revision of all previous Soviet viewpoints on planning beginning from the earliest discussions, in 1920-1923.

Because the product range and production linkages were to be determined by the centre, the role of the enterprise was limited to the narrowly defined production process. The enterprise is just and simply the basic link of this process. The economists in question were convinced that "as experience is accumulated, one has to free the basic unit from 'commerce' (sales, supply, finance), so that it could concentrate on the process of production"²². The role of the enterprise is also connected to the attitude towards enterprise independence, which (in the same way as the use of value-based units) is a result of insufficient development of the methodological and technical bases of national economic planning. Therefore the enterprise's role must be limited to dealing only with very narrow circle of local problems²³.

The theoretical base for these discussions was the thesis that only the economic centre ("socialist state") is a consistent, and perhaps even the sole defender of society's interests and needs. They can be communicated to enterprises only in the form of directive tasks. The orientation of producers towards the satisfaction of society's needs using economic incentives was declared impossible in principle. A certain auxiliary role for incentives was of course admitted but it was associated with providing for plan fulfilment and overfulfilment²⁴. "The question of incentives is artificial" according, for example, to V.F. Kotov²⁵. Generally, two interrelated reasons were given for this view. On one hand, any system of incentives leaves a number of loopholes for circumventing the "interests of the society". On the other hand there was an alleged necessity of treating enterprises individually in the assignment of plan targets. In this context, it was typical to enlist the thesis that an enterprise must produce not for prizes, not for values, not for salaries, but for promoting the interests of society.

It is obvious that practical realization of this model of the management mechanism would place a heavy load on the centre in respect of collecting, processing and evaluating the accuracy of data. Clearly, the enterprises would not have the incentive to provide objective data regarding their production capabilities. Therefore the high hopes of orthodox economists depended on the development of computers and the creation and introduction of a wide range of automatized systems for management (the so-called ASU's), systems of planning calculations (ASPR's), administering different sectors (OASU's) and regions etc.

²¹ N.A. Moiseenko, M.V. Popov, *Upravlenie sotsialisticheskoi ekonomikoi*, p. 153.

²² "Sovershenstvovanie mekhanizma upravleniya na sovremennom etape: materialy "kruglogo stola", *Voprosy ekonomiki* 1984:7, p. 13 (speech of A.M. Yeryomin).

²³ For example, A. Polikarpov, "O demokraticheskom tsentralizme v planirovanii", *Planovoe khozyaistvo*, 1983:6, p. 117.

²⁴ A.V. Bachurin, "Plan i stimuly", *Planovoe khozyaistvo*, 1982:9, p. 7.

²⁵ V.F. Kotov, *Stoimostnye kategorii v planirovanii promyshlennogo proizvodstva*, p. 103.

It is clear that this concept of economic mechanism was not based on the socialist ideology of the 20th century and not even on the marxist orthodoxy of the last century. Behind the model lay the particular Soviet experience, which assumed that the national economy functioned with as close a connection as possible to the military regime. To be more precise, this theoretical structure was a direct descendant of the model developed in the early years of Soviet power and was based on the idealization of the war communism. Its most serious internal contradiction was the incompatibility of the heavy hierarchical system of centralized management with those elements of self-management which were a necessary component of the socialist and communist doctrines. This contradiction remained undiscovered for a long period. Much later, after the deep crisis and collapse of socialism, the theoreticians who continued to support the communist ideology began to make attempts to include the problem of providing initiatives for workers and individuals generally into the centralist model of the national economy.

Let us now consider the main features of another approach. It was based on the achievements and conclusions of pre-reform economic debates. Later it had a major impact on the development, defence and specification of the ideas that had first come out in the first half of the 1960s.

Strictly speaking, the concept of "improvement of the mechanism of management"²⁶ appeared for the first time as part of the framework for this approach. This concept allowed the scientists who were developing the ideas and principles of economic reform to avoid the quagmire of ideological discussions with exponents of communist orthodoxy. At the same time they were able to defend themselves from accusations of advocating "market socialism". Such accusations were very dangerous in the 1970s. Gradually, a subtle division of spheres of influence took place: questions of property were left to discussions within orthodox political economy, which never tired of elaborating upon the socialist nature of property, whereas economist-reformers largely focused on the more "superficial" subjects - interest, incentives, enterprise behaviour. All of these matters were included in the problems of the "economic mechanism". Thus the property problem was separated from the problem of reforming the national economy, and for a decade and a half the separation gave many economists a good opportunity to pursue the search for ways to reform the Soviet system. But when in the second half of the 1980s they encountered the question of practical implementation of economic reform, this lack of development of the property issue and lack of interest in linking reform of the management system with change in the property relation led to a number of serious economic and political mistakes. These mistakes added to the economic and political difficulties of exiting from Soviet-style socialism.

The main theoretical and practical problem facing the reform movement was the creation of a mechanism for uniting the interests of economic agents. An economic regime should be created that would allow economic agents the freedom to make a number of specific decisions but would at the same time orientate them towards the

²⁶ The first significant and interesting research devoted to the complex of the problems of improvement of the economic mechanism was a monograph by L.I. Abalkin **Khozyaistvennyi mekhanizm razvitiya sotsialisticheskogo obshchestva**, Mysl, Moskva 1973.

priority of the interests of the national economy. The plan²⁷ for the national economy was seen as a mechanism for achieving such a concordance of interests.

The starting point of the analysis was the centre's problem of limited data, which was attributable more to social and economic factors than to technical factors. It was not in the interests of economic units (enterprises) to provide the planning centre with accurate information about their production capabilities and required resources. Neither technical innovations nor threat of criminal prosecution could change this fundamental fact. In other words, the centre will always suffer from a shortage of data and will never be able to optimize the plan²⁸.

Assuming that information was scarce, it followed that there was a need to develop an incentive system that would encourage enterprises to reveal and make maximum use of their own production capabilities. Economists argued that the lack of such a system not only reduced the effectiveness of government regulation but also caused certain negative consequences. The so-called disincentives increase enterprises' interest in hiding their production capabilities, raising their product prices, slowing the rate of technical innovation in production etc.²⁹.

In order to be able to create the appropriate incentive system or management mechanism, it was suggested -- similarly to the prereform discussions -- that evaluation based on the plan be finally replaced by a system based on achieved (not planned) economic efficiency. On the other hand, unlike in the 1960s, the appropriate value now proposed became something conceptually close to "value added", either net or gross income generated. Staying within the framework of communist doctrine, economists argued that evaluation of achieved efficiency "does not contradict the principle of planning and, moreover, helps to improve planning". P.G. Bunich wrote about "the highest synthesis", ie that of plan fulfilment and efficiency evaluation. In order to increase efficiency enterprises would be interested in taking on more difficult plan targets because they would not otherwise get sufficient amounts of raw materials, other materials, parts and labour and consequently would not be able to achieve a sufficiently high efficiency rating³⁰. Finally, with this approach "enterprises and

²⁷ "Sovershenstvovanie mekhanizma upravleniya na sovremennom etape", p. 9 (V.A. Kirichenko).

²⁸ A typical debate on this subject can be found in the articles by V. Glushko, "Intuitsiya -- khorosho, a EVM -- luchshe" (*Komsomolskaya pravda*, May 16, 1976), and by A. Birman "Neotvratimost" (*Zvezda*, 1987:5).

The conclusion about the presence of strict limitations on objective economic information was new and also crucial for the development of Soviet economic thinking. But, on the other hand, it only reflected the arguments of the liberal economists, who in the beginning of the 20th century established the utopian nature and danger of communist experiments with centralized management of the national economy. In Russia these ideas were developed in most detail by B.D. Bratskus ("Problemy narodnogo khozyaistva pri sotsialisticheskom stroe", *Ekonomist* 1922:1, 2, 3). Also: F.A. Hayek, *Doroga k rabstvu*, Ekonomika, Moskva 1992, p. 43-44 (originally 1946).

²⁹ P.G. Bunich, *Upravlenie, ekonomicheskie rychny, khozraschet*, Moskva, Nauka 1976, p. 265-269; *Sovershenstvovanie mekhanizma upravleniya na sovremennom etape*, p. 22-23 (speech of O.M. Yun).

³⁰ P.G. Bunich, *Khozyaistvennyi mekhanizm razvitogo sotsializma*, Nauka, Moskva 1980, p. 205. One notes a particular feature of discussions of this kind which showed that in the 1970s the debate broadened but did not deepen, i.e. they refined the arguments for the earlier ideas but presented virtually no new approaches. It is clear that the increased independence of enterprises, which is based on the new system of incentives, is quite compatible with the old system of funding (ie centralized

concerns are not interested in adjusting plans downwards, because it will not give them any advantages regarding the incentive to produce"³¹.

Economist-reformers fully understood that increased independence for enterprises went hand in hand with taking full responsibility for their operations and for their ability to satisfy society's needs. In this case the responsibility was primarily economic rather than administrative. But how could this be brought about? Discussions would again inevitably lead to conclusions concerning reform of property forms: as long as an enterprise remains state owned, it cannot take complete responsibility for its activity, despite numerous official claims that "the state is not responsible for the debts of enterprises"³². Without drawing any radical conclusions, economist-reformers managed to suggest a number of measures that fell within the framework of the "politically admissible". They suggested that consuming enterprises be given the right to refuse or accept suppliers who violate the terms and conditions of delivery or even to choose their suppliers. This was explained by the consumer's position in this capacity as "bearer of society's interests". Moreover, by the beginning of the 1980s discussions also started regarding the fact that the right of the user to reject a contract with a given producer would create real "emulation" among the producers. This would motivate enterprises to manufacture products of appropriate quality on time and to pay a particular attention to the organization of production and so reduce production costs and prices. Finally, they began to recommend an increase in independence and utilization of the mechanism of "competition" in other spheres of the economy - for example, in getting a loan, which would allow state credit-granting authorities to choose the most profitable options for the national economy.

Of course, in advocating the necessity of improving (liberalizing) the management mechanism, these economists had to explain the role of government authorities in the mechanism and demonstrate that government regulation would become more effective and efficient³³. The discussion turned to the idea that the state would be freed from its role as guardian of enterprises with control over each and every detail of the operations of an enterprise and would thus be able to concentrate on the key issues.

distribution of production resources), and any degree of rejection of this system (reversion to trade based on the means of production) is out of the question. We have stated earlier that the question of replacing the system of centralized resource distribution with the system of buying and selling was raised already in the first half of the 1960s, but in the 1970s this subject was almost taboo and most authors tried to avoid it.

³¹ Ye.T. Gaidar, V.I. Koshkin, **Khozraschet i razvitie khozyaistvennoi samostoyatel'nosti predpriyatiy**, Ekonomika, Moskva 1984, p. 46.

³² Stated for the first time already in the decree "About the trusts", April 9, 1923. But it had no serious practical impact on the organization of economic life even under the NEP. The same statement appeared in connection with the economic reform of 1965 ("Polozhenie o sotsialisticheskoy predpriyatii", adopted by the resolution of the council of ministers, October 4, 1965), but again without noteworthy economic consequences.

³³ In this respect the following statement by V.A. Medvedev is quite specific regarding the lessons of the reform of 1965. In debating with supporters of orthodox viewpoint, he said: "On the contrary, perhaps the independence of enterprises was developed insufficiently in terms of the actual rights of enterprises and their responsibility for using their resources. The point is that even that measure of increased independence for enterprises which is entailed in the reform was not supported by a sufficient improvement in economic management by centralized planning (V.A. Medvedev, **Upravlenie sotsialisticheskimi proizvodstvom**, Politizdat, Moskva 1983, p. 62).

These key issues were: first, to define the most important sources of growth and consequently to ensure the necessary speed of economic development, to execute a unified policy regarding technical matters; second, to define and achieve balance in the national economy; and third, to implement such reforms in the management mechanism as would help to realize the strategic tasks of the economy³⁴.

In considering the most effective ways of implementing centralized management, economists also raised the question of the role of directives, which were an integral part of the Soviet economic system. Arguments on this question were also generally continuations of the pre-reform debates. The emphasis was on the fact that improvement of the management mechanism and the consequent enhancement of centralism had to be effected in connection with a narrowing of the range of issues to be dealt with by the centre and a reduction in the number of the directive values. This would allow the centre to concentrate on the fundamental strategic questions of development³⁵.

There was one achievement worth noting: already in the first half of the 1970s some researchers managed to break away from the narrow interpretation of the forms of centralized regulation, in which everything boiled down to the question of directives. An important step away from the absolutization of addressed tasks was taken by L.I. Abalkin, who distinguished between three levels of centralized impact on enterprises: general (general rules and unified norms - the most important here), special (specifically addressed tasks) and informative. He noted that any real improvement in the management mechanism or consistent development of self-financing (ie economic independence and responsibility for enterprises) would give more meaning to general values and norms. Defined centrally, they "make management more flexible, supplement it with a system of economic incentives and open a broad area of initiative and independence on the part of the lowest levels of management"³⁶.

This reformist concept has a number of serious limitations which by the mid-1980s turned out to be impossible to overcome. First, it concerns the question of property, which was left completely to orthodox political economy. This persuaded many economists and political reformers that market-oriented economic reforms could be implemented even in an economy totally owned by the government³⁷. It was

³⁴ L.I. Abalkin, *Dialektika sotsialisticheskoi ekonomiki*, Mysl, Moskva 1981, p. 293-294.

³⁵ For example, "Sovershenstvovanie mekhanizma upravleniya ekonomikoi na sovremennom etape", p. 11 (N.Ya. Petrakov); R.A. Belousov, *Osnovnye etapy razvitiya teorii i praktiki upravleniya sotsialisticheskoi ekonomikoi*, Mysl, Moskva 1981, p. 44. Statements of this kind are quite typical of the economic literature of this period.

³⁶ L.I. Abalkin, *Khozyaistvennyi mekhanizm razvitogo sotsialisticheskogo obshchestva*, p. 154-156.

³⁷ By the beginning of the 1980s there was only one book out which adequately addressed the necessity of reforming property relations - not written by an economist but rather a philosopher (A.S. Tsipko, *Nekotorye filosofskie aspekty teorii sotsializma*, 1983). On the other hand, taking into consideration the political vincibility of this question and appealing to Lenin and to the experience of a number of east European countries, the author wrote about the necessity to integrate into the Soviet economy a large number of enterprises of the cooperative type, although it is more or less understood by everyone, that it was not a question of cooperatives alone. That is why the book triggered wide social resonance and became an object of attack by orthodox thinkers. (" Na zasedenii Nauchnogo soveta MGU po sisteme ekonomicheskikh zakonov i kategorii politicheskoi ekonomiki", *Vestnik Moskovskogo universiteta. Seriya ekonomika* 1984:4)

assumed that state-owned enterprises, if given independence and responsibility for their financial results, would react to a sufficient extent to market (demand) signals. The government would make the appropriate adjustments for market failures.

The fact that the question of property was not resolved presumes the presence of other problems, which were inevitably included in some of the studies by economic reformists. An example is the question of an economic agent making strategic investments on the microlevel within the socialist economy. Theoretical analyses by liberal economists, as well as the practice of Soviet management, clearly showed that such an agent was missing from the economic system of the USSR³⁸. Without tightly centralized political control, the interests of current consumption (salaries and bonuses) inevitably dominated over the interests of accumulation and investment.

The question of allowing competition between enterprises remained open. In the 1920s the problem of competition between state-owned enterprises was the subject of debate among Soviet economists and leaders³⁹. Since then the question has been virtually ignored. An attempt by B.V. Rakitsky to raise this question in the 1960s, when Soviet leadership was very conservative, had very sad consequences⁴⁰. It was not until the 1980s that some authors began to cautiously discuss the "competitive behaviour" of state-owned enterprises. But the distance was indeed great between this level of discussion and full scale analysis of the problems of the monopolistic nature of the Soviet economy and the competitive alternative. Moreover, in practice "competition" had always existed, but it was realized in extremely perverted forms (typical of the shortage economy) - enterprises "competed" within the organs of economic management for more material and economic resources, users struggled to obtain products from manufacturers etc.

The real competitive mechanisms could not begin to function without overcoming the shortages of the Soviet economy. These shortages were not at all a temporary phenomenon but were rather an integral part of socialist management of the Soviet type⁴¹. The shortages could not be overcome without equilibrium pricing, which

³⁸ L. Mises, *Sotsializm: ekonomicheskii i sotsiologicheskii analiz*, Catallaxy, Moskva 1994, p. 131-135 (originally 1935); B.D. Brutskus, "Problemy narodnogo khozyaistva pri sotsialisticheskoi stroe", *Ekonomika* 1922:3, p. 65-66.

This flaw in the socialist (collectivist) system became obvious literally in the days immediately following the October revolution, when Bolsheviks tried to realize their ideas of organizing industry on the basis of "worker control". Even Bolshevik economists, not to mention the socialists, start to point to the domination of consumers' interests over producers' interests and short-term over the long-term interests. (For example, I. Stepanov, *Ot rabocheho kontrolya k rabochemy upravleniyu v promyshlennosti i zemledelii*, Moskva 1918, p. 7-8; V. Bazarov, *Kommunizm ili gosudarstvenno-uporyadochennii kapitalizm?*, Mysl, Moskva 1919, part 2, p. 59.)

³⁹ For more detail see V. Mau, *Reformy i dogmy: 1914-1929*, Delo, Moskva 1993, p. 116-118.

⁴⁰ B.V. Rakitsky, *Formy khozyaistvennogo rukovodstva predpriyatiem*, Nauka, Moskva 1968.

⁴¹ In the 1970s this problem was most specifically addressed by Janos Kornai. It is interesting to note that the same phenomenon was pointed out by some economists at the very start of the Soviet economic system. (L.N. Kritsman, *Geroicheskii period velikoi russkoi revolyutsii*, Moskva - Leningrad 1926, p. 121-124). It was typical that, as in this book, the existence of the "problem of supply" (ie shortages) was considered an objective phenomenon and never a fault of the Soviet (communist) economy. Later, this viewpoint was raised to the rank of doctrine by Stalin, who argued that if demand is somewhat greater than supply, this would provide incentive for further growth of socialist production. (I.V. Stalin, *Ekonomicheskie problemy sotsializma v SSSR*, Gospolitizdat,

required a thorough reform of price formation and in the long run the liberalization of prices. For political reasons the question could not be formulated in this way. At best it was a question of transition to a system of equilibrium prices calculated and constantly corrected in accordance with mathematical models of the optimal functioning of the Soviet economy as an integral part of the "optimal plan for the national economy"⁴².

Finally, none of the economists raised the question of the possibility (and necessity) of abandoning directive values as a tool of government regulation, although the discussions of the mid-1980s on restricting their role came close to drawing this conclusion.

Before the attempts to reform the Soviet economy in the latter half of the 1980s, the inadequacies of reformist research were not particularly harmful. Actual policy was not influenced very much by reformist recommendations. The communist leadership of the USSR obviously understood that the Soviet economy was becoming increasingly inefficient. But periodical attempts at modernization were politically and ideologically determined by the need to preserve the basis for the totalitarian model of administration and, as M.S. Gorbachev described them later, assumed "to make things better without changing anything"⁴³. In the late 1970s and early 1980s a number of normative documents came out, whose aim was to breath new life into the disintegrating Soviet economy. As in the 1960s these documents were orientated towards finding an ideal variable for the comprehensive evaluation of each enterprise's impact on economic growth and ability to satisfy consumers' needs as well as for encouraging enterprises to perform better. However, taking into consideration the inadequacy of price information in the governmental pricing system, the leadership of the USSR and loyal economists looked for variables other than profit and profitability to use in the objective evaluation of the enterprise's operations and needs of the national economy and individual consumers. From time to time another such a variable (usually volume-related) was presented as the key to solving all the problems of the centralized plan and market elements. If in 1965 it was volume of realized products, in the second half of the 1970s it was net or normative net products and in the beginning of the 1980s the degree of fulfilment of economic contracts⁴⁴. Of course, these exercises did not

Moskva 1952).

⁴² At issue is a book written in the framework of the "theory (system) of optimal functioning of the economy". The authors shared the reformist position, but their analysis of the management mechanism and suggestions for improving it were mainly based on mathematical models of macroeconomic processes. (For example, N.P. Fedorenko, **O razrabotke sistemy optimalnogo funktsionirovaniya ekonomiki**, Nauka; Moskva 1968, p. 35-37; N.Ya. Petrakov, **Khozyaistvennaya reforma: plan i ekonomicheskaya samostoyatel'nost**, Mysl, Moskva 1971, p. 79; S.S. Shatalin: **Funktsionirovanie ekonomiki razvito go sotsializma**, Izd-vo MGU, Moskva 1982.)

⁴³ **Materialy XXVII syezda KPSS**, Politizdat, Moskva 1986, p. 4.

⁴⁴ The most essential documents in this regard were two joint resolutions of the central committee and council of ministers in 1979 and 1983, adopted by the leaderships of L.I. Brezhnev and Yu.V. Andropov respectively. The first was "Ob uluchshenii planirovaniya i usilenii vozdeistviya

bring results, because what the economy needed was thorough systemic reform.

The situation changed significantly when M.S. Gorbachev came to power. He made a real effort to carry out economic reforms based on the most recent progressive ideas of official Soviet economics. Quickly and to the fullest extent possible he adopted the concept of "improvement of the management mechanism" in its most radical form of the times. Never before had market-oriented economists found such understanding in the party leadership and never before had the leadership demonstrated such willingness to realize the suggestions of the economists. Statements by M.S. Gorbachev in 1986-1988 and many of the normative acts adopted during that period represented the extreme in progressivity in so far as official Soviet economic theory would allow.

But soon it became clear that ideas which had seemed so advanced some time earlier not only did not give perestroika the means to carry out the huge tasks it had set out to accomplish but in fact worked in reverse, ie they exacerbated the social and economic problems⁴⁵. The ideas were the indeed the most advanced of the times, but only in terms of the socialist system of management. They were built on the logic of the system and assumed away any weakening of the system's foundation. As these ideas were bound by the ideological doctrines and political limitations of the recent past, they were unable to provide quick recommendations for a more comprehensive view and for solving the problems of transforming the economic system. Nonetheless, the practical realization of these ideas led to the overturn of fundamental elements of the Soviet economic system (starting with the mechanisms of centralized control over the economy and political control over the behaviour of economic agents), which meant a fundamental change in the logic of how the national economy functions⁴⁶.

To put it briefly, when the ideas of the 1970s were first put into practice, their

khozyaistvennogo mekhanizma na povyshenie effektivnosti proizvodstva i kachestva raboty" (July 12, 1979). Most important here was the value of "normative net product", according to which it was assumed to form the funds for enterprise incentives. The other resolution was "O dopolnitelnykh merakh po rasshireniyu prav proizvodstvennykh obyedinenii (predpriyati) promyshlennosti v planirovanii khozyaistvennogo deyatelnosti i po usileniyu ikh otvetstvennosti za rezultaty raboty" (July 14, 1983). This was the beginning of the "large scale economic experiment". The idea of the experiment was to re-orientate the incentive system towards the value of fulfilling economic contracts. **(KPSS v rezolyutsiyakh i resheniyakh konferentsii, syezdov i plenumov TsK, Politizdat, Moskva 1987, part 13, p. 335-396; part 14, p. 442.451.)**

⁴⁵ For example, the Law on state-owned enterprises, adopted in June 1987, gave extensive rights to the management and workers of state-owned enterprises, but in practice it quickly destroyed the manageability of the national economy and caused imbalances in the main macroeconomic sectors. For state-owned enterprises operating in a non-competitive environment with soft budget restraints, independence did not mean increased efficiency of operations, let alone more efficiency for the macroeconomy.

The same holds for the other economic decisions. The cooperative quickly became a form of legalized private entrepreneurship, and consequently shade capital. Some liberalization of price control in the wholesale sector quickly caused an immediate price increase. Many other such examples could be cited.

⁴⁶ What happened is quite typical of all big revolutionary reforms. In the early stages, the new government is trying to follow as consistently as possible the recommendations developed while the old system was in effect. The result is a fiasco. An excellent example is the economic policy of the temporary government of Russia in 1917. It attempted to realize the ideas of different government monopolies, starting with the monopoly of bread sales. This was a complete fiasco, which quickly exacerbated the economic and political crisis.

inconsistencies immediately surfaced and the general crisis worsened. By the end of the 1980s the necessity for completely new approaches became obvious. Even though those approaches would be based on theoretical structures of the past, they did make a quantum leap - to overcome the stereotypes and doctrines which are integral parts of the theory and practice of Soviet socialism.

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