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CHAPTER

Capitalism by Any Other Name(s): Engaging with Markets before the Soviet Collapse

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Abstract

When the Soviet Union disintegrated in December 1991, so did its economy, leaving behind 15 successor states and a variety of economic models. Part of the reason for the economic disparity among the Soviet vestiges was the fact that economic reform had proceeded inconsistently before 1991, as market elements slowly and then rapidly—if sometimes haphazardly—moved into economic sectors and cities after 1985. These market elements and the reforms that legalized them, moreover, were built on a long-standing debate in Soviet economics about the place of market mechanisms in the command economy, a debate that remained unresolved in 1991. Yet even at the point of the collapse of the USSR and its economic system, this debate continued, as late Soviet republican governments took different approaches to balancing marketization with the markedly socialist expectations of their populaces and bureaucrats. Considering the economic reforms and background debates occurring in Moscow and elsewhere in the USSR both after Mikhail Gorbachev's ascent to power 1985 and before perestroika, this chapter considers how *markets* went from being an unspeakable word that had to be disguised with aphorisms to an ideal to be achieved.

Keywords: Soviet Union, planned economy, socialist enterprise, market reform, perestroika

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1. Introduction

In the mid-1980s, capitalist-style markets found an unlikely champion in the person of the general secretary of the Communist Party of the Soviet Union (CPSU). Mikhail Gorbachev, on coming to power in 1985, made little attempt to hide his frustration with the state of the Soviet economy, and one of his constant refrains had to do with the illogic and inefficiencies of the planned socialist economy. In July 1986, faced with budget and consumer deficits, he suggested bypassing centralized plans by way of "economic methods": "Markets can be used to sell cement, bricks, lumber—take it from incomplete construction sites … this can provide goods worth at least a billion rubles," and he railed against the "cross-eyed" obsession with socialist "dogmas" that had prevented market relations in the USSR (Cherniaev, Veber, and Medvedev 2008, 63, 138). Instead, Gorbachev argued, the CPSU needed to "bring out the issue of the market, and state that we are in favour of healthy competition" (68). Nor was Gorbachev alone in his sense that markets held the solution to the USSR's growing economic woes, from consumer deficits to flattening productivity to sharply decreasing growth rates. From the chairman of the Council of Ministers of the USSR, Nikolai Ryzhkov, to Gorbachev's economic advisers, many of those in power in the USSR in the second half of the 1980s increasingly felt that markets were not the anathema that they had long seemed.

This sense of markets—the unregulated or only partially regulated purchase and sale of goods—as a desirable aspect of socialist economics provided the basis for most of the economic reforms passed under the heading *perestroika* during the period of Gorbachev's leadership. It also occupied an almost paradoxical intellectual position as a concept that at once seemingly violated central socialist principles yet had figured as a consistent part of Soviet economic debates since the 1920s. Throughout the planned economy, there had remained an ambiguity about markets, whether as a needed but undesired temporary distribution mechanism on the path to a truly socialist economy or as an ideal of market-clearing equilibrium that the Soviet model could never reach. Gorbachev's open criticism of Soviet planning brought this ambiguity into the open and increased the volume of the debate, which would continue to echo even after the collapse of the Soviet Union in 1991. But the basic contradiction was nothing new. In fact, reforms passed in the late 1980s drew on the debates of preceding decades and built on this underlying ambiguity and the start-and-stop of previous reform efforts in the 1960s and 1980s. The state of the Soviet economy in the final years of the USSR—and the debates about how to "save" it—were resultingly affected by and reflective of this same ambiguity, a basic unsurety about the ultimate desirability of markets.

This chapter follows the history of markets' (sometimes hidden and sometimes explicit) inclusion in Soviet economic models, drawing from a growing body of literature (e.g., Woodruff 2000; Ellman 2014; Feygin 2015; Zweynert 2019) that has demonstrated important continuities across the decades. It then links these earlier economic debates to the reforms passed in the late 1980s, showing how the pendulum of ambiguity definitively swung toward the positive in the first years of Gorbachev's leadership. Finally, it considers how the ultimate economic collapse of the USSR influenced the reception of markets in divergent late-Soviet environments, highlighting the partial return swing of ambiguity in some contexts. Ultimately, however, by following these debates about the nature and practices of markets, as they were variously understood in Soviet conditions, the chapter shows how markets crossed the line from being perceived as a largely unspeakable but unavoidable aspect of life to becoming an unachievable ideal toward which to strive.

2. Market as Unwanted Necessity

In theory, the Soviet command economy as designed and implemented in the late 1920s and 1930s was meant to avoid market practices: it was intended to circumvent the vagaries of supply and demand, equilibrium prices, and the possibility of centrally unorganized production. In practice, it did little of the sort, and elements of markets remained central to many aspects of the Soviet economy throughout the twentieth century. Planned production (the purview of the State Planning Committee, or Gosplan) and distribution (Gossnab) were from the beginning supplemented by "goods-money exchanges" (*tovaro-denezhnye otnosheniia*). As the critically minded intellectual Fyodor Burlatsky suggested in 1988, this started at the level of the everyday: "We receive pay in monetary form, we have had and continue to have priced goods [in stores]."[1] Soviet consumers had never stopped engaging with markets, as Burlatsky pointed out—these markets had just been regulated after the end of the New Economic Policy in 1928. As R. W. Davies (1984, 202) has argued, this was no accident: even though Soviet commerce was meant to be different from seemingly unregulated capitalist markets, its design had been based on the idea that "fixed retail prices would at the same time be market-clearing prices." Not only were consumers paying for goods in money, they were even meant to be part of a regulated market equilibrium.[2]

From the perspective of Soviet enterprises—economic units ranging from meat-pie stands in local markets to vast tractor factories—unplanned goods and money exchanges had been a central part of economic activity since the industrialization push of the early 1930s. Stephen Kotkin (1997), for example, has written about the *tolkachi*, or "expediters," who were instrumental in finding industrial parts, legally or semilegally, for steel production at the USSR's behemoth Magnitogorsk factory. Planning was never a perfect or entirely comprehensive activity; it continuously left space for individual activity, initiative, and even exchange. As the leading theoretician of planned socialist economies, János Kornai (1980), noted, "Not even in the strictest periods of centralization was the plan directive a one-sided dictate. It was always preceded by some dialogue between those determining the plan and those implementing it" (53). The Soviet economist Konstantin Klimenko, moreover, highlighted the importance of these unplanned dialogues in 1963, when he pointed out the necessity of free exchange for the actual implementation of planned output targets: "Even with the highest degree of centralization," Klimenko (1963) wrote, "official rationing determines only relatively aggregate quotas. Rationing is anyway completed by the 'business' contract between seller … and buyer, in which they agree on the specific quality, price, term of delivery, etc." (66).

Without some amount of market (goods-money) exchange, it seemed, the Soviet system of planning was unable to get around the bottlenecks that were endemic to much of its production. Market exchange violated the sense of technocratic organization that, according to Marxist-Leninist theory, was meant to characterize the planned socialist economy. It was, however, largely in line with the ambiguous, ad hoc approach to economic development that had characterized Soviet programs since Lenin's own pronouncement in 1918 that, "We may have knowledge of socialism, but knowledge about how to organize millions, about how to organize and deliver goods and so forth—that we do not have. We have yet to pass this course" (Lenin 1969, 258). As Lenin pointed out, there was no blueprint for socialist economics: it had to be developed as it was being built. In practice, as it turned out, the course that the Bolsheviks learned and taught included a significant place for market relations, though these often continued to be referred to by euphemisms.

One place where the word *market* was actually employed, however, was in reference to the endemic kolkhoz markets (*kolkhoznyie rynki*), where the unregulated sale and purchase of foodstuffs was legal, in contrast to most (though not all) sales of other goods. The kolkhoz markets gave Soviet citizens the opportunity to engage in directly marketized behavior—to agree on prices through haggling, argument, and their own sense of scarcity. The openness of these market arrangements also made the kolkhoz markets among the most theoretically excoriated by proponents of the planned economy. But this did little over time to undermine their importance for the Soviet economy. By the 1970s, high percentages of certain key products, such as pork (40%) and potatoes (60%), were being produced privately and sold at market prices in kolkhoz markets (Nove 1982, 118). In Tajikistan, for example, more than 90 percent of all walnuts, an important local product, were produced and sold in this manner.[3] Nor was the kolkhoz market an isolated outsider. Many private services, such as taxis, tailoring, and dentistry, were provided by individuals to other individuals at mutually agreed-upon (i.e., unregulated or market) prices. Other Soviet citizens sewed and sold clothing, built bootleg appliances, or fixed shoes, all occupations that existed in a legal gray area of plausibly legal but in practice illegal economic activity that the state authorities largely overlooked. In many ways, there was no choice: according to some calculations in the late 1970s, this market-driven "second economy" constituted more than 10 percent of total Soviet gross national product (GNP; Grossman 1977, 35).

In one form or another, market (goods-money) exchanges seemed to be a necessity for the Soviet economy, however theoretically undesirable. In the late 1950s, perhaps unsurprisingly in this context, discussions began in earnest among certain Soviet economists about just how undesirable market practices really were. Building on the "linear programming" models of Leonid Kantorovich, these economists, who were largely based at Moscow's Central Economic-Mathematical Institute (TsEMI) and Novosibirsk's Institute of Economics and Organization of Industrial Production (IEiOPP), worked to "optimize" Soviet planning by considering how to lower costs and streamline production at factories and across industrial sectors (Kantorovich 1965; Ellman 1971; Kantorovich and Gorstko 1972; Kornai 1975; Sutela 1984; Feygin 2015; Scarborough 2018, 80–86). Their mathematical models, however, faced a seemingly insurmountable quandary: there was no obvious method for assigning value to Soviet industrial inputs, which were priced without reference to scarcity or even cost of acquisition. Set by planners and state bureaucrats, input prices were not market clearing and so were, essentially, arbitrary. Without calculable input valuations, the models simply did not work, and so those building the models, such as TsEMI's Vasilii Nemchinov, substituted so-called shadow prices (*ob''ektivno obuslovleny otsenki*), or stand-in valuations based on what equilibrium prices would have been had such a market existed between Soviet enterprises (Nemchinov 1965a; see also Kantorovich and Gorstko 1972, 30).

To some degree, using shadow prices allowed the economists at TsEMI and IEiOPP to calculate optimal input mixes for Soviet industrial enterprises. But this also led to two far-reaching conclusions. First, as Nemchinov (1965a, xiv–xv) argued, shadow prices were at best a half-measure. They provided guidance on input mixes for Soviet industry, but they were restricted by the very planning they were meant to influence, and they could not overcome the ingrained disincentive to save that was built into the Soviet Union's model of nonmarket prices. (Enterprises and their directors, who were judged not against profitability—input and output prices were nonmarket clearing and thus incomparable—but against production volume, had no reason to seek truly "optimal" input mixes, and instead hoarded inputs.) In addition, shadow prices pointed to a better solution: allow markets to function to a greater degree in Soviet industry, and provide market prices and market-based contracts to guide enterprise behavior. Markets, these economists suggested, were not entirely problematic; in fact, they held great promise as an organizing principle within the confines of socialist industry (see, e.g., Nemchinov 1965b; Volkonsky 1967; Katsenelinboigen, Lakhman, and Ovsienko 1969, 82–123; Federenko 1970, 168).

Under Khrushchev, these debates remained in the realm of academia, but after Brezhnev's ascension to the position of General Secretary of the CPSU in 1964, attempts were made to expand the place of goods-money relationships in the Soviet economy. This was largely thanks to Aleksei Kosygin, whom Brezhnev had elevated to chairman of the Council of Ministers of the USSR. With an extensive career in Soviet planning and government (and even "cooperative" private enterprise in the roaring twenties of Soviet New Economic Policy), Kosygin was well acquainted with the ongoing debates about the place of market functions in the Soviet economy (Budkevich 2015). Facing declining economic growth and productivity rates, he applied the theoretical insights of economists Kantorovich and Nemchinov—as well as the more detailed plans of Evsei Liberman, a like-minded economist from Kharkov—to create greater market-driven incentives for enterprise outputs (Feygin 2017, 134–136). As part of a broader economic reorganization meant to increase output following Khrushchev's less successful reform efforts, the 1965 Regulations on Socialist Enterprises (popularly known as the "Kosygin reforms") introduced three important changes to enterprise law, all of which implied a greater place for markets. First, enterprises' baseline standard of plan-fulfillment performance was switched from "gross output" (*valovaia produktsiia*) to "volume of realized production"—that is, the value of all the goods the enterprise produced and sold. Second, instead of remanding all of their profits to state budgets, enterprises were now allowed to retain a sizeable portion of the profits they earned. These were to be divided between three accounts: an "enterprise development fund," a "socio-cultural costs fund," and a "bonus fund." Enterprises still had to coordinate their production and distribution through Gosplan, but the committee's control over the mix of products to be produced was lessened, giving individual factories and directors more leeway to choose which items to produce in what volumes (Kosygin 1979, 328; Popov 2009, 317–330).

In theory, these changes would use market incentives to boost output and productivity: enterprises could now determine on the ground which of their products were in greater demand, produce more of those products and less of others, earn and retain profits, and be judged, not on the volume of their production but on the basis of actual sales. In practice, the results were mixed and, as usual, somewhat ambiguous. Overall industrial output and economic growth rates increased slightly in the years after 1965, reflecting quick acceptance of the new enterprise rules and changing economic behavior. This effect, however, quickly tapered off into the 1970s, as the limited impact of the reforms became clear. By 1975, annual growth rates had decreased by at least 30 percent; productivity had declined even further and, by some estimates, was reaching the stagnant position of flat (zero) annual productivity gains.[4] Although enterprises were incentivized to increase profits, they often did so simply by increasing prices on existing goods, leading to hidden but perceptible inflation (Khanin 1991; Harrison 1993). With plans now tagged to sales volumes, many of the same issues with hoarding and bottlenecks re-emerged. Without market-clearing prices or profitability as a benchmark—as, in fact, Liberman and others had advocated—enterprises still had reason to hold on to as many inputs as possible.

Surveying the impact of the 1965 reforms in 1970, the economist Nikolai Petrakov wrote a long article in the general-interest (and highly popular) "thick journal" *Novyi Mir* that explicitly laid out the ambiguous position and influence of market mechanisms in the Soviet economy and in Soviet economics. Evaluating the history of Soviet economic thought from Lenin onward, Petrakov (1970, 177) suggested that the USSR had ultimately chosen to emphasize the "moral responsibility of economic administrators to the people, Party, and country for the results of their activities." Although this did lead many factory managers to work strenuously to improve economic outcomes, Petrakov argued, it also fundamentally disconnected managers' and administrators' personal outcomes from those of the economic objects they oversaw. They were only *morally* responsible for plan fulfillment, not *financially* responsible. As a result, those who were setting and overseeing plans had little interest in whether consumer goods were needed, demanded, or sold; the focus was not on "profits, but on reports about [profits]" (Petrakov 1970, 177). For consumers, this meant that goods were priced, not according to market-clearing logics, but according to their adherence to political programs or noneconomic objectives, leading to billions of rubles' worth of unwanted clothes, toys, and televisions sitting on retail shelves and consumers with an equivalent amount of money to spend. For the goods that were in demand, the queues stretched for kilometers (or years).

While Soviet economic thought—and economic planning—had tended to accept the basic principles of goods-money exchanges, such as the need for money, prices, and consumer markets, the assumption that everything could be planned from the center failed to solve the quandary of "unfulfilled solvent demand." This was because, Petrakov (1970, 179) argued, the system had promoted half-measures, such as centrally organized “goods-market relationships” in place of market-clearing prices. The solution was to introduce market-driven exchanges: “balancing supply and demand—that is the best medicine against queues.” This balance, moreover, should be based on signals provided by the market, which would be interpreted and implemented by Soviet planners. In other words, to be market clearing and equilibrium balancing, Soviet prices would have to be based on a “marketized goods-money relationship” and changed dynamically in accordance with the latter (Petrakov 1970, 184).

Petrakov’s arguments summarized much of the debate that had begun in the late 1950s and would continue throughout the 1970s about the place of shadow prices, market mechanisms, and goods-money exchanges in the Soviet economy. His article equally epitomized the unresolved ambiguity about these mechanisms in Soviet planning circles. Reform-minded economists like Nemchinov or Petrakov promoted increased marketization, seeing it as a potential solution to the USSR’s growing economic challenges. Politicians, such as Aleksei Kosygin, however, were only willing to go so far in the use of goods-money exchanges, which planning bodies saw as an unfortunate necessity and ideologues considered an antiquated step soon to be replaced by true socialist economic management. With politicians on the side of conservatism and skeptical about markets, proposals such as Petrakov’s for dynamic prices for Soviet consumer goods were, until the mid-1980s, generally left on the level of theoretical speculation.

3. Reassessing Markets

Like so much else at the time, the Soviet government’s approach to markets changed significantly under the leadership of Mikhail Gorbachev. Even before coming to power in 1985, Gorbachev had sought out the advice of economists like Abel Aganbegian, a proponent of market principles at Novosibirsk’s IEiOPP. At these meetings, Aganbegian (2012) later recalled, their discussions remained hidden behind Soviet euphemisms: “The word ‘market’ was forbidden then,” he said, “so I wrote about the activation of ‘monetary-goods exchange.’” The similarly minded economist Oleg Bogomolov recalled his first meeting with Gorbachev in those years: Gorbachev “explained briefly his position in favor of market relations. He called it not ‘market economy,’ but the necessity to use the good value relations and the ‘value law’ in our economy. It was some euphemism, but nonetheless …”[5] Everyone involved, however, understood what was being discussed, and Gorbachev (1995, 335) later wrote that economists like Bogomolov or Aganbegian were the only ones at the time who properly understood the Soviet economy. Gorbachev, together with his fellow CPSU Central Committee secretary Nikolai Ryzhkov, also commissioned reports from TsEMI on hidden inflation and other barriers to Soviet economic growth.[6] There was little doubt of Gorbachev’s sympathies for this previously sidelined reform wing of Soviet economics—and for the ideas it had promoted.

Gorbachev’s ascension to the leadership of the CPSU Politburo in March 1985 opened the doors of the Kremlin to economists like Aganbegian, Petrakov, and others “too well disposed toward marketizing reform” to have previously been able to gain access to political influence (Brown 2007, 182). Over the next few years, Gorbachev surrounded himself with economic advisers sympathetic to market ideas, such as Aganbegian, Bogomolov, and Petrakov, as well as Leonid Abalkin, Vadim Medvedev, Gavriil Popov, Stepan Sitarian, and others.[7] Many of these figures had been involved in the development of the stymied 1960s reforms, leading to the sense that “perestroika’s economic discussions copied in exactitude its dramatis personae from the 1960s spectacle (*epopeia*),” as Valentin Pavlov (1995, 259), who would later become prime minister of the USSR, put it in his memoirs (also see Abalkin 1986, 164–165). Given a second opportunity, those in favor of reform pushed further, advocating for the emphasis on profits and individual entrepreneurship that had been cut from the Kosygin reforms.

In 1985 and 1986, the ideas of these economists largely remained expressed on paper and in closed-door discussions, though they did manage to help push through the largely overlooked creation of a more fluid labor market and pool of frictionally unemployed workers, as enterprises were incentivized not to rehire many of the workers who left work of their own volition.[8] In May and June of 1987, however, Gorbachev gathered his advisers together at a Central Committee dacha in the village of Volynskoe, outside Moscow. They were tasked with developing a plan for the broader development of the Soviet economy. Over the next month, they wrote an "analytical report of 200 pages—perhaps the best and most comprehensive evaluation of the development of the Soviet economy with specific recommendations for its reformation and renewal," as lead author Leonid Abalkin (1996, 18) later put it. Although the report was never published, Gorbachev read it closely and "proudly waved it in front of the members of the Politburo" in a June 1987 meeting (Abalkin 1996, 19; also see Cherniaev, Veber, and Medvedev 2008, 191–192). It also formed the basis for Gorbachev's public announcement of a new economic program based on "new mechanisms … of economic independence on the basis of complete self-financing" (Gorbachev 1987, 33). Although this language hid the idea of "profits" behind the term "self-financing," the actual marketizing provisions this implied would become clear in the laws passed later, in 1987 and 1988, on the basis of this program.

These laws—and primary among them the 1987 Law on Enterprises and the 1988 Law on Cooperatives—assumed a fundamental place for markets at the center of the Soviet economy. Enterprises remained the backbone of the Soviet economy, the productive units providing the vast majority of all products and services in the country. By changing the way they did business, the 1987 Law on Enterprises was intended to directly influence the "structure of the entire economic mechanism" (Ryzhkov 1995, 62). It was meant to do so by significantly increasing market-driven behavior through a combination of profit motives, increased independence, and direct contacts between enterprises. The law stipulated that within two years all enterprises must become "self-financing" or essentially financially solvent, no longer dependent on transfers from any budget. After declaring themselves self-financing, moreover, they were given the right to hold onto the majority of their profits—in some cases, more than 80 percent of profits—a significant change from the previous ceiling of around 10 percent. They could also freely use either the profits or the capital goods, including buildings, machinery, or automobiles, under their control: these funds and goods could be transferred, sold, or loaned to other organizations without oversight. Direction from Gosplan and Gossnab was also reduced to providing "state orders" (*goszakazy*) for a minority of an enterprise's production, a proportion that within a few years was reduced to 25 percent or less. The rest of enterprise production, according to the 1987 law, would now be set by the enterprise itself based on direct contracts with other organizations.[9]

The 1987 Law on Enterprises suggested that Soviet production should at least partially adhere to market logics. The 1988 Law on Cooperatives, which was passed the next spring, went further. Although the word *cooperative* had tended in both the West and the USSR to indicate collectively oriented productive organizations with greater focus on sustainability than profitability, here it was essentially an ideological cover for the "de-facto 'privatization' of economic activity," as one clear-minded observer noted in 1989 (Palm 1989, 129). Placed on equal legal footing with Soviet enterprises, the new crop of "cooperatives" had little in common in with the fishing artels or prospecting cooperatives that had existed previously in the USSR or the consumer cooperatives in the United States. They were, in essence, private businesses, freely producing, buying, and selling goods and services at prices they themselves set. Although the enterprises remained regulated in terms of prices and the movement of finances, cooperatives could largely act as they pleased. They were also given a systematic advantage over enterprises, when previous tax structures involving both profits and VAT (*nalog s oborota*, or "turnover tax") were replaced with much lower tax rates—sometimes as low as 2 percent to 3 percent (Cox 1996, 83–84; Slider 1991).

Gorbachev and the architects of economic reform were making a collective bet that markets were not simply an undesirable necessity to quietly accept but, instead, the solution to the USSR's problems of "unfulfilled solvent demand" and stagnant economic growth. As Nikolai Shmelev (1987), one of Bogomolov's acolytes, wrote around the time the Law on Enterprises was passed, capitalism should no longer be feared as a sort of economic bogeyman. Instead, he argued, the Soviet Union could only move forward with radical economic reform, which needed to include private enterprises, less planning, and a focus on profitability. Gorbachev also continued to emphasize the promise of the market and of market-oriented activity: "The cooperative is independent. It will go to the market—not to us" (Cherniaev, Veber, and Medvedev 2008, 287). Gorbachev and his supporters made clear that markets, properly organized, would fill store shelves and abate consumer demand: they would give the boost to the Soviet economy that 60 years of planning had failed to provide.

The results, however, were mixed. Notwithstanding many claims to the contrary that have been made since, the Law on Enterprises was implemented quickly and consistently across the USSR.[10] By the end of 1988, for example, more than 50 percent of all enterprises in the USSR had declared themselves "self-financing," essentially embracing the new financial order (Ryzhkov 1992, 228). This meant that they could now set much of their own product mixes and hold onto the majority of their profits, a structure meant to boost output of in-demand consumer goods. In practice, however, enterprises found it much more profitable to switch output to higher-end goods, produce less, reduce staff, and hoard profits: by June 1989 enterprises across the USSR held 250 billion rubles in unspent profits, an amount roughly equal to the USSR's annual federal budget (*Pervyi s''ezd narodnykh deputatov SSSR* 1989, 25). With control over interenterprise contracts limited under the new law, moreover, even the smaller percentage of state orders was going unfulfilled. Internal Central Committee and Gosplan reports from 1989 found that increasing profits were often accompanied by reductions in output volumes, while fewer than 60% of the expected output contracts needed to complete state orders had been signed.[11] As a former Gossnab administrator, Nikolai Nestorovich (1998, 264), later recalled, "The producers curtailed the production of, or outright discontinued, products that were unprofitable, even if these enjoyed customer demand."

Nor did the new class of private "cooperative" businesses fill in the growing gaps in consumer demand. Instead, the vast majority of cooperatives (more than 80% by most estimates) were founded "under" (*pri*) an existing enterprise (Abalkin 1991, 249–251; Slider 1991, 806–808), and more than 80% of all cooperatives' production and services were being sold to enterprises, not consumers (Tikhonov 1990, 4). Only a minority of consumers had ever bought goods from a cooperative, and those who did found prices that were far higher than they were used to. It was clearly "more profitable for [cooperatives] to secure contracts with enterprises and organizations that have powerful financial and productive resources," an internal memo circulated among Soviet ministries in 1990 argued.[12] This was especially the case because limited financial control over cooperatives meant that they could transfer noncash funds (*beznalichnykh sredtsv*) to cash without restriction, a right they took full advantage of: by the end of 1989, cooperatives had cashed out more than 29 billion rubles, or two-thirds of their total reported income (Legostaev 2011, 122).[13]

4. Markets as Unachieved Ideal

Both cooperatives and enterprises were acting in accordance with market principles: they were finding entrepreneurial niches, reducing costs, and maximizing profits. This had not, however, either filled store shelves or solved the USSR's broader economic issues. In fact, from 1989 on consumer deficits spiked, and the overall economy went into recession. What this implied for the ongoing project of economic reform in the USSR proved to be highly contentious. For some members of the political elite, most famously Gorbachev's close allies and CPSU Politburo members Nikolai Ryzhkov and Yegor Ligachev, this became the moment to begin questioning the idea of "radical reform" and to consider how the USSR's existing socialist structures could contain the excesses of capitalist markets. It seemed, as Ligachev (1992, 4) wrote a few years later, that

> in place of the goals that had been declared and supported by the Soviet people, a certain section of the political leadership took aim at replacing the foundations of the existing system. I consider this change to have been the source of society's profound disarray .... In place of the slogan "More socialism—more democracy!" we ended up with the spreading of capitalism and the practical curtailing of democracy.

Other skeptics, including the previous architect of reform Leonid Abalkin, took a more central position, arguing for the continued need for economic change while also advocating for balance against the increasing inequalities brought about by markets (Zweynert 2019). For Gorbachev and many of his advisers and supporters, however, the answer was quite the opposite: the USSR's increasing economic woes were not the consequence of market reforms—but a sign that reforms had not been implemented. In 1989, beginning a narrative that has continued ever since, those who had promoted market relations began to argue that these markets had yet to be implemented. Rural entrepreneurs in Yaroslavl were being "literally terrorized" by kolkhoz managers, argued Aleksandr Yakovlev, another Politburo member.[14] Academic economists wrote that the "Law on enterprises, having come into force from January 1988 ... has not in reality become a law: its central provisions are being ignored by government agencies" ("Obzor otvetov uchastnikov 'kruglogo stola' na voprosy ankety" 1989, 165). Gorbachev himself frequently complained that his reform program was "stalling out" (*probuksovyvala*) because ministries or the CPSU were "blocking" its implementation (Cherniaev, Veber, and Medvedev, 19, 241, 295).

The answer, for those who had promoted reform, was to push harder: to advocate for greater implementation of market reforms. What the USSR had achieved by 1989 was little more than "half measures, and half measures, as is known, are often worse than inaction," as Shmelev (1987, 142) had argued a few years earlier. Real markets were said to "promise quickly available capitalist 'wonders'," Valentin Pavlov (1995, 259) wrote critically a few years later. The key was to reach this "real" market, which required further reform. Later in 1989, Yegor Gaidar and Stanislav Shatalin, two market-oriented economists with growing political weight (Gaidar was the economics editor of *Kommunist*, and Shatalin was an influential academic economist who sometimes advised Gorbachev), published a book that laid out the promise of the as-of-yet unrealized Soviet market. Harkening back to the debates in the 1960s, they emphasized the need to free prices from administrative control: "Only prices oriented towards the provision of equilibrium between supply and demand can enable the many competing interests of enterprises to be balanced appropriately" (Shatalin and Gaidar 1989, 52). Market prices and a truly free market should be the foundation of the USSR's economy, Shatalin argued, a position he made explicit in an early draft of a transition program submitted to the Soviet government in 1989:

> Humanity has not managed to create anything more effective than the market economy. It incentivizes individuals to realize their potential and to increase their work and economic activity; it sharply accelerates scientific-technological progress; its intrinsic mechanisms of self-regulation provide for the best possible coordination of all economic objects' activities, as well as the rational use of labor, material, and financial resources and the underlying balance of an economy.[15]

This idealized vision of a market, moreover, formed the basis for later and more famous "market transition programs." In August-September 1990, two competing plans for transitioning to a market system were proposed: one developed under the leadership of Leonid Abalkin and backed by Gorbachev, and another written by Shatalin and Grigory Yavlinsky and supported by Boris Yeltsin, the chairman of the increasingly independent Supreme Soviet of the Russian Soviet Federative Socialist Republic (RSFSR; Cherniaev 1993, 370–371; Ryzhkov 2009, 117–122; Zubok 2021, 131–140). Although the two plans contained essentially irreconcilable differences—Shatalin and Yavlinsky's "500 days" plan argued for a much faster transition to capitalism and, perhaps more importantly, left no place for a central Soviet government—they shared an underlying belief in the promise of markets (Abalkin 1991, 195–214; Pavlov 1995, 254–255; Cherniaev, Veber, and Medvedev 2008, 637). Both programs extolled free markets, argued against regulation, and largely promoted a vision of laissez-faire capitalism that was more representative of the version in the early part of the twentieth century than of the contemporaneous—and often highly regulated—models of modern Western capitalism.[16] Faced with an impasse, Gorbachev assigned Abel Aganbegian to find a middle ground; unsurprisingly, Aganbegian retained the underlying logic of Shatlin's program and submitted an updated draft to the Soviet government in September 1990 (Abalkin 1991, 216, 236–240; Cherniaev 1993, 373–376). Although Aganbegian's final version left important questions about the future of the central Soviet government unanswered—an issue that would vex the country over the coming year until its collapse—it clearly stipulated that the USSR was obligated to move to a fully marketized system. The Supreme Soviet of the USSR duly authorized the program in October 1990, making markets the official goal of the last vestiges of socialism (Polynov and Tarasov 2017, 118–121).

5. Denouement: What Can Markets Promise?

The global triumph of capitalism was declared in December 1991 upon the final collapse of the Soviet Union, but the ultimate move toward markets had occurred before and stretched across this dividing line. As the USSR ground through its final year of existence, increasingly wracked by economic downturn, consumer deficits, and basic social unrest, additional steps were taken to embed markets principles into its economy. A new "Law on the Enterprises of the USSR" was passed in January 1991, which further blurred the lines between state and private enterprise and factually allowed a form of privatization through the "transition of an organization to rental status." Further acts were passed that liberalized prices on most goods in the USSR and deregulated many of the sectors of the economy that had remained in the purview of the state. The USSR was inevitably joining the rest of the capitalist world, much to the bewilderment of many of its citizens. Surveying the state of the Soviet economy in April 1991, for example, the Tajik Supreme Soviet Deputy Moyonsho Nazarshoev was flabbergasted: "I honestly don't know if we are living in the Soviet Union or somewhere abroad."[17]

As Branco Milanovic (2019) has written, however, the lack of alternatives to market systems by its nature breeds divergent expectations and a wide variety of interpretations. This was just as true in the last years of the USSR as it has been globally since 1991. As markets grew more endemic across the Soviet Union, economic outcomes continued to fall (for more context, also see Gevorkyan 2018). For some, this was further evidence that markets remained just beyond the horizon—that the real promise of capitalism was yet to come. "Everything will be worse for six months," Yeltsin famously declared on the passage of further marketizing reforms in late 1991, "and then there will be reductions in prices, the consumer market will fill with goods, and by autumn 1992 ... the economy will stabilize and people's lives will start to get better" (quoted in Borisov 2021). Yeltsin and his own team of advisers, including Gaidar and the soon-to-be-infamous Anatoly Chubais, had little doubt about the inevitability of capitalism, and even before the Soviet Union collapsed they had worked to free the Russian economy from the vestiges of administrative planning and control.

Elsewhere, however, responses varied. In the Baltic states, recent research has shown that republican governments emphasized, not deregulation per se, but building business ties with Nordic countries and others able to integrate the newly independent economies into a hoped-for "New Hansa" (Stöcker 2019). In Central Asia, where reforms had been accompanied by skepticism and rising conflict since the mid-1980s, the final years of the USSR saw a pushback against deregulated capitalism. In contrast to Russia, for example, Tajikistan spent most of 1991 outlawing the sale of land, placing export restrictions and tariffs on basic goods, and trying to subsidize its population's declining standard of living (Scarborough 2023). Politicians excoriated local businessmen for exporting Tajikistan's produce and paying themselves exorbitant salaries. The economic situation was "some sort of shambles (*nerazberikha*)," Tajik Supreme Soviet deputy and future chairman of the National Bank of Tajikistan Tukhtaboi Ghaforov, worried in 1991, as he argued for further action against the growing economic inequalities in society.[18]

Tajikistan's attempts to hold firm against the market were cut short by the final collapse of the USSR, the absolute financial crater this left, and the subsequent Tajik Civil War (1992–1997). Yet its interpretation of capitalism has remained divergent from that in Russia: there is an ambiguity about the costs and consequences of marketizing reform, as well as questions about its arrival. Decades after the collapse of the USSR, some economists were still asking when "real capitalism" would arrive in Tajikistan.[19] In Russia, ambiguity about necessity of markets or their endemic spread has been much more muted, but to some degree debates about the proper level of regulation for the Russian market, the level of state control over the market, and how well Russia fits with global models of capitalism have never abated (e.g., Robinson 2013; Sharafutdinova and Dawisha 2017; Åslund 2018; Butrin 2018).

6. Conclusion

This ongoing argument reflects the longer history of debate throughout the twentieth century about the place of markets in Russia and the USSR. This chapter has described how ideas of markets developed and shifted in the Soviet Union since its founding and the creation of the planned economy in the 1920s. Contrary to expectations and the assumptions of many outsiders, markets remained embedded in Soviet economic life, from the kolkhoz markets operating in all Soviet cities to the partially marketized exchange of goods and services between enterprises that was always needed to ease bottlenecks and keep deficits down. Yet for most of the twentieth century, these aspects of the market—*goods-money* exchanges, as they were euphemized—were both ideologically suspect and largely frowned upon, considered a vestige of capitalism that would eventually recede in the USSR. Although a number of professional economists emphasized the importance of markets, their arguments went unheeded—until, that is, Mikhail Gorbachev's ascension to the highest echelons of power in the Communist Party. After 1985, as this chapter has demonstrated, the place of markets in Soviet economic thinking shifted radically, from an undesired and undesirable necessity to a model to strive toward. As attempts to embed markets in Soviet economic realities led to unexpected (if perhaps predictable) economic downturns, however, Soviet and post-Soviet politicians and economists began to see a variety of possibilities in the field of nascent capitalism, including the need for greater marketization and the possibility of containing markets to limit their negative effects. What, exactly, markets had to offer the post-Soviet space became, once again, an open question—and one seemingly unresolved even today.

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Notes

1 As cited in correspondence held by the editorial board of the journal *Kommunist*, January 1988. Russian State Archive of Socio-Political History (RGASPI) f. 599, op. 1, d. 1042, l. 77.

2 The consistent presence of officially tolerated market systems in the Soviet command economy is frequently overlooked in Western economic literature. See, for example, Blasi et al.’s (1997) representative statement: “The Soviet Union operated as one giant corporation, with none of the formal markets and competition through which companies in the free market economies gain their labor, capital, managerial talent, information about consumer preferences, raw materials, and energy” (27).

3 Central Government Archive of the Republic of Tajikistan (TsGART) f. 18, op. 8, d. 3646, l. 55.

4 Although baseline figures for Soviet growth rates can diverge significantly between Soviet and Western datasets, overall trajectories of decreasing growth and flatlining productivity are consistent across different statistics. For different datasets showing this general trend, see US Congress Joint Economic Committee (1990, 58); Vid and Ivanov (1990, 23, 33); Allen (2003, 190); Doklad TsK KPSS Ministra finansov SSSR t. Garbuzova i Zamestitelia nachal’nika TsSU SSSR t. Koroleva “O tempakh rosta natsional’nogo dokhoda SSSR,” dated August 1983, RGASPI f. 653, op. 1, d. 46, l. 30.

5 Interview with Oleg Bogomolov, 25/06/1990, Archive of the “Second Russian Revolution” BBC documentary series, London School of Economics Library Special Collections, (2RR), 1/4/7, 2.

6 See, for example, the report commissioned by Gorbachev and sent to Ryzhkov by Iu.V. Yaromenko, the deputy director of TsEMI, in September 1984: “Problemy formirovaniia struktury ekonomiki v dolgosrochnoi perspektive,” RGASPI f. 653, op.

1, d. 39, l. 372.

7 On Gorbachev's pool of economic advisers and their pro-market views, see Åslund (1987); Sutela (1991); Abalkin (1996, 18–19); and State Archive of the Russian Federation (GARF) f. 5446, op 148, d. 19, l.1.

8 Although Soviet labor law made it very difficult to fire workers, natural turnover in many sectors was close to 20%. This meant that if enterprises were simply incentivized to rehire fewer workers and promote productivity among the remainder through pay increases, workers could be "freed up," and frictional unemployment obtained. Resolutions passed in 1986 made this increasingly plausible. On this point, see Scarborough (2018, 94–96).

9 On the provisions of the 1987 Law on Enterprises, see Abalkin (1991, 117–119); GARF f. 5446, op. 148, d. 3, ll. 1–11. On the sharp reductions in state orders after 1988, see Vid and Ivanov (1990, 67–70). On the drastic changes in profit retention rates, see Scarborough (2018, 98–101).

10 For some of the many works arguing, largely on the basis of narratives created by Gorbachev and his supporters rather than concrete economic data, that the Law on Enterprises and similar reforms were *not* consistently implemented, cf. Taubman (2017); Miller (2016); English (2000); Brown (1996).

11 On output, see "O polozhenii del s roznichnymi tsenami na tovary narodnogo potrebleniia i tarifami na uslugi, okazyvaemye naseleniiu," *Izvestiia TsK KPSS* 1 (1989), 63–64; on contract fulfillment—Doklad Gosplana SSSR "O proekte Obshchesoiuznogo prognoza Soveta Ministrov SSSR o funktsionirovanii ekonomiki strany v 1991 godu," Russian State Archive of the Economy (RGAE) f. 4372, op. 67, d. 9341, l. 25.

12 GARF f. 5446, op. 163, d. 1284, ll. 120–121.

13 Legostaev cites CC CPSU data. The value of all goods and services sold by cooperatives by the end of 1989 was probably around 42–43 billion rubles (as per Ryzhkov 1992, 228); RGAE f. 4372, op. 67, d. 9355, ll. 218–219).

14 As described in a handwritten note passed to Nikolai Ryzhkov by Aleksandr Yakovlev in early 1989. See RGASPI f. 653, op. 1, d. 147, l. 5.

15 "Programma Shatalina," GARF f. 9654, op. 10, d. 16, l. 31.

16 See the analysis of both plans by a group of economists from the Urals Division of the Academy of Sciences of the USSR in 1990, which found little reference to regulation in either plan. GARF f. 9654, op. 10, d. 16, ll. 30–32.

17 TsGART f. 297, op. 40, d. 1237, l. 22.

18 Stenogramma Zasedaniia Prezidiuma Verkhovnogo Soveta Tadzhikskoi SSR, 08.04.1991, TsGART f. 297, op. 40, d. 1237, l. 10.

19 Author's discussions with professional economists in Dushanbe, Tajikistan, March 2017.