

Three attempts at market reform of the Soviet economy: A comparative analysis

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Abstract

This article presents a comparative overview of the three main attempts to introduce market approaches into the economy of the Soviet Union during its seventy-year history: the New Economic Policy (NEP) of 1921–1928, the Kosygin reform of 1965, and perestroika from 1985 to 1991. The research aims to analyze and compare the nature, political conditions, institutional challenges, and ultimate consequences of these three initiatives, which sought to improve the Soviet system through incremental market integration without changing the core political power structure. Each of the three reform efforts initially triggered a period of accelerated growth, outperforming previous economic trends. However, these successes were short-lived, and all reforms were quickly rolled back. The study's main finding indicates a fundamental structural incompatibility between market mechanisms and the Soviet political order. This contradiction, rooted in the communist idea, meant that when central control weakened, immediate interests (wages, consumption) outweighed long-term interests (investment). The reforms also differed significantly in their approach to private property: the NEP allowed it as a “temporary retreat,” the Kosygin reform strictly prohibited it, and perestroika gradually permitted private enterprise, eventually evolving into a “real revolution.” In the end, all three attempts failed to create a stable, durable system. The Soviet experience clearly demonstrates that, within its specific historical context, it was impossible to combine Soviet political power with market efficiency. The political core consistently rejected the necessary deep changes, leading to the strategic failure of all liberalization efforts.

Keywords: market reforms, Soviet economy, New Economic Policy, Kosygin reform, perestroika, centralized planning, market socialism, private property, economic crisis.

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1. Introduction

Throughout the seventy years of Soviet history, three large-scale attempts were made to carry out market-oriented reforms, or to solve the problem of introducing market mechanisms into a planned economy: the New Economic Policy (NEP) of 1921–1928, the Kosygin reform of 1965,¹ and, finally, perestroika of 1985–1991. These were three attempts to modernize the Soviet socio-economic model through incremental market integration, without affecting the political core and with minimal institutional changes. All three reforms initially yielded positive results in the form of accelerated economic growth. During the NEP, the Soviet economy completed its recovery by 1927 (according to some estimates, by 1926), with an average annual growth rate of 10% (Allen, 2003). The Kosygin reform also led to an acceleration of the economy—during the Eighth Five-Year Plan, the Soviet economy grew at a rate of 3.5% to 5.5% per year (CIA, 1989; Hanson, 2003). Similarly, the first stage of perestroika reforms ensured high growth of 4% in 1986 compared to 1% in 1985.² However, the results were unstable over time, and the reforms were soon rolled back, negating their achievements. While overcoming short-term structural constraints, all three reforms failed to produce stable political results and were strategically unsuccessful.

These reforms were logically, intellectually, and politically interrelated. Each subsequent reform sought to build on the experience of the previous one. The NEP was particularly important not only because of its enormous economic success, but also because it allowed subsequent reformers to refer to “Lenin’s traditions,” which provided ideological justification for the two subsequent reforms.

The purpose of this article is to provide a comparative analysis of three attempts at market reforms as efforts to achieve an institutional compromise between centralized planning and market mechanisms. The focus is on both the similarities and differences in the theoretical rationale, political and economic conditions, institutional constraints, and consequences of the reforms. The basic question is whether it is possible to find a model that combines the Soviet political system with market efficiency.

A detailed analysis of each of the three reforms is beyond the scope of this paper, as it has been the subject of a vast number of studies written by generations of researchers over the last hundred years. Pointing out the connection between Kosygin’s reform and later perestroika with the NEP was almost mandatory in political speeches and academic publications as a ritual reference to Lenin’s legacy. However, among the works of economists and historians, it is difficult to find studies specifically focused on a comparative analysis of all three reforms.

These reforms are covered in studies on the economic history of the USSR. Of note here is the classic work by Alec Nove, the latest edition of which also covers the experience of perestroika (Nove, 1992). One can also mention books by Gregory

¹ In the USSR, it was customary to refer not to the “Kosygin reform” but to the “economic reform of 1965.” Foreign sources often called it the “Liberman reform,” meaning that discussions about the upcoming reform began after the publication of the article “Plan, profit, bonus” by Evsei Liberman in *Pravda* in September 1962 (Liberman, 1962b). However, Liberman’s biographers now express doubts about his independent role in Kosygin’s reforms, while emphasizing that “it was precisely with the publication of his works that open discussion of its ideas began” (Lisovsky, 2016, p. 434).

² World Bank Archive; CIA (1989).

and Stuart (2000) and Hosking (1993). However, such studies contain descriptions of each episode, but not a comparative analysis. Among foreign researchers who have touched upon the interconnection between these reforms, perhaps the only work worth mentioning is that of Desai (1989). But even this work deals mainly with a comparison of the Kosygin reform with perestroika, though she also draws attention to their correlation with the earlier experience of the NEP. Finally, among recent works, the issues of interest to us are briefly discussed by Miller (2016).

The Russian bibliography of the last decade includes several works that examine all three Soviet reforms (e.g., Danilevsky, 2016; Klishas, 2011; Kovnir, 2025; Plyays, 2014; Shlokhayev, 2016), but even these do not contain a comparative analysis. These issues are partly addressed through a comparative historical analysis of the multi-structural nature of the economy (Kuznetsova, 2009).

From the perspective of new institutional economics, all three Soviet reforms can be interpreted as attempts to modify economic incentives while leaving political institutions largely intact. Following North (1990) and Acemoglu and Robinson (2012), this paper argues that such reforms face inherent limits, as political constraints shape both the design and the sustainability of economic change.

This paper provides a systematic comparative analysis of three reform attempts realized under substantially different political conditions and with different declared objectives. By examining these episodes side by side, we identify a recurring institutional pattern: partial market-oriented reforms implemented without transformation of political institutions produce short-term economic improvements followed by policy reversal or systemic crisis. This comparative perspective allows us to move beyond individual explanations and to reinterpret Soviet reform failures as structurally predictable outcomes rather than as contingent policy mistakes.

2. Three attempts of market reforms

The history of the Soviet economy is a history of tense interaction between centralized planning and market mechanisms. From the earliest days of the Soviet regime, there were fluctuations between centralization and decentralization, between administrative pressure and market incentives. These fluctuations occurred in theoretical and ideological discussions as well as in economic policy. Just after the Bolsheviks seized power at the turn of 1917–1918, attempts were already made to implement two essentially opposite models of further development: workers' control over enterprises operating to some degree independently, on the one hand, and nationalization of enterprises with their subordination to a single authority, on the other. The Civil War pushed the authorities toward accelerated nationalization and centralization, but even in those conditions, there were discussions among supporters of the administrative model of “war communism” and supporters of decentralization and labor democracy.

Discussions were held at both the expert and political levels. In 1918–1920, attention was drawn to the conflict among the interests of workers (labor collectives), the entire public sector, and the state.³ Two opposing mechanisms for solving this

³ This is how Ivan Skvortsov-Stepanov wrote about it in early 1918: “In many respects, the factory committee is the successor to the capitalist entrepreneur. It views all industrial relations primarily through the eyes of a given factory or plant... This determines methods of action that are capable of distancing us, rather than bringing us closer, to the main task of our time, which is the conscious and systematic regulation of all economic relations” (Stepanov, 1918, pp. 7–8).

problem were proposed: through the democratization and decentralization of production organization (Kaktyn, 1920, 1921; Krumin, 1920) or by ensuring strict and consistent centralization of economic management through the rapid elimination of market institutions and the organization of the national economy according to the principle of “a single factory working like clockwork” (Lenin, 1967–1975, Vol. 33, p. 101). Political discussions were particularly heated within the ruling Bolshevik Party in 1920–1921, primarily in the context of Lenin’s struggle against the “Workers’ Opposition” (Alexander Shlyapnikov, Alexandra Kollontai), which advocated transferring control of the national economy to trade unions.

The following quote from Lev Kritsman most vividly reflected the idea of strict centralization: “In a modern enterprise, people dressed in blue are lost among a crowd of harsh machines that never stop for a second... A planned public economy is a single enterprise. And because it is gigantic and complex, it is especially necessary to pay attention to the iron logic of its movement. There is no place for freedom in the realm of labor; necessity reigns supreme there” (Kritsman, 1921, pp. 10–11).⁴ The opposite opinion was consistently expressed by Artur Kaktyn, who emphasized the “utopian nature of the proposals of ultra-centralists” to build the entire planned economy on a rigid sectoral principle: “This is a complete abstraction of the economic process, detaching it from the surrounding economic environment, ignoring the specific significance of the latter in a rationally constructed socialist economy, and highlighting only the technical functions that make up the economic process. It is not easy to manage the same methods from a single center” (Kaktyn, 1920). Notably, this controversy unfolded even under the conditions of “war communism” and the Soviet elite’s belief in the imminent arrival of genuine Communism.⁵

Thus, from the very beginning of the Soviet economic system, there was a discussion about the degree of effective centralization, the possibility and necessity of individual incentives, including market incentives. Communist doctrine assumed that social organization would be non-market in nature and would eliminate the key concept of the capitalist system—its basic cell: the commodity (Marx and Engels, 1960). This was precisely how Lenin understood the new social order, saying that “the dismantling of the commodity-based economy and its replacement by a communal, communist organization, where the regulator of production would not be the market, as it is now, but the producers themselves, the workers’ society itself” (Lenin, 1967–1975, Vol. 1, p. 253). However, all this was said before the seizure of power and the beginning of the “building of communism.” Now, the constraints faced by Soviet socialism pushed it toward material incentives and commodity-money relations—even before the emergence of the concept of “market socialism.”

As the Soviet economic system took shape, a natural question arose in Marxist (and, more broadly, socialist) literature about the possibility of an alternative socialist model. The result of this search was the emergence of the concept of market socialism, one of the first systematic expositions of which was the work of Oskar Lange in the 1930s (Lange, 1936, 1937). He argued that the socialist economy could be managed without prescribing the volume and structure of pro-

⁴ See also Larin and Kritsman (1920), Larin (1923), Kritsman (1926).

⁵ See a detailed analysis of these discussions in Mau (2013, pp. 245–266).

duction and consumption, but rather by setting a certain price vector and allowing producers and consumers to operate according to market rules. Lange analyzed two models of socialism: a market model, in which independent economic entities operate in a free labor market, and a planned market model, in which market prices and consumer freedom of choice were allowed, but the proportions of production and distribution were set based on calculated prices and the preference scale of the planning authority. Although the concept of market socialism was taboo in the USSR, the problems of optimizing the Soviet model and stimulating its effectiveness were discussed in this logic, using the terminology of “the use of commodity-money relations,” and later (from the 1970s) as “improvement of the socialist economic mechanism.”

Parallel to the search for market institutions in the Soviet-type economy, negative, anti-market attitudes also developed. The criticism was based on the understanding of the “correct” socialist economy as a centrally managed economy, the most consistent implementation of which was “war communism” in 1918–1920 or the Stalinist model of the 1930s and 1940s. Market-type reforms were considered theoretically flawed and politically dangerous (if not hostile). Criticizing market socialism, Maurice Dobb warned that “the diffusion of markets instead of solving the instability problems of the centrally planned economy transforms them into those typical of capitalist economies” (Dobb, 1939). In essence, Joseph Stalin said the same (Stalin, 1946–1952, Vol. 13). This position persisted in the future.⁶

Another important issue raised in the analysis of the economic and political trends of Soviet socialism was the Soviet economic cycle (Olivera, 1960; Coblije and Stojanovic, 1969). This applied both to fluctuations in investment activity (Bauer, 1978) and to fluctuations in economic policy between tendencies toward centralization and decentralization (liberalization). Here the question was no longer about the fundamental possibility and expediency of market incentives, but about the causes of such fluctuations. These causes were seen both in external shocks (Lange, 1969) and in the specific features of a planned economy (Notkin, 1961).

A particular source of the Soviet economic cycle was also seen in the peculiarities of political processes in a closed, undemocratic system (Nutti, 1985; Screpanti, 1985). It was assumed that political factors influenced the cycles in a socialist economy, since new leaders, as a rule, tried to strengthen their legitimacy by expanding the consumer sector, which, however, proved to be short-lived, after which there was a return to the standard emphasis on industrial accumulation — or, as Soviet textbooks wrote, to the preferential growth of the means of production relative to consumer goods output (Bunce, 1980; Lafay, 1981).

3. Key elements (decisions) of market reforms, 1921–1991:

A brief overview

3.1. The New Economic Policy (NEP)

The first decisions of the NEP, outlined by Vladimir Lenin in April 1921, were based on a cashless conception of the Soviet economic system, which had taken

⁶ See, for example, Moiseenko and Popov (1975, 1981), Polikarpov (1983).

shape in Marxist orthodoxy and was implemented in practice under “war communism.” That is, initially, the aim was not to restore market (commodity-money) relations and private enterprise, but only to establish a “barter system” between urban and rural sectors and to replace the food requisitioning system with a tax in kind from the peasants.

However, in May 1921, a month after the announcement of the NEP, a decision was made to allow the existence of small and medium-sized (private and collective) enterprises; to lease land to private individuals, cooperatives, artels, and partnerships of state enterprises; and thereby to move toward a multi-tiered economy and trade, as well as toward “state capitalism” under conditions where the “proletarian state owned not only the land, but also all the most important parts of industry” (Lenin, 1967–1975, Vol. 45, p. 289).⁷

The market required macroeconomic stabilization, including a stable monetary and credit system. In October 1921, the State Bank of the RSFSR (Russian Soviet Federative Socialist Republic) was established, and in October 1922 it began issuing banknotes in a “hard currency”—the *chervonets*—which was intended to be on the gold standard.⁸

From the first months of 1922, joint-stock regional banks began to be created (for example, in April 1922, the South-Eastern Commercial Bank and the Far Eastern Bank), as well as credit cooperatives (credit, loan, and savings associations) and cooperative banks to promote the development of consumer cooperation (one of them was Pokobank—a share cooperative association with the participation of the State Bank), and then industrial banks (Prombank). Their distinctive feature was that they could form their capital in commodity values and purchase and sell goods on their own account, since during a period of galloping inflation “it was unreasonable to accumulate one’s principal capital in the form of depreciating banknotes and... it would be completely inconsistent to allow a bank to accumulate its capital in the form of commodities and not allow it to sell these commodities” (Tsyppkin, 1926, p. 80).

The economic “deviation” from socialism required guarantees of property rights, including private property, and new forms of industrial organization. The former took legislative form in the 1922 Civil Code of the RSFSR, which provided for state, cooperative, and private forms of ownership, while land, subsoil, forests, water, and rail and air transport were declared the exclusive property of the state.

The basis for the latter was provided by the key documents regulating reforms in industry: the “Instruction of the Council of People’s Commissars on the implementation of the new economic policy” of August 9, 1921, and the Resolution of the Council of Labor and Defense (STO) “Basic provisions on measures to restore large-scale industry and boost and develop production” of August 12, 1921 (Kosygin et al., 1957, pp. 254–261). According to these documents, industrial companies in the form of trusts became the main units of economic activity, and some of the large enterprises that remained in state

⁷ This was necessitated by objective circumstances—the country lacked the necessary goods, especially for peasants to exchange for food, and the onset of famine also forced radical decisions.

⁸ Decree of the Council of People’s Commissars of the RSFSR “On granting the State Bank the right to issue banknotes” dated October 11, 1922.

ownership were transferred to self-financing. The law regulating the activities of trusts was adopted in the spring of 1923.⁹

During the NEP period, the State Planning Commission (Gosplan) began its practical work.¹⁰ The leading experts at Gosplan had different views on how to accomplish their tasks: from forecasting market conditions and drawing up plans based on these figures (Bazarov, 1924) to “planned measures to ensure the redistribution of productive forces in the interests of socialism” and “overcoming the non-socialist elements of the NEP” (Strumilin, 1963, p. 193).

The economic mechanism of the NEP made it possible to restore the economy to its pre-war level by 1927, which seemed completely unbelievable in 1921. According to official data, between 1921 and 1926, the industrial production index increased more than threefold, and agricultural production doubled; in 1927 and 1928, industrial production grew by 13% and 19%; overall, for the period 1921–1928, the average annual growth rate of national income was 18% (Kuibyshev, 1929). As Vyacheslav Molotov later stated (Molotov, 1931, p. 168), the NEP “created the conditions for a powerful rise in socialist industry... through the lever of self-financing. Otherwise, it would have been impossible to talk about the profits and losses of state-owned enterprises, impossible to talk about the cost of production.”

However, this also laid the foundation for the future duality of explanations for the economic breakthrough: whether it was due to the admission of a market economy or to the new opportunities of the “dictatorship of the proletariat.”

3.2. The economic reform of 1965

The outlines of the 1965 reform had been maturing since the late 1950s. Slowing growth, a crisis in agriculture, and failure to achieve the goals set during the seven-year period (1959–1965) required solutions.

In September 1964, on the instructions of Nikita Khrushchev, a commission of the State Committee for Science and Technology was set up to develop proposals for reforms. It held its first meeting on October 16, after Khrushchev was removed from power (Birman, 2001). The commission developed “a justification for the need for economic reform and draft resolutions of the [Communist Party of the Soviet Union] Central Committee and the [USSR] Council of Ministers on reform” (Belkin, 2002, p. 176). The provisions of these documents were already used in the work of the government commission headed by Deputy Chairman of Gosplan Anatoly Korobov to prepare reform measures, which formed the basis for Alexey Kosygin’s report to the Plenum of the Communist Party of the Soviet Union (CPSU) Central Committee in September 1965 (CPSU, 1968; Kosygin, 1979).

The measures taken included: a return from regional management (*sovнар-khozes*) to a vertical ministerial system of management; strengthening the self-financing principles of enterprises (*khozraschet*), increasing the role of profitabili-

⁹ Decree of the All-Russian Central Executive Committee and the Council of People’s Commissars of the RSFSR “On state industrial enterprises operating on the basis of economic calculation (trusts)” dated April 10, 1923.

¹⁰ Decree of the Council of People’s Commissars of the RSFSR “On the State General Planning Commission” dated February 22, 1921.

ty while reducing the number of centralized indicators by roughly a factor of 3.5; transition from gross indicators of plan fulfillment to targets for the volume of products sold; and expanding the role of economic (monetary) interests of labor collectives and individual workers in the results of their labor.

3.3. Economic reforms of perestroika

By the mid-1980s, the problems of dynamism and efficiency in the Soviet economy had not only persisted but worsened. In April 1985, the new Soviet leader, Mikhail Gorbachev, announced a new course—perestroika and acceleration (*uskorenie*). He later formulated “the main, defining task of acceleration—achieving a new quality of growth, comprehensive intensification of production based on scientific and technological progress, restructuring of the economy, effective forms of management, organization, and stimulation of labor.” By 2000, the economic potential of the USSR was expected to double (CPSU, 1986, pp. 22, 39).

To this end, it was planned to implement a structural maneuver aimed at expanding the production of means of production—machine-building, with a focus on machine-tool building, instrument-making, electrical engineering, and electronics—which implied a sharp increase in investment (Aganbegyan, 1985a, 1985b, 1985c). The growth rate of the machine-building industries was to be 1.7 times higher than the overall industrial growth rate, with the quality of machine-building products reaching world standards by the early 1990s. The proposed measures did not produce the expected results: the growth in investment led to an increase in construction timelines and growth in the volume of unfinished construction, as well as increased purchases of unnecessary equipment from abroad, which only accelerated the depletion of foreign exchange reserves.

At the same time, important institutional market reforms were launched:

- Expanding the autonomy of enterprises based on self-financing and self-management, their opportunities to engage in foreign trade, and the inclusion of labor collectives in their management (up to the election of enterprise managers).¹¹
- A gradual transition to a mixed economy and the emergence of private entrepreneurship through the legalization of individual labor activity (USSR Law “On individual labor activity of citizens” No. 6050-XI of November 19, 1986) and the development of the cooperative movement, as well as¹² the development of lease-based relations at state-owned enterprises. The cooperative movement and the system of commercial structures associated with the Young Communist League (Komsomol), created in 1987–1988,¹³ marked the emergence of new social strata focused on market relations.

¹¹ USSR Law “On state enterprises (associations)” No. 7284-XI of June 30, 1987.

¹² As early as February 1987, the Council of Ministers of the USSR adopted resolutions (Nos. 160–162 of February 5, 1987) on the creation of cooperatives in public catering, consumer services, and the production of consumer goods, which were followed in 1987–1988 by a series of new resolutions expanding the scope of cooperatives, and the 1988 USSR Law “On cooperation” legally enshrined the rights of cooperatives, including the right to establish banks.

¹³ The Council of Ministers of the USSR Resolutions No. 321 of March 13, 1987, No. 721 of July 6, 1988, No. 956 of August 4, 1988.

- Changes in the system of centralized planning and commodity supply; the roles of Gosplan and the Ministry of Finance; the statistical system; social policy; the pricing system under the new economic mechanism; and the establishment of a two-tier banking system.¹⁴
- The refusal of Communist Party structures to manage the economy and the liquidation of industry departments in party bodies.¹⁵

The most important element of perestroika was comprehensive political democratization. On December 1, 1988, the Law “On the election of people’s deputies of the USSR” was adopted and corresponding amendments were made to the country’s Constitution, and a new supreme legislative body, the Congress of People’s Deputies of the USSR, was convened on May 25, 1989.

The changes of the perestroika period were more radical than those of the 1960s, and even those of the 1920s. They not only failed to stop the crisis of the Soviet system but exacerbated it.¹⁶

4. Problems and factors common to the three reforms

4.1. Reform objectives

The initial goal of all three reforms was to bring the Soviet system out of crisis, give it momentum, and ultimately ensure its long-term stability. The need to strengthen the country’s international position and successfully compete (politically, economically, and ideologically) with the capitalist world also played an important role. By the time the decision to implement reforms was made, crises were clearly evident, although they varied greatly in nature and scale.

In 1921, it was a matter of preserving the whole Soviet system and even the physical survival of the Bolshevik leadership. The reality of this problem was clearly signaled by the peasant uprisings of 1920–1921 and the mutiny of the Baltic Fleet in 1921. Having won the Civil War, the government had to find a way out of total devastation and famine. It was clear that political directives would not solve the problem. A radical shift in economic policy was needed.

In the mid-1960s, problems with people’s welfare were growing, threatening political destabilization. The country, traditionally a major exporter of grain, became a net importer for the first time in 1962. Rising prices for basic foodstuffs led to open workers’ protests in the city of Novocherkassk, brutally suppressed by force. This happened in June 1962, and in September an article by Liberman (1962b) in *Pravda* launched an unprecedented discussion about the need for profound economic reforms with an obvious market focus.

Finally, in the 1980s, the slowdown in economic growth and the growing commodity deficit, coupled with a significant decline in export revenues amid high

¹⁴ Resolutions of the CPSU Central Committee and the Council of Ministers of the USSR No. 816, 818–825 of July 17, 1987.

¹⁵ The decision to abandon economic management was taken at the 19th Conference of the CPSU in the summer of 1988 (CPSU, 1988).

¹⁶ Janos Kornai (1992, pp. 404, 411) pointed out that the command-and-control socialist system cannot be reformed and can only function in the form in which it was created. It is holistic, and its “classic system is a coherent whole... Its elements are interconnected, and they presuppose and reinforce one another. They form a fabric so dense that once a single thread is broken, the whole thing will sooner or later unravel.”

dependence on imports of both consumer and investment goods (Gaidar, 2006a; Mau, 2024), became the triggers for perestroika.

Of course, the objectives of the three reforms were not entirely identical. The NEP was perceived as a policy that would allow Soviet power (the “proletarian dictatorship”) to be preserved until the proletarian revolution triumphed in developed countries. Lenin spoke about this quite clearly: “The NEP is a retreat; we have gone further than we could hold,” but this “agreement with the peasantry can save the socialist revolution in Russia until the revolution comes in other countries” (Lenin, 1967–1975, Vol. 43, p. 59; Vol. 45, p. 8).¹⁷ Later, after the defeat of the Communist uprising in Germany, this goal was transformed into the task of “building the foundations of socialism in a single country” until the global victory of socialism, which would become possible after the implementation of socialist revolutions in the “advanced capitalist countries” (Stalin, 1938). In this situation, the market was seen as a concession in the absence of a fully fledged global system of socialism (communism).

To solve this strategic task, an institutional system was formed, which, as its authors believed, was needed for dynamic development in a capitalist environment. These were, first and foremost, the commanding heights in industry, national planning, and the political monopoly of the Communist Party.

The Kosygin reform was aimed at overcoming economic difficulties resulting from the exhaustion of the forced industrialization model. The gradual economic slowdown in the decade preceding 1965, coupled with the transformation of the USSR into a net importer of grain, brought about painful economic and political problems, which, however, at that time were not yet systemic in nature, as Soviet technological and military successes were quite obvious. The political elite of the West considered quite seriously Soviet intentions to surpass Western economic development, and many developing countries sincerely saw it as a model for emulation and alliance.

In 1959, during a hearing before the US Congress, long-time CIA Director Allen Dulles warned: “If the Soviet industrial growth rate persists at eight or nine percent per annum over the next decade, as is forecast, the gap between our two economies... will be dangerously narrowed” (Congress of the United States, 1959). And after the collapse of the Soviet system, summing up the experience of socialism, Paul Krugman noted: “It is therefore a shock to browse through, say, issues of Foreign Affairs from the mid-1950s through the early 1960s and discover that at least one article a year dealt with the implications of growing Soviet industrial might” (Krugman, 1994, p. 65).

In such a situation, the difficulties of the Soviet economy were regarded as “growing pains,” and the way to overcome them was seen as cautious reforms without significant political and ideological changes. As Kosygin said, a combination of “centralized planned management with economic initiative on the part of enterprises and collectives, with the strengthening of economic levers and material incentives for the development of production, with full *khozraschet* [economic calculation]” was required, but while maintaining “the leading role

¹⁷ “We are now making a strategic retreat, which will give us a broader front for the offensive in the near future, give us a stronger economic link with millions of small peasants, with the mass of the peasantry, and make our union, the union of workers and peasants, the basis of our entire Soviet revolution, our entire Soviet republic, invincible” (Lenin, 1967–1975, Vol. 44, p. 487).

of centralized planning in the development of our economy; deviation from this principle would inevitably lead to the loss of the advantages of a planned socialist economy” (Kosygin, 1979, pp. 325, 353). It was also assumed that the role of the Communist Party in enterprises would be strengthened.

The reforms of the 1980s took place in a situation of obvious lagging behind the developed countries. For the first time, there was a growing understanding of defeat in the new technological stage of competition with the capitalist countries. Neither in the 1920s nor in the 1960s was there such an understanding. This was due to political and ideological reasons in the 1920s (victory in the Civil War and foreign intervention, the spread of communist and workers’ parties throughout the world) and military and technological factors in the 1960s (industrialization and growth rates, victory in World War II, nuclear weapons, the space race, the emergence of the socialist camp, and decolonization under socialist slogans)—the Soviet system was perceived as fundamentally the most advanced, albeit with some shortcomings. In the 1980s, the situation had changed radically.

The global era of industrialization, with its consolidation of production and centralization of management, was coming to an end. The time had come for flexibility, both in technology and in management models. In the post-industrial world, the mechanisms of economic policy changed significantly. The priorities of the state became to stimulate innovation and to create favorable institutional, social, and infrastructural conditions for dynamic development.

Liberal economic reforms gave momentum to the economies of the West, while the Soviet growth rate declined. The question of “catching up and overtaking” lost its relevance, which was understood both in the USSR and in the West. The technological lag behind capitalist countries (market democracies) was increasingly noticeable. Commodity shortages (deficit) became widespread.

The fall in world hydrocarbon prices in the first half of the 1980s, on which the social and economic situation of the USSR was heavily dependent,¹⁸ and the intensification of the costly arms race exacerbated the economic situation. The sharp decline in energy prices made it difficult for the Soviet Union to purchase imported grain and food, which accounted for a large share of its oil and gas export revenues. Moreover, purchases had to increase: while 40.1 million tons of grain were imported in 1982, by 1985 this figure had risen to 46.3 million tons. The catastrophic situation in agriculture was recognized by the Soviet leadership, as evidenced by the Protocol Resolution of the Politburo¹⁹ of the CPSU Central Committee of September 2, 1982, “On the development of grain farming,” classified “top secret” (cited in Ilyinykh and Pivovarov, 2017, pp. 78–79).

However, the Soviet political elite largely retained its illusions about the “historical advantages of socialism,” and this led to a much more ambitious task than in the mid-1960s: the modernization of the Soviet system, considering new technological realities and global trends. The initiators and leaders of perestroika, wishing to improve rather than dismantle socialism, modernize and accelerate the economy without abandoning the stereotypes of Soviet socialism, attempted to combine

¹⁸ Egor Gaidar (2006b) considered the date of the collapse of the USSR “verdict” to be “September 13, 1985, when Saudi Arabia’s oil minister Yamani said that Saudi Arabia was ending its policy of restraining oil production... after which prices [for oil] collapsed... by a factor of 6.1.”

¹⁹ The supreme policy-making body of the CPSU.

the approaches of the NEP and Yugoslav market socialism, which combined collective ownership with markets, decentralization, and workers' self-management.

A way out of the difficulties was also seen in ensuring economic growth without changing the ideological foundations and without abandoning the “achievements of the socialist system.” “Perestroika is not a rejection of socialism, but a return to the true, Leninist understanding of socialism, to its humanistic, democratic values,” said Gorbachev (1987c, p. 36), and there was more naivety than cynicism in these words.

4.2. Political and intellectual sources of the reforms

All three reforms were initiated by the country's top political leadership, but with different approaches to the organization of power. These were undoubtedly “reforms from above.” However, the expert community played a significant role in their development and implementation.

The NEP was initiated by Lenin. The risks of the collapse of the Bolshevik regime in 1921 were obvious, and the need to transition to a model different from communist dogmas was equally obvious. Opposition to this shift was minimal, although the prospects for the NEP were assessed differently.

The NEP was supported by various political and intellectual forces in Russia. Lenin himself assessed the NEP as a “strategic retreat” (Lenin, 1967–1975, Vol. 45, pp. 8, 302) and even “self-Thermidorization” (if we recall the French precedent of 1794). According to him, the NEP was introduced “seriously and for the long term,” but not forever (Lenin, 1967–1975, Vol. 44, p. 197). Even orthodox communists, who considered “war communism” a prototype of a bright future, understood the political necessity of the NEP, although they did not share the enthusiasm of its supporters (see, for example, Kritsman, 1926).

A significant number of professional economists (Vladimir Bazarov, Vladimir Groman, Nikolai Kondratieff, Leonid Yurovsky, Stanislav Strumilin, and others) and pragmatic communist politicians (Alexei Rykov, Grigory Sokolnikov, Gleb Krzhizhanovsky, and others) supported the new course, seeing it as a path to economic recovery. Opposition politicians and experts saw the NEP as a full-fledged Thermidor, i.e., a gradual departure from revolutionary radicalism and a return to a normal market economy, albeit with significant state participation.²⁰ However, after World War I, the trend toward stronger state regulation was considered mainstream.

The Kosygin reform and the discussions that preceded it were also initiated by the top leadership. But the peculiarity of this period was that the discussions were initiated under Nikita Khrushchev (who headed the CPSU and the government at the time), while the reforms themselves began when he had already been replaced by Leonid Brezhnev as CPSU leader and Alexei Kosygin as Prime Minister.

²⁰ The opposition's views on the prospects of the NEP differed significantly. The authors of *Smena Vekh* journal, led by their ideologue Nikolai Ustryalov, expected a political Thermidor to follow the economic one, based on the idea that the NEP would lead to “bourgeois development under the Bolshevik banner” (Ustryalov, 1921). Another group of intellectuals who worked with short-lived independent journal *Ekonomist* (Boris Brutskus, Ivan Ozerov, Iosif Kulisher) believed that the NEP was the Bolsheviks' admission of their economic defeat and meant a return to market relations, predicting their inevitable clash with communist ideology (see *Ekonomist*, 1922, No. 3. This issue dealt entirely with the analysis of transition to the NEP).

On September 9, 1962, Nikita Khrushchev initiated a pre-reform discussion in the main Soviet newspaper *Pravda* with the publication of an article, “Plan, profit, bonus,” by Kharkov professor Evsei Liberman (1962b).²¹ The publication was accompanied by an editorial remark about the “fundamental nature and importance” of the issues raised. The discussion that unfolded in *Pravda*, *Izvestia*, *Ekonomicheskaya Gazeta*, and the journals *Kommunist*, *Voprosy Ekonomiki*, and *Planovoye Khozyaystvo* showed the severity of the accumulated problems and the importance of the public’s readiness for future reforms (for more details, see Mau, 1990, ch. 3).

Virtually all leading economists and economic journalists of the time took part in the discussion. Naturally, their views did not coincide. While agreeing with the need to increase the dynamism and efficiency of the Soviet economy, many economists considered Liberman’s proposals on the role of profit too radical. Many thought they might lead to a risk of abandoning centralized planning.

The most consistent support for Liberman’s proposals came from Vasilii Nemchinov (1962a, 1962b), Aleksandr Birman (1963), and others. Gennady Lisichkin (1966) presented a picture of an ideal model of a market-socialist economy. There were also economists who consistently criticized the introduction of market incentives into the Soviet economy (see, for example, Bor, 1962; Fedorovich, 1962a, 1962b; Leontiev, 1966).

Of course, the most numerous were the ranks of the “centrists,” who approved a pro-market approach with significant reservations. Among them were Lev Vaag (1963), Fyodor Veselkov (1962), Lev Gatovsky (1962), Kirill Plotnikov (1962), Boris Sukharevsky (1962), and others. There was an intense discussion at the special session of the Scientific Council on Economic Calculation and Material Incentives for Production at the USSR Academy of Sciences on September 25–26, 1962 (USSR Academy of Sciences, 1962).

The most heated discussions were caused by the thesis that national plans must be drawn up depending on market conditions. Lisichkin wrote that a plan detached from the market “loses the touchstone on which the correctness of its calculations is timely manifested” (Lisichkin, 1966, p. 53). Opponents of this approach saw the expansion of market freedoms as a threat to national planning and state ownership; they stressed the danger of “slipping” into capitalism (see, for example, Leontiev, 1966). Two years later, *Pravda* published a new article by Liberman (1964), which developed the ideas of strengthening market incentives in the Soviet economy and summed up the discussion.²²

The course of perestroika was also proclaimed “from above.” Immediately after his election as head of the CPSU in March 1985, Mikhail Gorbachev announced this new course (Gorbachev, 1985). By this time, a certain intellectual potential had already been accumulated: economists had been discussing how to increase the dynamism and efficiency of the Soviet economy for two decades, drawing on the experience of the Kosygin reform and the NEP. Relevant research

²¹ A detailed argument for expanding the independence of enterprises and introducing a new system of incentives was presented by Liberman in the journal *Voprosy Ekonomiki* (Liberman, 1962a). However, it was the publication in the country’s main newspaper, *Pravda*, that became a political phenomenon.

²² Nikita Khrushchev’s son, Sergei Khrushchev (2010, p. 847), wrote in his memoirs that his father had instructed *Pravda* to publish Liberman’s article to take advantage of this “leak” before sending his memo on the new stage of economic management reform to other leaders of the country.

and proposals were contained in the works of Leonid Abalkin, Abel Aganbegyan, Alexei Anchishkin, Pavel Bunich, Egor Gaidar, Nikolai Petrakov, and other economists. Another factor was that in the late 1970s, China launched economic reforms that were essentially similar to the NEP in its most consistent form, including Nikolai Bukharin's (1928) thesis on the "integration of the kulaks into socialism," and these reforms already yielded positive results.

4.3. *The ideological struggle over the market course*

All three reforms were accompanied not only by academic and experts' discussions, but also by ideological confrontation between supporters and opponents of market mechanisms. The administrative and political dominance of communist ideology, which fundamentally rejected the market and saw the future in the socialization and centralization of social processes, inevitably turned economic debates into a political and ideological confrontation: the market was incompatible with communist orthodoxy.

In the 1920s, there were three competing approaches to the NEP. First, there were Lenin's supporters, for whom the NEP was a retreat for the sake of saving the revolution. Second, the "left opposition," whose prominent representatives were Leon Trotsky, who saw the NEP as a threat of Thermidorian degeneration of the Soviet regime, and Yevgeny Preobrazhensky, who believed that the state should finance industrialization through the exploitation of peasant agriculture (see Trotsky, 1924; Preobrazhensky, 1926). Third, Bukharin and his colleagues (later labeled as the "right-wing opposition") emphasized the importance of the growth of prosperity among the mass middle class (peasants, cooperatives, small private businesses)—an opportunity for their gradual "integration" into socialism.²³ Joseph Stalin initially supported Bukharin against Trotsky, but after the defeat of the "left opposition," he in practice followed the path of implementing its model, albeit with much harsher methods.

The experts' discussion around the reforms of the 1960s, which we have already described, was overshadowed by the pragmatic position of the party and state leaders, who, on the one hand, recognized the need for change, but on the other, feared—within the framework of their ideological conservatism—a "departure from the principles of socialism" and from party leadership. According to the recollections of his family members, Leonid Brezhnev believed that even extremely limited economic freedoms and the appearance of "capitalist relations" in the form of self-financing would "lead to chaos" (Brezhneva, 1999, p. 399). Another important factor was the opposition, both in terms of corporate interests and for ideological reasons, of the ministerial corps, primarily in the military-industrial complex. According to Kosygin, "Gosplan and the Ministry of Finance, in essence, ruined economic reform."²⁴

The ideological struggle in the 1980s divided people into three groups. First, there were the reformers, who called for a "return to Leninist norms" and focused

²³ See co-report by Zinoviev (1926b) at the 14th Congress of the All-Union Communist Party (Bolsheviks) in December 1925 and Bukharin (1928).

²⁴ Kosygin's words are quoted in the memoirs of Alexander Bachurin, deputy chairman of Gosplan responsible for implementing economic reform (see Olsevich and Gregory, 2000, p. 113).

on “market-oriented democratic socialism.” Among the country’s leadership, these included Mikhail Gorbachev, Alexander Yakovlev, and Vadim Medvedev. Second, there were conservatives, whose ideal was economic and technological modernization without political and ideological liberalization. The most vivid manifesto of this approach was an article by Nina Andreeva (1988), “I cannot compromise my principles.” This conservative statement was strongly refuted in an editorial in the CPSU’s main newspaper, *Pravda*, “The principles of perestroika, revolutionary thinking and action,” written by the Politburo member Alexander Yakovlev (1988) and published three weeks after Andreeva’s article. Third, there were supporters of radical democratic and market reforms united around Boris Yeltsin. As the reforms deepened, the ideological struggle became irreconcilable, leading to an attempted coup d’état in August 1991 and the subsequent collapse of the USSR.

4.4. *The status of state (socialist) enterprises*

At the center of all three reforms was the status of a state-owned enterprise as an independent production unit operating “at its own expense,” i.e., covering the costs of its economic activities and earning a profit. The Decree on Trusts of April 1923 became a key document regulating the status of state-owned enterprises under the NEP. This document also became a source of inspiration (intellectual and legal) for the authors of later Soviet reforms.²⁵

Its most important provision, which was reproduced in all subsequent documents, was the separation of the economic responsibility of enterprises and the state. “Trusts shall not be held liable for state debts, nor shall the state assume liability for the debts of a trust,” read Article 3 of the Decree. This meant that a socialist enterprise could go bankrupt, although in practice this never happened. However, as Boris Bratskus (1995, p. 118), a consistent critic of the Soviet economy, wrote, state enterprises “were more bureaucratic than capitalist... since profit was by no means the driving force of the Soviet system.”

Of course, the experience of 1923 was not literally transferred to other reforms: the Kosygin reform was based on a truncated version of the Decree on Trusts, while the authors of perestroika went much further. During the reforms of the 1960s, the main document governing enterprises was the “Regulations on socialist state production enterprises” of October 4, 1965. According to this document, “a socialist state enterprise is the main link in the national economy of the USSR. Its activities are based on a combination of centralized management with economic independence and initiative on the part of the enterprise.” A separate clause of the Regulations (clause 74) established that enterprises had the right, in agreement with the customer, to determine prices and tariffs “for certain types of products (works, services) that are not subject to approval by higher authorities” (CPSU, 1968, pp. 376–388)

However, the expansion of autonomy was only possible in a narrow segment—through the right to form incentive funds. In the context of centralized

²⁵ Although the authors of the Soviet reforms of the 1960s and 1980s did not directly refer to the 1923 Decree on trusts as a legal and ideological model, the experts saw and used analytical parallels with it (see, for example, Birman, 1965; Aganbegyan, 1987).

formation of production programs, supply, and pricing, almost all these rights and incentives were largely formal. The use of incentive funds had to be approved by the central authorities, as it was necessary to balance supply and demand in an economy of shortages. And even with this restriction, the possibility of forming these funds led to further increases in supply-and-demand imbalances.

The basis for the activities of enterprises during the reforms of the 1980s was the USSR Law “On State Enterprises (Associations)” of June 30, 1987. The legal status of the enterprise was essential here: it was determined by law, as in the NEP period, and not by a subordinate act—a government regulation, as in 1965. This time, an enterprise could engage not only in production, but also in any activity that was not prohibited.

When discussing the independence of enterprises, Gorbachev directly referred to the unsuccessful experience of 1965, explaining it by the unwillingness to implement the decisions taken consistently and quickly. Thus, at a meeting of the Politburo of the CPSU Central Committee on June 11, 1987, he said: “Remember 1965, the Kosygin–Liberman reforms. Why did they fail? Because they did not follow Witte’s advice, who said that if you are going to carry out reforms, you have to do it thoroughly and quickly.” It is worth noting here that Gosplan’s first deputy chairman (and soon deputy prime minister) Stepan Sitaryan picked up on this idea, saying that “the defense industries also need to be transferred to self-financing, with specific features, of course,” and immediately received Gorbachev’s approval: “Right, right. It is unacceptable for no one in the defense industry to keep track of anything” (Chernyaev et al., 2008, p. 192).

The opportunities that opened for the consistent implementation of market principles in the functioning of state-owned enterprises, with the electability of directors and in the absence of an effective owner, led to a reorientation of economic agents (enterprises) from long-term tasks to current ones, and consequently, from investment to increasing current revenues (wages). The system devolved into a “privatization of profits and socialization of losses,” which became important factors exacerbating the economic crisis.

4.5. Planned economy and the role of centralized planning

The authors of all three reforms saw national planning as the most important advantage of the Soviet system. But in the 1920s, planning still had to be developed (theory, methodology, practice); in the 1960s, it had to be improved; and in the 1980s, a new model had to be formulated. The evolution of attitudes toward planning can be expressed by paraphrasing Ronald Reagan’s famous 1981 aphorism about the state: “Many people see planning as the solution to our problems. Meanwhile, planning itself is our problem.”²⁶

Discussions about planning during the NEP period gave rise to a wide range of theoretical approaches and methodological ideas. However, the excessive centralization of economic life in the late 1920s led to planning being reduced to the es-

²⁶ “In this present crisis, government is not the solution to our problem; government is the problem” (Ronald Reagan’s first inaugural address, January 20, 1981. <https://www.reaganlibrary.gov/archives/speech/inaugural-address-1981#:~:text=We%20are%20a%20nation%20that,the%20consent%20of%20the%20governed>).

establishment of planned targets (indicators) handed down from above. The plan was declared the “economic law of socialism,” replacing the law of value.

The result was the fetishization of planning. By analogy with Chapter 1 of Volume I of Karl Marx’s *Capital*, it can be said that commodity fetishism (Marx and Engels, 1960, pp. 80–93) was replaced by the fetishism of the plan, that is, a kind of worship, when the fulfillment of planned indicators becomes an end, detached from the real needs of society, efficiency, and quality. It manifested itself in two forms: on the one hand, in giving state planning the character of an “objective” law, and on the other, in the idea that any problem can be solved by including the relevant indicator in the plan (Mau and Starodubrovskaya, 1988). This phenomenon persisted practically until the end of the Soviet system.

It is possible to trace the evolution of the understanding of national planning and ways to improve it. In the 1920s, the focus was on integrating planning into market relations, finding a balance between the planned influence of the state and the decisions of private business, which at that time constituted the overwhelming majority (20 million private farms in agriculture alone). As the head of the People’s Commissariat of Finance, Grigory Sokolnikov (1923), figuratively put it, the state economic plan was opposed by “20 million peasant plans,” which had a great influence on the development of Russia’s economy. The forced collectivization carried out a few years later was precisely the response to this dichotomy—the “peasant plans” were demolished. But the rights of state-owned enterprises were also nullified, although formally *khozraschet* was not canceled.

The discussions and decisions of the 1950s and 1960s took place under the absolute domination of the Soviet system, and it was simply dangerous to question the role of planning. The discussion focused on the search for a system of ideal planning indicators (their number and list) that would stimulate economic growth. However, a key problem had already been identified: a system in which enterprises and workers are evaluated according to the degree to which they fulfill their planned targets encourages them to conceal their production capabilities and overstate their resource needs, as this makes it easier to fulfill and overfulfill the plan. In a complex economic system with information asymmetry, lower-level agents have an advantage in imposing their interests on higher-level authorities.

Analysis shifted the discussion from indicators to the economic mechanism, and by the time of perestroika, discussion of planned indicators had lost its significance. These differences are clearly visible when comparing the keywords of economic debate: in the 1960s, these were “plan, profit, bonus,” and in the 1980s, “self-financing, self-management.”

4.6. *A combination of administrative directives and economic incentives*

A common feature of the three reforms was the shift from administrative and coercive pressure (orders) to economic (material) incentives.

The main elements of the NEP were a food tax instead of food requisitioning and the possibility of selling surplus production, the legalization of private enterprises and trade, the introduction of concessions to private entrepreneurs, self-financing in state-owned enterprises, and the provision of macroeconomic stability. However, as the economy recovered, the principles of the NEP were

gradually abandoned: first in the macroeconomic sphere—the financial imbalance of 1926—followed by the rejection of market mechanisms.

In preparation for the 1965 reform, there was much talk of “plans and incentives,” but the set of measures adopted was minimal in terms of market principles, and all these innovations remained within the public sector. Economic incentives boiled down to the following decisions: a reduction in the number of indicators centrally set for enterprises; the promotion of sales volume as a key indicator, which was supposed to focus on satisfying consumer demand rather than maximizing total output (gross production); the use of profit as an indicator of efficiency; giving enterprises the opportunity to use part of their profits for their own development and to reward their staff; and the creation of economic incentive funds at enterprises. The incentive tools remained part of the centralized administrative management system.

However, as the 1965 reform receded into the past, the concept of an “economic mechanism” became increasingly widespread. The reforms of the 1980s were focused on changing the economic mechanism from the outset. While the Kosygin reform attempted to find a place for market elements within the planned economy, perestroika set the task of developing market relations while maintaining macroeconomic (but not necessarily administrative) planning.

The trend here was opposite to that of the NEP: starting with very limited reforms within the framework of the “socialist choice,” the area of market relations was subsequently expanded. However, with the weakening of the state, private interests soon became dominant, and instead of the state suppressing private interests (as at the end of the NEP), the turn of the 1980s–1990s saw the actual capture of the state by private interests (state capture). Overcoming this situation and restoring the balance of power became one of the key tasks of the next decade—the 1990s.

4.7. Financial challenges and commodity shortages

Financial difficulties were an important factor in all three reforms, both at their inception and at their conclusion. All of them were accompanied by an exacerbation of commodity shortages due to an imbalance between financial processes and material production.

The NEP began with overcoming the collapse of the monetary system and restoring financial stability. The monetary reform of 1923 introduced a stable currency (the chervonets). “Printing money is opium for the economy,” said People’s Commissar of Finance Grigory Sokolnikov.²⁷ The result was a rapid recovery of the economy and trade. However, financial stability did not last long. The Soviet leadership saw its political support and economic future in the public sector, and above all, large-scale heavy industry. After achieving financial and political stability in 1924–1925, decisions were made to invest primarily in industrial development; in the absence of other sources of funds, the authorities resorted to printing money.

²⁷ As a staunch opponent of uncontrolled money emission, which devalues money and undermines economic stability, Sokolnikov not only quoted this phrase in his reports but also proposed hanging this slogan near the building of the Supreme Council of National Economy (Simonov, 2004).

There was a theoretical justification for this decision. In the Control Figures for 1925/26 (the first national economic plan of the USSR), Gosplan put forward the hypothesis that economic recovery (reaching the 1913 level) would also mean the restoration of economic proportions, not only material but also financial. Since the monetization of the Soviet economy lagged significantly behind the pre-crisis level relative to the achieved level of output, a hypothesis was put forward about the existence of broad opportunities for accelerated growth through financing the economy (primarily through state investments in industry). This was, of course, a mistake, which was immediately pointed out by Nikolai Kondratieff (1927) and other prominent economists. They explained that the Soviet economic model differed radically from the pre-revolutionary one, and therefore its monetization could not be the same, if only because land and part of the means of production were removed from monetary circulation. But Gosplan's concept was in line with the interests of both the political leadership and the lobbyists of state industry.

As a result, in 1926 a commodity shortage emerged,²⁸ which indicated growing financial problems. In 1927, it became clear that peasants, who could not buy the necessary goods with the money they earned, began to reduce their crop production. This gave Joseph Stalin reason to declare a “kulak strike” (Stalin, 1946–1952, Vol. 13, p. 198) and triggered a harsh dismantling of the NEP.

The Kosygin reform somewhat expanded the opportunities for increasing the income of the population and the incentive funds of enterprises. Although economic growth accelerated somewhat, and the government sought to control the balance of monetary incomes and their commodity and material coverage (balancing supply and demand), incomes still grew faster, and by the early 1970s commodity shortages had become a permanent feature of the Soviet system. Prices were tightly controlled by the state, and official inflation was close to zero. However, in the absence of market pricing, a proxy indicator of inflation is precisely commodity shortage. Over the next two decades (1965–1985), the latter grew steadily, and it became an important factor in the start of perestroika.

The fate of perestroika was largely predetermined by a financial crisis. The key factors were one external circumstance and two internal ones: the fall in oil export revenues, the anti-alcohol campaign, and the policy of economic growth acceleration (*uskoreniye*). The first two led to a sharp decline in budget revenues, while the third meant a structural shift in favor of the manufacturing sector, which led to a rapid exacerbation of the commodity shortage problem. Their coincidence in time contributed to the collapse of the economic system, which was followed by political catastrophe. These phenomena are discussed in detail in the economic literature (Gaidar, 2006a; Hanson, 1992).

5. What was the difference?

5.1. *The nature of the reforms: A step backward or a leap forward?*

The primary difference between the three reforms is the contemporaries' perception of the place of these transformations in the dynamics of the country's political

²⁸ At the turn of 1925–1926, the first academic studies of commodity shortages in the Soviet economy were published (Shanin, 1925; Novozhilov, 1926).

and economic development. In the early 1920s, most experts and observers saw Lenin's phrase "strategic retreat" (Lenin, 1967–1975, Vol. 45, pp. 8, 302) as mere political rhetoric covering up what they believed to be a real process—a return to a normal economic system after revolutionary maximalism. After all, if we draw on the analogy of the Great French Revolution, which was classic for that time, the Thermidorian Reaction did not imply a return to the radical Jacobins but rather led to an analogue of the Bonapartist regime or a restoration.

The reforms of the 1960s and 1980s were presented by the authorities and perceived by the population as a modernization of the system and a way of bringing it closer to the demands of the times. This was in line with the Marxist idea of the need to ensure that economic relations corresponded to the level of the productive forces, which had changed significantly since the days of industrialization and required corresponding institutional changes.

In the second half of the 1980s, it was widely accepted that the Soviet economy required profound transformation, at least along the principles of the mixed economy of the 1920s. The uncompetitiveness of the Soviet system was becoming obvious, which found concentrated expression in Reagan's words that communism would soon cease to exist.²⁹ In this situation, market liberalization was considered not as a retreat but as an important leap forward.

5.2. *Economic reforms and revolution*

An important difference between the three reforms can be found in the nature of the transformation process and its relationship to the logic of revolutionary transformation.³⁰ The NEP, as we noted earlier, was the final, Thermidorian phase of the revolution, when there were retreat and consolidation of the forces that had survived. However, a distinctive feature of the Russian situation (compared to the classic French model) was that the leaders of the radical phase were able to retain power ("self-Thermidorize"), which largely predetermined the new radicalization of the situation by the end of the decade.

The Kosygin reform had nothing to do with revolutionary transformation. It was in this period when Samuel Huntington argued that the USSR was characterized by "consensus, strong social ties, legitimacy, organization, efficiency, and stability" (Huntington, 1968, p. 21), and that revolution was impossible there. These reforms were an attempt to fix the system, not to radically change it.

The situation was different in the 1980s. The system was in crisis, and perestroika quickly took the path of radicalization. Gorbachev himself spoke of its revolutionary nature, and although at first this sounded like a dramatic rhetorical flourish at the celebration of the 70th anniversary of the October Revolution (Gorbachev, 1987b), in practice a process of full-fledged revolutionary transformation began. If the NEP marked the final, Thermidorian phase of the revolution, perestroika, on the contrary, included the initial phases: a brief period of hopes and enthusiasm, followed by the polarization of social forces, which (in 1991–1992) was followed

²⁹ In his famous speech "The evil empire" on March 8, 1983, before the National Association of Evangelicals in Orlando, Ronald Reagan said: "I believe that communism is another sad, bizarre chapter in human history whose last pages even now are being written." <https://www.reaganlibrary.gov/archives/speech/remarks-annual-convention-national-association-evangelicals-orlando-florida>

³⁰ On the logic of revolutionary transformation, see Brinton, 1965.

by radicalization and the passing of the “point of no return” (Brinton, 1965, p. 79; Mau and Starodubrovskaya, 2001, pp. 184–185).

5.3. *Attitude towards private property*

The NEP envisaged the coexistence of private and state ownership. Large industrial enterprises were to remain in state hands, although they were to compete in the market. Private property was permitted in virtually all sectors, but it was dominant in agriculture, trade, and services, including banking.

The Soviet government even discussed the possibility of de facto privatization of enterprises, using the mechanism of concessions to do so. At the Genoa Conference (April–May 1922), People’s Commissar for Foreign Affairs Georgy Chicherin declared the government’s readiness to transfer nationalized enterprises as concessions to foreigners—former owners—on condition of political recognition of Soviet power and investments in the Russian economy (Gromyko, 1961).

The economic “retreat” from socialism required a legal basis for guaranteeing property rights and new forms of industrial organization. The former took legislative form in the 1922 Civil Code of the RSFSR, which provided for state, cooperative, and private forms of ownership. But even before the introduction of the Civil Code, on May 22, 1922, the All-Russian Central Executive Committee adopted a resolution recognizing basic private property rights protected by law.³¹ A decree was also adopted to restore the security of deposits in savings banks.³²

However, despite the declared protection of private property, there were no guarantees of protection for the owners themselves. “Will the bourgeoisie now take their money to the bank?” we asked a Russian bourgeois on the day the decree on the inviolability of deposits was issued. He replied: “The inviolability of deposits? But where is the inviolability of depositors? No one will take their money” (Chlenov, 1921, p. 27).

The military-communist attitude remained in the minds of many ordinary and non-ordinary Bolsheviks, and mass “proletarian” consciousness, as Lev Sheinin (1962) recalled, “fiercely hated the nepmen, whom they had to temporarily tolerate.” The curtailment of the NEP in the late 1920s was accompanied by the elimination of private property—along with “public” state property, only personal and cooperative-collective property was permitted.

The reforms of the 1960s did not imply changes in the attitude to private property. Any proposals to restore private property were taboo, and private entrepreneurship was criminalized. Nevertheless, certain steps were taken to stimulate individual production: in the spring of 1966, the Council of Ministers of the USSR and the All-Union Central Council of Trade Unions adopted a resolution (No. 261 of March 18, 1966) on the allocation of land plots divided into 600-square-meter sections to enterprises, institutions, and organizations for their employees to use for individual gardening and horticulture, with the right to build small garden houses. This marked the beginning of Soviet dachas for city dwellers, which

³¹ Resolution of the All-Russian Central Executive Committee of the RSFSR “On the basic private property rights recognized in the RSFSR, protected by its laws and defended by the courts of the RSFSR” of May 22, 1922.

³² Decree of the Council of People’s Commissars of the RSFSR “On the abolition of restrictions on money circulation and measures to develop deposit and transfer operations” dated June 30, 1921.

became one of the symbols of “developed socialism.” Despite the extreme limitations of this measure, it played an important role: the section “Personal Subsistence Farming” of the 1973 edition of the Great Soviet Encyclopedia stated that these farms accounted for 62% of the gross production of potatoes, 36% of vegetables, and 47% of eggs in the USSR (BSE, 1973, Vol. 14).³³ In 1970, the Land Code formally provided for the possibility of running a sole peasant farm with a field allotment of up to 1 hectare, but no such farms appeared.

During six years of perestroika, the USSR followed a path that was the exact opposite of that taken during the NEP period—from the criminalization of private property to its legalization and then the privatization of state property. Mikhail Gorbachev legalized entrepreneurial activity, both individual and cooperative. Initially, in accordance with ideological and political tradition, it was emphasized that this activity excluded hired labor (or exploitation). Of course, this norm was easily circumvented. It should be noted that the perestroika acts on individual labor activity and cooperatives appeared even before the law on state-owned enterprises (November 16, 1986, and June 30, 1987, respectively). This was followed by decisions on leasing, on leasing with the right of redemption, on private banks, and, finally, on privatization.

The law on state-owned enterprises itself played an important role in the development of private entrepreneurship and de facto privatization. This was facilitated by granting enterprises the right to lease property, establish non-state legal entities, and “widely use new progressive methods of socialist management,” which included lease relations (lease with the right of redemption) and cooperatives. The institution of private property was restored in Russia after a sixty-year hiatus at the end of December 1990 by the law “On Property in the RSFSR” (No. 443-1 of December 24, 1990).

5.4. Attitude towards market pricing and competition

The admission of the market and private property under the NEP not only implied competition, including competition between private capital and state-owned enterprises (Lenin, 1967–1975, Vol. 45, p. 437), but also the expectation that competition would become a restraining factor on food prices and would also contribute to output growth. Price setting in the private sector was certainly free, and this was a key economic instrument of competition.

However, Lenin and other Soviet leaders framed the issue more broadly: having won the Civil War by force of arms, the proletariat must now prevail in the economic competition between the socialist economy and private capitalism. “The NEP is a fierce struggle between the capitalist and socialist elements of our economy,” Grigory Zinoviev (1926a, p. 39) explained to his contemporaries the essence of Lenin’s understanding of the NEP. Moreover, Marxist analysis assumed that large-scale state production (socialist industry) would inevitably prevail in competition with private enterprise and thus prove its historical superiority.

³³ Horticultural farms developed intensively, becoming, by the summer of 1986, the agricultural private property of more than 6.6 million families with a population exceeding 20 million people. These data are provided in the Resolution of the Council of Ministers of the USSR “On measures for the further development of collective gardening and horticulture” (No. 562 of May 15, 1986).

But in practice, the results were the opposite. In the competitive struggle of the 1920s, the private sector demonstrated remarkable flexibility and efficiency, especially in agriculture and retail trade, where it successfully competed with state and cooperative organizations (see, for example, Davydov, 2011).

Therefore, in the 1920s, the Soviet government actively used both political propaganda and direct administrative pressure on the private sector. In the first case, this involved launching a broad political campaign ranging from the rejection of “nepmen”³⁴ by workers to “active political work” by party organizations in private enterprises to “educate workers in the spirit of class struggle against private entrepreneurs,” as prescribed in a circular letter from the Central Committee of the Russian Communist Party (Bolsheviks) in the summer of 1922 (Pravda, 1922). Political pressure on private entrepreneurs implied the deprivation of their electoral rights, both active and passive (the so-called “deprived persons”).³⁵ The state also implemented a discriminatory tax policy toward private capital (Kilin, 2021).

The reforms of the 1960s did not envisage either the emergence of competition or the transition to free pricing, which is its basis. Prices were largely set by decree in the 1940s and 1950s and did not reflect actual costs, which rendered meaningless the key indicator of the reform—profit. Reformers raised the question of revising prices “as the ratio between average industry production costs and current prices changed, taking into account the novelty, quality, and efficiency of new products in operation or consumption” (Lieberman, 1964). However, the authorities did not intend to grant economic entities the right to set prices but instead chose to strengthen administrative regulation. Kosygin, in his report on economic reform in September 1965, proposed forming a State Committee on Prices under Gosplan (which in 1969 became a government body) and controlling the quality of manufactured products and their price compliance through the introduction of state standards (Kosygin, 1979).

In 1967, wholesale prices were adjusted so that they would reimburse enterprises for all costs (including payments for fixed assets) and ensure a standard rate of return, which was supposed to increase revenues to the state budget through the deduction of a portion of enterprise profits. Prices for heavy industry, machinery, raw materials, and fuel products rose significantly. However, Kosygin refused to change retail prices (Pavlov, 1995). The reform of wholesale prices led to short-term success, but it could not eliminate the systemic causes of low efficiency and quality.

Discussing the prospects of economic reform, Lev Gatovsky noted that to correlate profit and profitability indicators with the achievements of enterprises, rather than with the product range “imposed from above,” it was necessary to constantly adjust the pricing system in line with market conditions (USSR Academy of Sciences, 1962, p. 136). The alternative to this was to give manufacturers the right to set the prices for their own product range, which was impossible without changing the entire Soviet economic system.

There was also an ambiguous attitude toward the fact that the formation of prices based on the ratio of supply and demand in a competitive environment

³⁴ For example, in 1922, Vladimir Mayakovsky called in his poem: “Go fight the merchants!” (Mayakovsky, 1957, p. 10).

³⁵ This category included persons who used hired labor for profit, lived on unearned income (interest on capital, income from enterprises and property), private traders, trade and commercial intermediaries (Decrees, 1959, pp. 561–562).

would lead to the redistribution of capital from one industry to another (Petrakov, 1966, p. 37). That would eliminate the economic imbalances on which the Soviet system was based: the predominance of group “A,” which included industries producing means of production with priority given to defense industries, over group “B,” which was engaged in the production of consumer goods.

Attempts by some economists to raise the issue of competition among socialist enterprises resulted in political and ideological pressure. An example of this was the harsh “review” of Boris Rakitsky by CPSU organs and the long-term ban on the publication of his works after the release of his book “Forms of Economic Management of Enterprises” (Rakitsky, 1968).³⁶

Enterprise managers were also not ready for competition. Alla Polevaya (1999) cites data from a survey of 250 directors of Siberian enterprises that were transferred to a new management system during the reform, of whom less than 20% wanted to make independent decisions on pricing and only 50% on investments.³⁷

Finally, at the initial stage of perestroika, the problem of competition was raised only in terms of starting to produce goods that were “competitive on the world market” (Gorbachev, 1987a, p. 217). But two years later, in mid-1987, when the active introduction of market principles into the functioning of state-owned enterprises began, accompanied by growing private entrepreneurship and the abandonment of the foreign trade monopoly, market competition became a reality.

The process of perestroika in the 1980s gradually led the country toward price liberalization—primarily in non-government sectors. But the main problem during this period was the unwillingness of the Soviet leadership to change state prices to balance supply and demand.

5.5. Macroeconomic dynamics: between stabilization and destabilization

As noted above, all market reforms were intended to solve growing financial difficulties (or crises). However, the nature of these solutions, their logic, and their consequences were significantly different.

The NEP was proclaimed in the context of a severe macroeconomic (financial and monetary) crisis and was primarily aimed at stabilizing and restoring the economy. To overcome the financial crisis, decisive stabilization measures were taken in monetary and fiscal policy, including the monetary reform of 1923.

To stabilize the budget, the government took the path of reducing expenditures (primarily military) and increasing tax revenues. A new tax system was created.³⁸ A stable currency and a predictable economic environment were essential factors in the restoration of the national economy. Macroeconomic stabilization under the NEP was a key condition for the recovery of the economy and the survival of Bolshevik power. However, after these tasks were successfully accomplished in the second half of the 1920s, the authorities embarked on a path of financial

³⁶ Yarmolyuk (1999) cites a letter from Academician Alexei Romyantsev to the Central Committee of the Communist Party of the Soviet Union in defense of Boris Rakitsky’s right to his own scientific position and the negative reaction to this by the party leadership.

³⁷ And 80% of directors, when asked, “Where would you like to have more independence?,” replied that they would like to be freer to make decisions in the areas of labor and wages (Polevaya, 1999).

³⁸ For more details on the NEP tax system, see Miller, 2003.

destabilization, which was offset by measures of administrative and political coercion carried out under the slogan of accelerated industrialization.

The Kosygin reform was a reaction to growing macroeconomic challenges, but these were not the focus of policy at that time. The key issues in the reform were microeconomic—stimulating the efficiency of enterprises and their employees. It was assumed that stimulation at the micro level would lead to the stabilization of the macroeconomic situation. But in general, the 1965 reform was neutral with respect to macroeconomic stability.

The logic of perestroika was entirely different. Virtually all major economic policy decisions in its initial stage led to profound financial destabilization. The history of perestroika was a path of economic imbalance and a growing financial crisis, which by the end of the 1980s reached a particular depth. This was most clearly manifested in a total commodity shortage caused by a “money overhang”—an imbalance between the money supply and the supply of goods—when in the first half of 1991, 1 ruble of money supply was backed by only 18 kopecks’ worth of goods (Central Bank of the Russian Federation, 2011, p. 114).

The budget deficit was covered, among other sources, by the savings of the population. In September 1991, the Soviet ministries of finance and economy reported that “the entire number of deposits of the population... was used entirely to form the internal public debt”.³⁹

5.6. *The speed of reform implementation and the role of experiments*

The crisis of the early 1920s required the Bolsheviks to make quick decisions. The NEP was launched without a pre-designed model, and its conditions were adjusted from the very first month of its implementation. No special experiments were required here, since it was a matter of returning to a market economy, albeit one modified somewhat by the significant role of the state in industry. What remained unclear were the forms and limits of state regulation, which were the subject of intense debate throughout the NEP period. In other words, the direction of movement (retreat) and the target state (a market economy) of the NEP were clear, and the authorities only had to find acceptable limits for market institutions.

The reforms in the 1960s were characterized by gradualism and experimentation. As early as the mid-1950s, Khrushchev began an experiment to successfully merge small Moscow transport enterprises into the Mosavtotrans association, with the latter having the right to “after deducting 40% of its profits to the budget, spend the rest on itself” (Khrushchev, 2010, pp. 851–852). The introduction of *sovnarkhozes* in the late 1950s and subsequent decisions regarding them may also be attributed to attempts to find a new model for managing the national economy.

In 1963, under the patronage of Khrushchev, an experiment was conducted at the Ilyinsky state farm (Kazakhstan), headed by Ivan Khudenko, a proponent of new management methods, to transfer the agricultural enterprise to full self-

³⁹ [Deputy Minister of Finance of the USSR and Deputy Minister of Economy and Forecasting of the USSR to the Committee for Operational Management of the National Economy of the USSR: On measures to overcome inflation and stabilize money circulation]. State Archive of the Russian Federation (GARF), F. 5446, Op. 163, D. 41, L. 28–30, 33–34.

financing. The results were more than impressive: “In the very first season, grain production at the farm increased 2.9 times, profit per worker increased 7 times, and the cost of a centner of grain fell from 5–7 rubles to 63 kopecks. Worker productivity increased almost 20 times. Income grew accordingly. The number of employees decreased from 863 to 85, and the number of managers was reduced from 132 to 2” (Karatsuba, 2007).

In 1964, experiments were organized at a group of light-industry enterprises, the most famous of which were Bolshevichka (Moscow) and Mayak (Gorky). These were transferred to a new operating principle, whereby their activities were assessed not by the quantity of products manufactured, but by sales and profits, with orders received not centrally from the State Supply Agency, but directly from retail chains focused on consumer demand. The prices of goods could be increased in accordance with their quality, and staff bonuses became directly dependent on profits and sales. In his report to the September 1965 Plenum of the CPSU Central Committee, Kosygin suggested spreading the experience of transport and light-industry enterprises across other sectors of the national economy (Kosygin, 1979, p. 339).⁴⁰

The perestroika program was formed in a completely different way. It was based on an attempt to implement all the good ideas of the past (the NEP and the Kosygin reform) that had been rejected by predecessors. It was based on general ideas about “improving the economic mechanism,” and the market reforms of the past were viewed as useful experiments. The obvious need for liberalization and the popularity of the new leadership headed by Mikhail Gorbachev were considered important sources of success for the reforms. In the years preceding perestroika (1983–1984), a “large-scale economic experiment in five industries” was conducted to stimulate growth in the volume and quality of production,⁴¹ but it was only very loosely related to the reforms of perestroika.

5.7. The relationship between economic and political reforms

In this respect, the reforms under consideration differed radically. The NEP created economic conditions for the restoration of political stability. Moreover, during this period, economic liberalization occurred simultaneously with political tightening. The 10th Congress of the Russian Communist Party (Bolsheviks) adopted two historic decisions: the transition to the NEP and the ban on factional activity in the party (i.e., it effectively banned internal party democracy, which did not exist in society anyway). This is telling, but not paradoxical, since forced economic decentralization, in Lenin’s view, carried risks of political change. In Marxist terminology, production relations (the economy) determine the political superstructure, i.e., power. But it was precisely this change that the Bolshevik leaders sought to avoid by allowing a market economy.

Other political parties were eliminated, and the Bolsheviks became the only official political force in the country for the next 65 years. Internal struggles

⁴⁰ However, “as the experiment expanded and new enterprises were included in its scope, both the practical and theoretical components of the reforms became less and less reformist. When up to 400 light industry enterprises began participating in the experiment, their freedom of action was reduced” (Zolotay, 2005, p. 14).

⁴¹ See also Kruglov and Labudin, 2010.

within the Communist Party intensified, with Leon Trotsky and his supporters becoming the first victims. It was at the height of the NEP that the “party favorite” Nikolai Bukharin declared (Cohen, 1980) that “there can only be two parties in our country: one in power and the other in prison” (he himself had been in both).

In 1965, political democratization was not on the agenda. Moreover, the unfolding reforms in Czechoslovakia, where supplementing economic liberalization with political liberalization was coming to a head, caused serious concerns among the Soviet leadership and reinforced the importance of preventing such a development.

But it is worth noting that in the 1960s, the political stability of the Communist Party leadership became an obstacle to economic modernization, which ultimately led to the neutralization and reversal of economic reform. The economy was sacrificed for the sake of political stability—or stagnation. Political stagnation was compounded by economic stagnation.

Finally, the 1980s demonstrated the opposite trend—from stability (turning into stagnation) to economic and political destabilization. Perestroika, which began with economic reforms, evolved toward political liberalization. At first, this took place under the slogan “more socialism, more democracy!” followed by the emergence of freedom of speech (*glasnost*), competitive elections, and, finally, the constitutional abolition of the Communist Party’s monopoly on power (Article 6 of the USSR Constitution was repealed).

The reasons for this development were linked both to the level of socio-economic development of society and the discontent that had built up within it, as well as to the logic of political struggle. On the one hand, the educated urban population, which in the mid-1980s constituted the majority in the USSR, demanded political freedoms as a guarantee that economic liberalization was not just another short-term campaign, if not a provocation by hard-liners. On the other hand, Mikhail Gorbachev saw political liberalization as protection against conservative revenge and a repeat of Nikita Khrushchev’s fate (Mau and Starodubrovskaya, 2001). As a result, the economic reforms of perestroika led to the fall of the totalitarian one-party system.

The relationships between economic reforms and political stabilization (or destabilization) in the periods under consideration were fundamentally different. But what they all had in common was that the relationship between economic and political trends was key to understanding their outcomes.

6. Completion of reforms: Reasons for failure

All three market reforms in the USSR failed to create a stable system that could function even in the medium term. After achieving its goal of restoring the economy, the NEP was rolled back and replaced by a diametrically opposed system. The Kosygin reform was not implemented consistently and failed to significantly modernize the economic mechanism based on administrative coercion, which had been created in the 1930s. Perestroika, instead of modernizing Soviet socialism, led to its collapse. In essence, in all three cases there were tactical successes and strategic defeat. This development suggests the presence of both general causes and specific circumstances.

6.1. *Common reasons for the failure of reforms*

First and foremost, it is important to highlight the fundamental problem of the Soviet economic model, which is typical for all systems based on the dominance of state or collective forms of ownership. A key feature of such systems is the dominance of current interests over long-term ones, which is primarily expressed in the dominance of current consumption interests over investment (long-term sustainability). This problem can be compensated for by centralized administrative coercion (centralized planning); weakening of this coercion leads to a weakening of the role of long-term priorities. In a broader context (including geopolitics), this problem can manifest itself in a conflict between the goals of economic efficiency (maximization of current income) and national security (a strategic objective).

In the period between the two world wars, the need for accelerated industrialization was dictated quite strictly, while organic industrialization (based on the gradual flow of capital and population from the countryside to the city) was supposed to be much more protracted. Therefore, after restoring prewar production levels, the Soviet rulers embarked on a path of dismantling the NEP and rapidly transitioning to a model based on administrative coercion. This was especially true given that the idea of the benefits of centralized economic management was widespread in the first half of the twentieth century.

The Kosygin reform led to some acceleration in economic dynamics. However, the expansion of enterprise autonomy while maintaining the practice of evaluating performance against plans (rewards for meeting and exceeding plan targets) led to accelerated growth in unplanned income for enterprises and their employees, who naturally preferred “money today” to returns on investment in the future. This widened the gap between income and commodity coverage. The Soviet authorities, who in the post-Stalin era sought to prevent macroeconomic (financial) destabilization, preferred to slow down (or, in fact, halt) market reforms and return to administrative management, albeit in a slightly modified form.

The economic liberalization of the 1980s faced similar problems—the dominance of current income interests (primarily those of state-owned enterprises and their managers, who had gained real independence) over the resolution of long-term goals. The absence of a strategic owner (investor) became a powerful factor in the rapid growth of imbalances and the economic crisis of the late 1980s and early 1990s. Moreover, the dismantling of the Soviet administrative system and the strengthening of spontaneous tendencies as a result of this dismantling made a conservative turn and the restoration of the Soviet model impossible. This was clearly demonstrated by the failure of the coup d'état on August 19, 1991, which was followed by the final collapse of both the Soviet system and the Soviet state.

It is worth noting here the memo sent by First Deputy Prime Minister Vladimir Shcherbakov to the Supreme Soviet of the USSR on August 16, 1991. Speaking about the catastrophic situation in the economy, he outlined three possible ways out of the crisis: a harsh administrative approach, repeating Stalin's experience of curtailing the NEP with the inevitability of repression and the restoration of the management system “used in the period 1940–1944 to transfer the national economy to a war footing;” radical market liberalization; and a set of consistent reforms under state control (Shcherbakov, 1991). Shcherbakov considered the latter option preferable, but emphasized that its implementation must begin

immediately, and that if it were rejected, by the end of 1991 the only possible path would be radical liberalization. He considered the first option impossible due to the lack of administrative and political resources. Subsequent developments fully confirmed these conclusions.

The second common reason is the conflict between economic and political reforms. The dismantling of the NEP market economy was primarily politically motivated. Soviet leaders in 1921 legalized the market economy not only because of the risk of losing power. As Marxists, they believed that large-scale socialist companies (large enterprises, state banks) would be more efficient than private enterprises and would therefore prevail in competition. But quite soon it became clear that despite the powerful support of “proletarian power,” the state sector was losing competition to the private sector. For convinced Marxists, this meant that such economic development would inevitably lead to political changes. Since the basis (economic relations) determines the superstructure (political system and ruling class), the growth of prosperity and private enterprise ensured by the NEP would lead to the demise (or degeneration) of Soviet power, not to mention the fate of the communist leadership. This was also discussed by opponents of Soviet power, from the left (Trotsky, 1924, 1991) to the right (Ustryalov, 2017). They pointed out that the NEP would result in the restoration of the capitalist system.

Joseph Stalin reasoned along the same lines in response to Nikolai Bukharin’s proposals on “integrating the kulaks into socialism.” “What does it mean not to interfere with kulak farming? It means giving the kulaks free rein. And what does it mean to give them free rein? It means giving them power” (Stalin, 1946–1952, Vol. 11, p. 275). Under these conditions, it was impossible to preserve the NEP, primarily for political reasons.

The foreign policy background played a significant role in the fate of the Kosygin reform: market reforms in Czechoslovakia, which were accompanied by demands for political democratization, were perceived by the Soviet leadership as an attempt to “dismantle the socialist system.” Anatoly Bachurin later said that when in 1969 “... a draft resolution of the USSR Council of Ministers was prepared on granting large exporting enterprises the right to independently enter foreign markets,” Foreign Trade Minister Nikolay Patolichev “...sent a letter to the Politburo accusing me of seeking to destroy one of the foundations of Soviet power—the foreign trade monopoly—and, in order to finally intimidate this highest political authority, labeled me the ‘Soviet Ota Shik’”⁴² (cited in Olsevich and Gregory, 2000, p. 115).

During the years of perestroika, the turn to political reforms (democratization) was the result of both the demand for them that existed in society, especially among the elite, and a desire to guarantee the irreversibility of the new course. This, however, does not negate the validity of Gorbachev’s assumption that without democratization and against the backdrop of growing economic hardships, he would have been removed from power by conservative Soviet forces.

A comparison of the fates of the three reforms provides arguments in favor of the conclusion that economic liberalization and the Soviet political model were

⁴² It is worth noting that Gorbachev also spoke sharply about the negative role of Patolichev at a Politburo meeting in 1987: “Patolichev left us a terrible legacy. In methods, in people, in connections, and in reputations” (Chernyaev et al., 2008, p. 208).

incompatible, at least in the context of the history of the USSR. The abandonment of market reforms in the 1920s and 1960s was primarily driven by concerns that systemic market liberalization would inevitably erode the existing political structure. The experience of perestroika generally confirmed the validity of these fears.

Finally, the third common problem was the ideological and political focus of Soviet leaders on the implementation of socialist (communist) principles. This prevented economic policy from going beyond those elements that were considered fundamental characteristics of this system—domination of state property, supremacy of the Communist Party, centralized planning, state prices, monopoly of foreign trade, and the criminalization of entrepreneurial activity. Moreover, declarations about the “socialist choice” and the unwillingness of the leaders of perestroika to overcome these dogmas became an important factor in the rapid unfolding of the economic crisis.

6.2. *Specific circumstances*

Let us now highlight several specific historical circumstances that led to the collapse of market reforms. The growth of macroeconomic imbalances in the second half of the 1920s (a deficit of industrial goods) discouraged peasant farms, which began to limit the volume of their production (a reduction in crops). By 1928, this led to a “grain procurement crisis,” when farmers held back grain, unwilling to sell it at low prices because they could not buy the expensive industrial goods they needed with the money they received.⁴³ The model of balanced growth (proposed by Bukharin, Rykov, Sokolnikov, and others) was rejected. The situation in agriculture received the political label of a “kulak strike” (Stalin, 1946–1952, Vol. 12, p. 127), which was followed by forced collectivization and the destruction of the market economy.

The reasons for the slowdown and abandonment of the Kosygin reform, besides the political risks, were linked to a sharp change in the external economic situation (a jump in oil prices), which was favorable for the Soviet budget. The abundance of rentier income allowed the reforms to be postponed for a decade and a half, which later, when cheap resources were exhausted, resulted in a severe crisis.

7. Conclusion

In all three attempts at market reforms, the key challenge was the creation of a model that would combine a socialist system with market efficiency. This is an important issue in contemporary political and economic debate. The Soviet historical record offers a definitive rebuttal to the possibility of such a synthesis. In all three attempts, the question of preserving the power of the Communist Party played a crucial role, and the consistent development of the market jeopardized the existence of the communist regime. However, the task of finding such a model has been solved (at least for now) in China and Vietnam. This essential topic, however, should be the subject of future research.

⁴³ In 1928, small-scale production accounted for up to 98% of grain collection (Guseinov, 1999), while the private sector in industry accounted for only about 17.6% (Kuibyshev, 1929).

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