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# Nikolai Bukharin and the New Economic Policy

## A Middle Way?

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Socialists have long searched for a “middle way” between the free markets of capitalism and the hypercentralization of a Soviet-style command economy. In the late 1980s Soviet reformers returned to the New Economic Policy (NEP) of the 1920s and the ideas of Bolshevik leader Nikolai Bukharin, chief apologist for the NEP. The reformers argued that Bukharin’s NEP, with its mixed economy, was a viable model for “market socialism.” The NEP alternative, however, was a failure. Bukharin had hoped the NEP would demonstrate the superiority of socialist enterprise, but after its implementation capitalist entrepreneurs prevailed in open competition with state-owned firms. Bolshevik price controls distorted market relations and led to the demise of the NEP. Various attempts to revive the NEP occurred in the ensuing years, most markedly when Soviet leader Mikhail Gorbachev described his perestroika as a return to NEP-like policies, but the NEP model could not meet the crisis that plagued the Soviet Union. By rejecting socialism and committing himself to the principle of private property, Boris Yeltsin moved beyond Bukharin and the NEP.

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## Origins of the New Economic Policy

When the Bolsheviks seized power in 1917 they had no economic plan. Lenin first introduced “state capitalism” to regulate big business, but stopped short of nationalization. In 1918, wartime emergency, coupled with ideological fervor, led to more extreme measures. The state nationalized all industry, banking, and trade. The Bolsheviks forcibly requisitioned grain from the peasants, abolished money, and paid workers in kind. The new government established a Supreme Council of the National Economy (VSNKh) to supervise industry and plan the entire economy (Ball 1987, 28, 6–8).<sup>1</sup>

The results were disastrous: industrial production declined to one-fifth the prewar level, and real income per capita dropped by 60 percent (Ball 1987, 6–8; Volin 1970, 163). The collapse of the economy contributed to the social unrest and uprisings of 1921. Consequently, at the Tenth Party Congress (March 1921), Lenin abandoned “War Communism” in favor of his “New Economic Policy” (NEP). He conceded that the NEP was a “retreat” and a “turning back toward capitalism”; however, he regarded “special transitional measures” as necessary to build socialism in a peasant country (Lenin [1921] 1960a, 188–89; [1921] 1960b, 214–18; [1921] 1960c, 429–30; [1921] 1960d, 329–36).

The party now sought a *smychka* (alliance) with the peasantry. The Bolsheviks replaced arbitrary grain requisitions with a tax in kind, thereby reducing the burden on the peasants. They abolished private property in land, but allowed free use of the land as long as it was cultivated. The government continued to control the “commanding heights” of the economy (large industry, foreign trade, banking, and transport), but created a private sector by denationalizing small industry and leasing factories to cooperatives and capitalist entrepreneurs. State factories were authorized to buy and sell goods on the open market and to do business with “Nepmen” (private merchants). By 1926, the private sector handled 75 percent of retail trade and produced 90 percent of agricultural output. Nepmen industrialists produced one-third of all consumer goods and played an important role in the service sector by opening restaurants, inns, and publishing houses (Nove 1982, 84–89, 98–100; Zaleski 1971, 28–29; Bandera 1963, 266–69; Ball 1987, 21–22, 140–47).

As the architect of the NEP, Lenin sought a technological solution to the problem of low productivity in Soviet industry. He appointed “bourgeois specialists” (non-Bolshevik engineers and economists) to positions on GOELRO (the state electrification commission) and GOSPLAN (the state planning agency). The Soviets acquired additional technical assis-

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1. On the Marxist origins of “War Communism,” see Roberts (1990).

tance through the granting of foreign concessions (Guroff 1983, 211–17; Bailes 1978, 48–62; Sutton 1968–73, 1:5).

The NEP brought economic recovery. Prosperity increased tax revenue, and by 1925 the government enjoyed a surplus. However, in the years 1922 to 1923 a brief “scissors crisis” arose as agricultural recovery outpaced industrial recovery. Manufacturing prices rose to an extremely high level, while the state kept grain prices artificially low. Rather than sell their grain to the state, farmers sold it on the market, where prices were higher, or produced only enough for themselves, and urban food supplies were threatened. The crisis passed when the government lowered industrial prices through cost cutting and price controls (Nove 1982, 90–96; Volin 1970, 184–88).

Despite the return of prosperity, the party rank and file were ambivalent toward the NEP. Workers welcomed the end of rations and the reintroduction of money wages, but they opposed other aspects of the policy (Ashin 1988, 295–302, 306–12). To many, Lenin’s “retreat” toward capitalism seemed a betrayal of the revolution—workers labeled the NEP the “New Exploitation of the Proletariat” (Ball 1987, 16). The egalitarian spirit of the revolution remained strong, and many resented the inequalities that developed under the NEP. Party members despised the luxurious lifestyles of the Nepmen and bourgeois specialists. The Bolsheviks hated merchants, whom they considered “speculators,” not producers, even more than they hated industrialists (Ball 1987, 3–4). This anticapitalist mentality was consistent with Marxist doctrine: Marx taught that a person’s outlook depended on his relation to the means of production; thus, if people engaged in capitalist pursuits, they would become capitalists in outlook (Millar 1981, 9).<sup>2</sup> Party loyalists also feared the corrupting influence capitalism might have on the communists themselves. Victor Serge noted with dismay that some Red partisans had become Soviet millionaires (Serge 1963, 201).

Poor working conditions intensified worker resentment of the Nepmen’s success. Although real wages increased, unemployment remained high as the overpopulated countryside sent workers to cities. Rents were low, but housing was crowded and in disrepair. Worker control of factories gave way to stricter management discipline. Furthermore, industrial workers were now supervised by three layers of management: union representatives, factory managers, and party secretaries, who pressured workers to increase productivity. Factory managers hired workers on a temporary basis, enabling them to fire at will, and turnover and absenteeism were high (Chase 1987, 109–22, 142–44, 159–61, 176–95; Filtzer 1986, 25–27; Nove 1982,

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2. This animus against business also had its roots in Russian history. The entrepreneur was a reviled figure in prerevolutionary Russian culture. See Owen (1981), Rieber (1982), and Ruckman (1984).

115–16).

## The NEP Debate

Although the NEP spurred economic recovery, the party leadership disagreed about the desired rate of industrialization and the methods used to finance it. The left wing of the party, led by Leon Trotsky and E. A. Preobrazhensky, called for accelerated industrialization. Preobrazhensky developed his “primitive socialist accumulation” theory, arguing that it was necessary to finance industrialization by extracting as much capital as possible from the peasantry through taxation and higher industrial prices. He predicted growing class divisions within the peasantry and the rise of a kulak (rich peasant) threat. Fearing foreign control, he preached economic isolationism and called for an immediate worldwide revolution. Preobrazhensky hoped for a quick end to the NEP and a shift toward a fully planned economy (Preobrazhensky [1922] 1979d, 20–30; [1925] 1979a, 33–41; [1926] 1979b, 48–49; [1926] 1979c, 65).<sup>3</sup>

Lenin and Bukharin, on the other hand, defended the *smychka* as a long-term policy. After Lenin’s death in 1924, Bukharin became the leading defender of the NEP. He called the *smychka* “the fundamental question of our revolution” (Cohen 1973, 145). Like Lenin, he saw a “dual outcome”: peasants could ally with the capitalist Nepmen or with the proletariat ([1926] 1982g, 111). Bukharin emphasized the importance of industrialization, but he believed that excessive exploitation of the peasantry might provoke a rebellion that could overturn the state.

Bukharin also rejected Preobrazhensky’s static, zero-sum assumptions about the economy. He argued that the economy was dynamic and that peasant demand for manufactured goods was elastic. Lower industrial prices, he reasoned, would result in higher volume and greater aggregate profits ([1926] 1982c, 166–69). He cited the United States as an example of a nation that had built its industry upon a strong agricultural sector ([1928] 1982d, 310); he called for balanced growth and a slower “tempo” than that proposed by the Left; and he argued that the kulak threat was a myth, because the “rich” farmers represented only 3 percent to 4 percent of the peasantry (Cohen 1973, 187–92).<sup>4</sup> As all peasants (including the kulaks) prospered, he explained, tax revenue would increase and could be used to finance industry or be redistributed to poorer peasants ([1925] 1982a, 197–99). Most important, under NEP the peasantry would see the

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2. Preobrazhensky’s theory reflected Marx’s belief that the original accumulation of capitalism arose from the exploitation of the peasantry (Millar 1981, 12–13).

3. The richest 3 percent of peasants owned only 2.5 cows on the average, versus 1.1 for the peasantry as a whole (Bleaney 1988, 4).

advantages of socialism (e.g., cheaper credit from the state, lower selling costs through coops) and eventually come to prefer it to capitalism ([1925] 1982a, 198–99, 204–205).<sup>5</sup>

Bukharin had high hopes for the NEP experiment. He aspired to have the *smychka* serve as a model for developing nations and believed it might inspire a world *smychka* (Cohen 1973, 149, 169–70). Although his ultimate goal was a planned economy, Bukharin insisted that “we will reach socialism only through market relations” (Ball 1987, 45). Confident that the state could eventually “squeeze out” the Nepman, he called for a peaceful economic struggle with the private sector (Bukharin [1921] 1982b, 102–5; [1926] 1982g, 113).

The economist Peter Boettke notes the similarity between Bukharin’s “creeping socialism” and the gradualism advocated by the Fabians. Like the Fabians, Bukharin envisioned a slow evolution toward socialism: “We are moving forward, little by little, pulling the heavy peasant carriage along behind” (Bukharin [1926] 1982c, 153). Bukharin also shared the Fabian belief in the superiority of socialist enterprise; the Bolsheviks would create their socialist utopia not through armed revolution but by “outcompeting the capitalists” (Boettke 1990, 187 n. 88). Bukharin wrote that “if they [the capitalists] sell cheaply, we must reach a position where we can sell still more cheaply” ([1925] 1982a, 189).

Bukharin’s faith in the superiority of socialist enterprise rested on the Bolshevik belief that large firms could produce more efficiently than small ones. In his 1927 essay “The Road to Socialism,” Bukharin asserted that “large-scale production ultimately drives out small-scale production” (1982e, 260; emphasis in original). State enterprises held other advantages over the Nepmen, including lower taxes and the financial backing of the government. The Nepmen of the 1920s were also less sophisticated than their prerevolutionary counterparts; fewer than one-third owned permanent shops, and very few formed joint-stock companies (Ball 1987, 92–93, 159).

Yet despite these disadvantages, Nepmen could compete successfully with state and cooperative enterprises. Private stores offered easy credit, better service, and a wider selection of goods. Cooperatives, on the other hand, were mismanaged and staffed with unfriendly clerks. Factories leased to Nepmen operated more successfully than those leased to state or cooperative enterprises. State firms even purchased supplies from Nepmen, who were more efficient and charged lower prices than cooperatives. “Transfer pricing” took place as state employees illegally transferred goods to Nepmen

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5. Bukharin’s views resemble those of several GOSPLAN economists, including V. G. Groman and V. A. Bazarov (Jasny 1972, 107–38). Unlike Bukharin, however, Bazarov and Groman favored a permanent reconciliation of plan and market (Brus 1972, 46–47).

in return for bribes. Most important, the state lost out in the grain trade as Nepmen offered higher prices to farmers, thus threatening the *smychka* (Ball 1987, 110–21, 131–32, 148–51).<sup>6</sup>

The NEP proved untenable partly because it lacked credibility. Bukharin assured party loyalists that the survival of capitalism did not threaten the socialist experiment as long as the party held a monopoly of power; he quipped that in the Soviet Union there was “one party in power and the others are in prison” (quoted in Nahaylo 1989, 58; see also Bukharin [1925] 1982a, 200). But what assurance did the merchants or peasants have that the NEP would continue? Were the Bolsheviks War Communists or Nepmen? In 1920, Bukharin had defended War Communism; now he was championing NEP. Who was the real Bukharin?<sup>7</sup> Because the party disagreed about NEP, many observers feared a return to state control. A huge credibility gap also separated the official proclamations of the central party (“get rich!”) and the hostile actions taken by lower-level officials against private entrepreneurs. Party activists joined with workers in expressing their resentment of Nepmen. One contemporary observer reported that “they have coined a new word—nepman—and no person who has not visited Russia can appreciate how mean a word it has become.... Nepman—symbol of degradation, object of scorn and contumely! Pariah, social swine!” (Ball 1987, 15). While Bukharin preached cooperation, the government produced anti-Nepmen propaganda in the form of movies, cartoons, and grammar-school lessons. No wonder the Nepmen and peasants were “afraid of what was to come” (quoted in Boettke 1990, 119; see also Ball 1987, 165; Boettke 1995, 254–56).

Bukharin recognized that unless the party firmly committed itself to NEP, the merchants and peasantry would refuse to cooperate with the government. He lamented that “the attitude of our comrades working in the countryside—men who were brought up on the system of War Communism—is such that they consider the best economic policy to be one of confiscating” ([1925] 1982a, 197). He also decried the heavy-handed tactics used to force small shopkeepers out of business. His fear was that these economic disincentives would have a chilling effect on private enterprise. Yet Bukharin’s own writings contained class-war rhetoric. Although he advocated a peaceful struggle with the capitalists, Bukharin still described them as the “enemy” (1925, 191). Furthermore, the party’s political monopoly tempted the Bolsheviks to use the power of the state against such class ene-

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6. For a discussion of the superiority of private enterprise in a socialist mixed economy, see Milanovic (1981, 137–41).

7. Bukharin offered theoretical defenses of War Communism in *The ABC of Communism and The Economics of the Transition Period* (1920).

mies. Political tyranny clashed with economic liberty.

Central planning of the economy proved to be much more difficult than Bukharin had imagined. He believed that the state could use price controls to plan the economy indirectly. The state-mandated prices, however, did not reflect supply and demand. Spending shifted from controlled goods (usually essentials) to uncontrolled goods (luxury items). The NEP established a closed economy, so shortages caused by artificially low prices could not be corrected by importing goods. State monopolies set high selling prices for some goods, while state monopsonies extracted other goods at below-market prices (Bandera 1963, 272–78). Price controls conflicted with the profit incentives offered to factory managers. Factories retained one-fifth of their profits, but with price controls in place the only easy way to boost profits was to cut costs by lowering quality. Price controls also gave no incentive for a factory manager to develop new products (Bandera 1963, 271).

Although Bukharin favored a slower rate of growth than that advocated by the Left, he still believed the NEP could support fairly rapid industrialization. This commitment to industrialization conflicted with economic reality. The Bolsheviks could have pursued long-term industrialization with an increased emphasis upon agriculture. Several non-Bolshevik economists favored such a policy. Lev Shanin, for example, noted the comparative cost advantage of Soviet agriculture. The Soviet Union, he argued, should increase agricultural exports and import capital goods. P. P. Maslov argued that the country should use its surplus labor and save capital for future investment in heavy industry. N. D. Kondratiev went even further in arguing that agriculture, not industry, should be the top priority (Bideleux 1985, 100–101; Nove 1982, 130–32; Jasny 1972, 172–74).

These strategies envisioned industrialization as a long-term process, a policy unacceptable to all Bolsheviks, including Bukharin. The Bolsheviks equated socialism with industry. They also believed that industrialization was necessary to defend the country against foreign capitalists and to strengthen the proletariat against the peasantry. Yet several factors hampered further industrial expansion. The economy had recovered by 1926, and growth leveled off thereafter. The agricultural surplus financed the industrialization drive, but commercial grain production remained weak. The Bolsheviks favored industry and defense at the expense of consumer goods production, so farmers had little incentive to produce more. The state was also failing in its bid to compete with the Nepmen for the grain trade (Volin 1970, 176–83; Nove 1982, 106; 1983, 193; [1962] 1964, 2, 22–23).

Bukharin realized that further industrialization required greater resources for industry, and therefore he called for increased regulation and taxation of Nepmen, declaring that the state must “tear the mask from the

private middleman, as if from a robber, exposing him economically and building up our own trade" ([1926] 1982g, 132). Beginning in 1926, the party redoubled its efforts to "squeeze out" the Nepmen by increasing their taxes, cutting off their credit and supplies, and introducing "administrative measures" (arbitrary fines and arrests). Nepmen responded by forming "closed circles" with farmers, excluding the state from a portion of the grain trade, but by the years 1927 to 1928 Nepmen handled only 22 percent of retail trade and by 1929 they had been eliminated (Ball 1987, 58, 68–73, 140–43, 162–63; Bandera 1963, 269).

The state now controlled the grain trade, but its price controls led to a grain crisis from 1927 through 1928. Demand outpaced supply, and prices should have increased, but the prices for both industrial goods and grain were set below market value. Low industrial prices created a "goods famine." Consumer goods did not reach the countryside because workers near the factories bought up all the production. Meanwhile, low grain prices, coupled with high taxes, discouraged commercial grain production. Kulaks sold their surplus grain to the few remaining Nepmen or concentrated on livestock. Once again, urban food supplies were threatened (Nove 1982, 138–58).

Bukharin favored raising prices in order to increase grain production. But Josef Stalin took advantage of the crisis to consolidate his power and remove Bukharin as a potential rival. In 1927 Stalin had sided with Bukharin in expelling the Trotskyite Left from the Party. Stalin now adopted the Left's policies and turned on Bukharin and the Right Opposition (pro-NEP members on the Politburo, including Alexis Rykov and M. P. Tomskii). Stalin accused the Right of favoring the kulak and of opposing industrialization and collectivization. Fearing peasant rebellion, Bukharin opposed Stalin's plans for forced collectivization, but he had no base of support with which to challenge Stalin (Bukharin [1928] 1988d, 207; [1928] 1988b, 211; [1928] 1988a, 207). The outcome was predictable: In April 1929 Stalin declared Bukharin a "Right deviationist," and in November Bukharin was ousted from the Politburo (Stalin had him shot in 1938). Stalin ended the *smychka* and the NEP by launching a war against the peasantry (Cohen 1973, 233, 322–28; Stalin [1929] 1988, 219).

## Bukharin's Legacy

Despite the demise of the NEP, Bukharin's economic thought later influenced many communist reformers and Western scholars, who considered him the "father of market socialism"—market socialism is the theory that plan and market can coexist in a socialist economy (Tarbuck 1994, 93). In the 1970s, the historian Moshe Lewin praised Bukharin's commitment to



“scientific economic management” and market mechanisms (Lewin 1974, 49, 59). Bukharin’s biographer, Stephen F. Cohen, also advocated the “Bukharin alternative,” which Cohen defined as “market socialism, balanced economic planning and growth, evolutionary development, civil peace, a mixed agricultural sector, and tolerance of social and cultural pluralism within the framework of the one-party state” (Cohen 1973, 384).

Actually, Bukharin never advocated the establishment of a permanent NEP, with its capitalist elements. Like Lenin, Bukharin considered the NEP a strategic retreat and a mere transition to a planned economy. The Soviet Union would use the market to “grow into socialism,” and the private sector would then disappear (Bukharin [1927] 1982e, 260; [1925] 1982a, 191; [1926] 1982g, 141). He rejected the theory that capitalism and socialism could permanently coexist in an economy ([1929] 1982f, 350). Still, Bukharin’s ideas do reflect some of the problems faced by market socialists. Market socialists believe that planners can simulate market signals such as prices, wages, and profits (Milton Friedman calls this simulation “playing at capitalism”). Prices would reflect the marginal cost of production; wages would rise with increases in productivity. Bukharin insisted that plan and market must complement each other and that planning should take market signals into consideration (Lewin 1974, 91).

Bukharin was extraordinarily vague when it came to offering substitutes for the market mechanisms of capitalism. The central component of market socialism is pricing policy, but Bukharin failed to describe how a planner would acquire the information required to calculate market prices. In a free market, information is dispersed among consumers, producers, and workers, and price and wage values are discovered through competition. No one individual can ascertain all consumer preferences (Hayek 1984a, 258; 1984c, 54–55; Prybyla 1987, 7). Bukharin also wrote of the necessity of “forecasting what is spontaneous and unpredictable,” but never explained how to do this ([1928] 1982d, 307). He defined prices as the demand of the masses for goods, wages as “human labor” ([1929] 1982f, 349). Bukharin recognized the dangers of the “state super-monopoly” yet insisted that the party’s drive to meet “the needs of the masses” could replace the profit motive ([1926] 1988c, 192). Likewise, he believed that “the necessity of satisfying the needs of the masses,” not competition, drove the managers of state monopolies ([1926] 1982c, 173).

The greatest defect in Bukharin’s economic theory, and in market socialism generally, was the absence of private property. Property rights spur innovation and risk-taking because a property owner is willing to gamble on an enterprise despite risks. However, in a socialist economy the government must own the capital to ensure “social justice” (i.e., redistribution of income, job security), and there is no incentive for entrepreneurship. Bureau-

cratic planners hesitate to finance new ideas. Propertyless managers prefer not to risk capital, because if they succeed the rewards are low and if they fail the losses are great. In short, real markets require private property (Hayek 1984b, 122–23; Friedman 1987, 25–29; Nutter 1968, 141–45).

Despite these problems, market socialism appealed to communist reformers trying to overcome the problems inherent in the Stalinist economic system. In a Stalinist economy, production targets are based on gross output, and product quality is ignored. Factory managers misinform planners in order to be assigned lower targets (the “ratchet effect”). Central planners neglect technological innovation. Because incompetent workers cannot be fired, hidden unemployment is high (Prybyla 1987, 25–41).

After World War II, Yugoslavia and Hungary experimented with market socialism, attempting to avoid some of these problems. In 1949 Yugoslavia established a “labor-managed market economy” in which worker-controlled enterprises produced and exchanged goods. The Yugoslavian experiment initially seemed to succeed. The country enjoyed a competitive consumer goods sector and experienced a high rate of growth in the 1960s and 1970s. Yet there was no real symbiosis between plan and market. Central planners still set prices, and the government was reluctant to finance new firms. Furthermore, no real markets existed for labor, capital, or natural resources. Worker councils limited hiring because their members did not want to reduce their share of the profits by allowing new workers into the enterprise. Workers also voted themselves excessive pay raises, causing wage increases to outpace productivity improvement. During the 1980s the economy stagnated, and inflation averaged from 50 percent to 60 percent per year. Real income declined, and unemployment increased (Prybyla 1987, 91, 245–56; Halm 1969, 83–89).

Hungarian market socialism had somewhat more success. During the 1960s, Hungarian economists revived the NEP concept of a mixed economy, and the government responded by introducing its “New Economic Mechanism.” The Hungarians replaced central planning with exchanges between producers and consumers. Planners set broad targets and granted enterprises greater autonomy. The state increased investment in agriculture and encouraged the development of private plots. Hungarian planners tried to overcome the pricing problem by basing their producer prices on the world market.

The reforms produced some favorable results. Agricultural exports increased, and the consumer goods sector was more competitive than in other socialist countries. Overall, however, the results were disappointing: Hungary’s measured growth rate showed only a modest improvement over that reported by the USSR. The world market did not really drive changes in Hungarian prices. State enterprises did not really compete, and the govern-

ment continued to subsidize incompetent firms in order to ensure full employment (Szamuely 1974, 109; Bleaney 1988, 111–13; Prybyla 1987, 214–45; Sirc 1989, 226–31).<sup>8</sup>

The “Bukharin alternative” also influenced economic reformers in the Soviet Union. In the mid-1960s, Soviet economists (again referred to as “Nepmen”) revived the NEP model. In 1965, reformers, led by Evsei Liberman, were allowed to experiment with some NEP-like policies. Profit and sales criteria replaced gross output targets, and enterprises were given greater autonomy. They could charge higher prices on new products and reinvest part of the profits. The overall targets remained, however, and the government taxed the successful enterprises more heavily than inefficient ones. Managers charged higher prices but did not improve quality or productivity (Desai 1989, 44–46; Lewin 1974, 313).

During the 1970s the Soviet government rejected the NEP model and the concept of market socialism (Dmitrenko 1972, 214). Soviet economists turned to “planometrics,” attempting to use mathematical models to achieve “perfect” central planning. As before, however, information was manipulated from below (Prybyla 1987, 6), and in the early 1980s, the NEP was again touted as an alternative model for developing nations (Sochor 1982, 197–209).

The NEP model enjoyed its greatest renaissance in the Gorbachev era. When Mikhail Gorbachev came to power in 1985 he inherited a stagnant economy. His economic adviser, Abel Aganbegyan, estimated that real growth had stopped in 1978 (Åslund 1989, 15). Shortages of consumer goods, poor quality industrial goods, backward technology, a bloated bureaucracy, overcentralization, and overplanning plagued the economy (Aganbegyan 1987, 89–94; Shmelyov [1988] 1989, 78–84). Incentives were lacking, and the work ethic was practically nonexistent (Leites 1984, vii–x). The Soviet Union had evolved into a kleptocracy with rampant bribery and corruption. Entrepreneurial energies went into the illegal “second economy” (Grossman 1981, 72–88; Wiles 1989).

Gorbachev couched his economic reforms in socialist phraseology and depicted his perestroika (restructuring) as a return to NEP-like policies, which he equated with market socialism. Perestroika, like the NEP, would save socialism (Gorbachev 1987; [1987] 1988, 33, 128). Bukharin was rehabilitated, and the Soviet press published a number of articles depicting him in a positive light (Boettke [1990] 1994; “Bukharin” 1988; “Taking a Closer

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8. Jan Winięcki argues for “the increasing similarity of the STE’s [Soviet-Type Economies] industrial structure,” noting that “the industrial structure is not only increasingly similar, but tends to be identical in all STEs over time. Whatever differences existed in 1980, they were the residuals of the much larger differences that the East European countries displayed before adopting the system of central planning” (1988, 111).

Look” 1988, 6; “Shatrov” 1988, 10–12). Soviet reformers uncritically praised the NEP, presenting a “new rose-coloured perestroika edition” of the 1920s (Nove 1992, 241–42; Davies 1991, 118–34; Shapiro 1991, 151). Economist Vasily Selyunin described the NEP years as a period of economic growth, democratization, and positive change from above (Selyunin [1988] 1989, 20–23). Historian V. Sorotkin called the NEP “a new twist to Marxism.” According to Sorotkin, the NEP was more than a retreat; it exemplified a convergence between capitalism and socialism. Sorotkin believed that if the Soviet Union had continued on the NEP path, it would have arrived at something like modern welfare capitalism (Sorotkin 1989, 6–7).<sup>9</sup>

Gorbachev’s early reforms were designed to shift the economy toward market socialism. He revived Lenin’s idea of a “tax in kind” and allowed collective farmers to sell their surplus on a “socialist market.” Gorbachev also introduced family farms: families could lease land and contract with cooperatives to produce crops with the greatest potential for profit. These family farms resembled private plots, but the farmers could not buy their supplies on a free market; they remained dependent on collectives, which continued to restrict their autonomy (Tarasulo 1989, 127–29; Åslund 1989, 29; Desai 1989, 35–40).

Perestroika also involved a restructuring of industry and trade. The Law on State Enterprise (1988) partially decentralized industry. State enterprises were allowed to sell their goods on the market after meeting their state quota. Successful enterprises could reinvest part of their profits, but most of their earnings went into projects determined by central planners (Tarasulo 1989, 71; Desai 1989, 32–34). Some small steps were taken in establishing a quasi-private sector. The Law on Individual Labor Activity (1987) legalized some forms of self-employment (e.g., taxi driving, carpentry, and restaurants). The government also authorized a new type of cooperative that could engage in almost any type of economic activity. These co-ops charged higher prices than their state competitors and produced higher-quality products. Nevertheless, the cooperatives employed only a small proportion of the labor force; they were capitalist drops in a socialist sea. Also, the co-ops remained dependent on the socialist sector; they contracted with state firms and had to meet state orders. Furthermore, because the state still set prices, no real market freedom existed (Desai 1989, 39–40, 58; Tarasulo 1989, 72–73; Joffe 1989, 279).<sup>10</sup>

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9. The convergence theory gained new adherents in the Soviet Union (Simonyan 1989, 7–9), but some Soviet scholars attacked the idealistic depictions of the NEP (Volkogonov [1987] 1989; Kozlov 1988–89).

10. The co-ops were unpopular with many Soviet citizens, who complained of higher prices and the above-average incomes earned by co-op members (Jones and Moskoff 1991, 131; “Capitalism or Socialism?” [1989] 1992, 212–24). For a first-hand account of the difficulties

As Gorbachev's early reforms failed to produce results, the economy continued to deteriorate. His reforms did not create real markets; they were tentative steps toward market socialism, a policy that could not cure the ills of the Soviet economy. In 1990, Gorbachev went one step further by approving legislation legalizing the ownership of private property and the hiring of labor. Yet he was "paralyzed by indecision" (Walker 1993, 208). Peter Boettke (1995) notes that "the regime kept introducing liberalization policies only to go back on them." Gorbachev's constant "zigging and zagging" undermined the credibility of his reforms (264). Gorbachev was retreating from socialism, but he never surrendered to capitalism. He repeatedly proclaimed that "I am a Communist, a convinced Communist. For some, [communism] may be a fantasy, but for me it's my main goal, which is still far away." As late as 1991, he reiterated that "I am not ashamed to admit that I am a Communist, and will be one when I go to another world" (Mikheyev 1992, 47).

Gorbachev's fall from power in 1991 paved the way for more radical reforms. His successor, Boris Yeltsin, surrounded himself with "radical pro-capitalist economists" (Davies 1991, 134). Yeltsin's goal was to create a "normal" (market capitalist) economy (quoted in Yeltsin 1994, 146; see also Boettke 1993, 138).<sup>11</sup> The road away from serfdom has been fraught with

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these "New Soviet Businessmen" faced, see Lyonhardt and Howells (1991, 29-39).

11. Yelstin underwent a conversion to capitalism after visiting the United States in 1989. On 11 September, 1989, speaking before a Columbia University audience, he declared that "I've seen that capitalism is flourishing.... Even some of what in the United States are called slums would pass for decent housing in the Soviet Union. My views have been turned around by one hundred and eighty degrees" (Mikheyev 1992, 146).

difficulties. Nevertheless, Yeltsin's ascent to power marked the apparent end of Bukharin's legacy. Having broken with communist ideology, Yeltsin "had no further use for Bukharin or the Communist legitimacy he had provided" (Gluckstein 1994, 2). Yeltsin moved beyond Bukharin, NEP, and market socialism. The ghost of Bukharin no longer haunts the Kremlin; it has been replaced by the spirit of Adam Smith.

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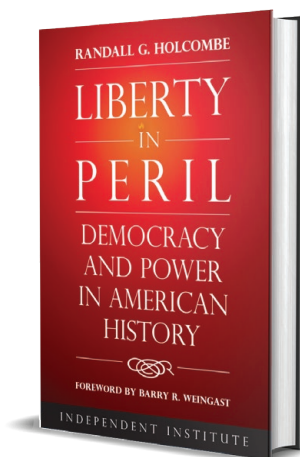
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