

J. K. Hass, N. A. Lomagin

Unseen Roots of an Unexpected Revolution: Party Elites, Economic Reforms, and Expectations versus Outcomes in Late 1980s Leningrad

Beginning of the End: What Happened under Gorbachev?

Mikhail Gorbachev's *perestroika* came as a surprise to many, as did its eventual unraveling. We know the basic history, but we still know too little about the nitty-gritty of policy formation and implementation at local levels, where reform really came to life. This essay is an initial exploration of those local beginnings of *perestroika* and processes by which reforms unfolded, with a brief discussion of how the state could then lose enough control that the economy began to come apart. We use Leningrad as a case study. We provide two snapshots of the process: first, initial reception in the halls of power; then, what happened afterwards in the late 1980s and on the eve of Soviet collapse. Those two snapshots differ, in that the first stage was cautious but hopeful, while the second turned opportunistic and less controlled. Three themes are important in this process. First, foreign ideas initially informed how reforms might be undertaken. Some of this story is not new, e.g. the importance of Hungary and its New Economic Mechanism, although the interpretation of NEM at the local level is new. Second, the initial reception of reforms in local halls of power — in this case, “Smolny” (the seat of local power in Leningrad) — showed a combination of underappreciation for how serious reforms might become, as well as a curiosity about what might be possible. We will be looking at the years 1986–1989, when the parameters and outcomes of *perestroika* policies as they evolved over time were uncertain. The country had known reform efforts of Nikita Khrushchev and Aleksei Kosygin that had not led to real change or polit-

Hass Jeffrey Kenneth
PhD, Professor,
University of Richmond
(Richmond, USA);
St. Petersburg State
University
(St. Petersburg, Russia)

**Lomagin
Nikita Andreevich**
Dr. Sci. in History,
Professor, European
University at
St. Petersburg;
St. Petersburg State
University
(St. Petersburg, Russia)

ical implosion. Finally, we examine distance between what Smolny felt was possible and perceptions of a broad “brain trust” of local experts set up by Smolny to figure out what *perestroika* meant for Leningrad and what could be done, and local public discourse. The moral of the story is that interpretations of reform were cautious at first and followed the preexisting logic of Party-led mobilization; but the discourse of economic reform stalled when it faced institutional issues of property and soft budgets, and was overtaken by the dynamic of political reforms.

Our starting point is differences between the center (Moscow) and the regions (in this case, Leningrad). Moscow elites and cadres in the Kremlin and the ministries learned lessons — or so they thought — from the examples of different reform strategies in Yugoslavia, Hungary, and China. Elites and cadres in Leningrad, in contrast, looked first of all to the internal Soviet experience at the local level, the context they knew best, with all its opportunities and desperate needs. One perception was that a plausible reform strategy was to reboot NEP in a more contemporary form. This would “improve” Soviet socialism by building on what existed and without having to import policies and then tweak them to local conditions.

From this, four points weave their way through our narrative. First, Leningrad elites and those they called on for advice were initially cautious because they were ascertaining possible innovations and channeling them through local institutions, rather than expanding possible autonomy for local actors (e. g. enterprise directors). Gorbachev’s later and more radical *perestroika* reforms ultimately undercut this channeling logic. Second, local discussions of reform, especially in the “brain trust” of local experts Smolny set up, were not well structured and integrated. This meant different bodies and experts in the wider, umbrella-like brain trust came up with disconnected ideas, rather than one more coherent local plan that could have been passed on to Moscow. This also meant that opportunities for coordinated local reform were lost¹. Third, a growing disconnect arose between the expert discourses behind closed doors, in these councils, and public discourse of the Soviet press. Public discourse did not liberalize overnight, but over time gatekeepers, especially newspaper editors, found risks and opportunities as reforms slowly evolved and Gorbachev’s *glasnost* became a serious reform. Fourth, initial reforms underestimated the real depth of the shadow economy and associated opportunism, practices this first stage of reforms could not harness for the command economy. When enterprise directors eventually raced ahead of political elites, the shadow economy exploded into the open.

All of this begins with the eternal question: Why did Mikhail Gorbachev begin the reform process? Several hypotheses compete. William Wohlforth and Richard Pipes both embrace a version of the crisis explanation: the Soviet economy was entering dangerous waters, and reforms were necessary to compete with the United States and NATO; changing perceptions of the balance of power between East and West did not automatically trigger any reforms, but they became an important factor for beginning any rethinking, not only of international relations, but also of Soviet capital to act, which was relevant to economic performance and reforms². Other scholars do not deny economic issues as a background for reform, but these could not trigger reform or shape its trajectory by themselves. Instead, the qualities of

leaders were an important variable³. Yet other scholars question the source of this new leadership's ideas: while people are creative, external influences contribute to the content of innovations. One claim is that "transnational learning and epistemic communities of experts" contributed to the coming of reform, in part by generating concrete policy ideas, and in part by legitimating calls to reform by technocratic leaders⁴. Important transnational discursive communities crystalized around promoting international cooperation regarding key challenges to all countries, especially disarmament and emerging economic globalization. However, could ideas of Soviet physicists and intelligence officers be understood only through their participation in disarmament efforts? Could economists seeking greater Soviet integration into the global community be viewed as students of the capitalist West without attention to East European reforms, the experience of the Soviet 1920s, and pre-revolutionary Russian economists?

Finally, constructivists posited different impulses to reform: "new thinking is best viewed as a watershed in *national identity* — not in opposition to, but in unity with the West — and so entailing a sharply different conception of Soviet national interests in world politics. Put simply, a diverse group of specialist elites, on the basis of their knowledge and experience over the preceding two decades, had by early 1970s embraced a distinct 'Westernizing' set of beliefs and political orientations that would play an indispensable role in shaping Gorbachev's reforms"⁵. In the constructivist position⁶, foreign policy interests and policies are not delinked from structural positions, but structural relations do not determine policies. Rather, these are constructed as social realities, grounded in other social constructions such as "nation" or "state" or "bloc". These are more than rules, laws, or treaties: they are also categories through which actors perceive and filter political realities, including their own interests and options.

What these approaches miss is that the reform process, in its directed and unforeseen forms, were embedded not only in the networks and political constructions of Moscow's political and academic elites. There were other political fields that generated their own sets of experiences, interests, and perceptions that could contribute to the reform process. The regions themselves might not have had the same capital as Moscow, but they were not entirely subservient: even if political and economic institutions were centralized and hierarchical, there were fractal tendencies here, as anywhere else, and local knowledge and practices still mattered for implementing Moscow's desires⁷. How reforms unfolded takes us beyond Moscow. Eventually *perestroika* would take on a life of its own, within enterprises and between Soviet republics; but in between the initiation of Gorbachev's initial reforms and the explosion of *perestroika*, the reform process gained its own momentum and trajectory.

That Moscow should have been at the heart of reforms in their various stages makes sense. In addition to the seat of power, Moscow also had key research institutes where various academics had been paying attention to economic challenges and considering various responses⁸. These included IMEMO (Institute of the International Economy and International Relations), the USA-Canada Institute, the Central Economic-Mathematical Institute of the Academy of Sciences (TsEMI AN),

and others. Moscow thus had a concentration of political power and brainpower. Personages such as Yegor Gaidar and other reformers, who read widely in international academic literature and were well connected in the USSR and beyond — were also in Moscow and its networks, and several of them personally knew Milovan Djilas, John Maynard Keynes, and the like. And these young reformers were aware of the political and social realities at work underneath the veneer of Soviet propaganda: in the 1980s, almost half of the Soviet population was able to pick up foreign radio via short-wave broadcasts. The KGB informed the Central Committee that reformist and revisionist ideas were spreading among the youth, and especially among students (and even more among students in humanities programs). In Moscow, up to 80 percent of students regularly listened to foreign radio broadcasts and music⁹.

While Gorbachev and his evolving reform team understood the need to reform the economy, what reforms should look like and how they should be implemented was far from clear. Any reform plan had to deal with entrenched interests in the central ministries and their local representatives (e.g. *glavki* and enterprise managers). Any plan had to resonate to some extent with the formal ideology legitimating institutions and the Communist Party's monopoly on power; reforming the ideology might be required as well. And any plan had to suggest causal relations and steps that would improve economic performance. The Chinese model, such as it was at the time (the early years of Deng Xiaoping's reforms), was rejected: Soviet economic institutions and structures were more complicated than those in China, where institutional interests were not yet as entrenched and the Cultural Revolution had disrupted institutionalization for ten years¹⁰. The Hungarian and Yugoslav models were possible models, but following both models required Gorbachev to do battle with the entrenched interests of his ministries, and even Hungary's New Economic Mechanism was no fundamental reform.

To begin the reform process, in 1984, Gorbachev and Nikolai Ryzhkov created a special Politburo commission on economic improvement. This working group consisted of top officials from various economic ministries (finance, Gosplan, labor); a parallel group made up of academic experts was headed by Dzhermen Gvishiani (Aleksei Kosygin's son-in-law). Gorbachev did not ignore the regions in this policy. Some younger Leningrad economists were invited to work in this group, including Sergei Vasiliev, Sergei Ignatiev, Iurii Yarmagaev, and Anatoli Chubais. (Only Chubais would work both in the Moscow group and the Leningrad council, discussed below.) Similar commissions were set up in the regions, including in Leningrad. The Moscow group produced a 120-page document, *The Concept of Improvement of the Economic Mechanism of the Enterprise*¹¹. This cautious document proposed improving Soviet economic performance by imposing a tougher monetary policy (a gradual shift from soft budgets to hard budgets); liberalization of the Plan structure of investment and production; more support for enterprises that demonstrated profitability; gradual price liberalization; cautious liberalization of foreign trade; and development of private and cooperative sectors of economy in parallel with the state sector.

The Council on Social and Economic Reforms in Leningrad, 1986–1989

Scholars often evaluate Gorbachev's reforms as a series of badly thought and purely managed top-down initiatives that eventually resulted in the collapse of the Soviet Union. While there might be some truth to this (although hindsight is also 20–20 and armchair commentary is deceptively easy), this view is incomplete because it places the majority of blame, and thus causation, on Moscow and Gorbachev's inner circle. Important as these actors were, they did not hold so much power in their hands. What is missing from most accounts is how reforms were viewed and performed at the regional level — given that domestic problems and challenges to reforms varied across regions — and especially in such key Soviet economic and political centers of the USSR as Leningrad, and in addition to enterprise managers.

Leningrad was not the Soviet core — that was Moscow — but it was not unimportant. Grigorii Romanov ran Leningrad with a strong hand and imposed his Soviet conservatism, stifling perceived threats to his rule and Party hegemony. Romanov left Leningrad for Moscow in 1983 and then lost his Politburo position in 1985 in Gorbachev's initial steps to solidify his authority. Lev Zaikov succeeded Romanov as Leningrad First Secretary in July 1983, and he impressed Gorbachev when the latter visited Leningrad in May 1985. Zaikov sold Gorbachev on a program for the economic development of the region and demonstrated willingness to support reforms. Gorbachev invited him to Moscow to become a Central Committee Secretary, and Iurii Soloviev took Zaikov's place as Obkom and Gorkom First Secretary. Zaikov then set out a plan to explore reforms locally, and Soloviev put those plans into action.

As recently declassified materials from the former Leningrad Party archive show¹², regional responses to reform signals from Moscow were more complicated than simply making a formal plan. Part of this initial response to reform signals from above was to resurrect the Council on Social and Economic Development, under Smolny's¹³ supervision, in 1986¹⁴. Its primary goal was to provide “scientific support and coordination of economic and social development of the Leningrad region” and to manage a new phase in the industrial revolution. The idea to revive such Councils in all regions of the USSR came from the Kremlin, and local Party leaders believed this was a purely bureaucratic affair. However, some regional elites understood the need for reforms, as well as enormous risks. Some elites in Smolny were sincerely willing to exploit their regional resources to tackle ever-growing social and economic problems. “Regionalism and compartmentalization” (*mestnichestvo i vedomstvennost*) were seen as key barriers to fully exploiting advantages of socialism¹⁵, and reviving these local development councils might exacerbate these barriers—or they might provide hotbeds of innovation.

Leaders in Smolny had reason to resurrect the Council and take seriously these new signals for reforms. By 1986 Leningrad has facing a number of threats to social, economic, and even political stability. The lack of decent housing for city dwellers was a 60-year-old problem that had no readily apparent solution, despite decades of (albeit inadequate) investment in housing stock. Rapid industrialization during the interwar period, coupled with massive destruction during World War II, created an

enormous demand for housing. It was expected that by 2000 about 1,975,000 families would at last get their first apartments¹⁶. But was such construction possible over the next fifteen years under the current system, with all of its incentives for shadow economies? Another crying issue was a growing and problematic deficit of consumer goods. Up to 50 percent of different goods produced in Leningrad were not in demand and languished in storage depots. According the head of Leningrad planning committee (comrade Labetski), only 30 percent of goods met appropriate quality standards¹⁷. Meanwhile, the military-industrial complex did not want to consider conversion to civilian production. For instance, instead of producing small tractors for collective farms, the Kirov factory continued to build giant tractors and tanks, even though demand for both was in sharp decline¹⁸. Additionally, unacceptably high infant mortality (about 18%, versus an average of 21% for the entire USSR)¹⁹ and rising drug use among youth²⁰ created serious demographic problems, and Leningrad's overall population was aging. Eroding ecological conditions were a growing concern as well²¹. As a result, Smolny warned that failing to address these and other problems could fuel political crises. Leningrad city Secretary A. Gerasimov stated in 1986, "Slow changes in the social sphere lead to a radicalization of the political situation in the country. And this process will get worse and worse... Despite some changes for better in social domain, a flood of letters to Gorkom increased two- to three-fold. Demands grow faster. People is not willing to tolerate what was normal yesterday. And mass media grills the situation...We will have to work in this new political reality"²².

The first three years of *perestroika* were important in Leningrad, as this was a period when both the concept of a new economic mechanism and a new cohort of managers and reformers were emerging. Some regional reformers later moved to Moscow to make what Strobe Talbott once called "three revolutions" in one: political and economic transformations as well as building a new national state. But the "revolutionaries" did not come out of thin air. Most got their start by taking part in the work of regional bodies to promote reforms. The Soviet belief in technical progress and rising concerns that America would defeat the USSR, not by missiles but rather by the supremacy of its technology and information systems²³, created a strong demand for technocrats. Unsurprisingly, the last First Secretary of the Leningrad Obkom, Boris Gidaspov, rose rapidly through the Party ranks because of his participation in the Council on social and economic reforms. As the Director of the State Institute of Applied Chemistry and the head of the section on technological development²⁴ of the Leningrad region, he shortly became the chair of the key Party Commission on organizational and party work, including personnel and in 1989 he was promoted by Gorbachev to run the Leningrad region.

The First Secretary of the Leningrad Party organization, Y. Soloviev, led the Presidium of the Council. As Chairman, he worked together with the academic chair, who was a chief at the Leningrad branch of the Soviet Academy of Sciences. Each of six bureaus²⁵ under this Presidium had scientific leaders from appropriate fields. Each bureau was divided into sections that prepared blueprints for possible reforms. All in all, there were 38 sections with about 60 experts in each of them. Section heads were supposed to know all institutions in their appropriate field so as to integrate different

viewpoints on assigned issues and to be able to present proposals to the directive organs, e. g. Smolny. Within sections, peer reviews were seen as a basic element of compliance²⁶. The party invited leading economists, lawyers, and scientists to take part in tackling serious problems that had been accumulating for almost 70 years. Thus, three years before the Party has amended the Constitution and began to implement some political pluralism, it was already asking the academic elite for help. An open discussion in these sections began, in which Marxism still dominated rhetoric but other taboos about issues open for discussion were lifted.

Initially, there was a lack of any coordination between different sections²⁷. Experts involved in the process did not know each other well, and others had not dealt in much depth with applying or turning sincerely to expertise. However, all were made aware of the status of this work and how decisions would be made. Not surprisingly, in September 1986, City Secretary Y. Gerasimov accepted that sections would develop their plans in a way that lacked consistency across the board in what the Council was about to do. He had to clarify the basic idea of the Council as something more than just an advisory body for Smolny. Councils' suggestions ought to become *modus operandi* for planning institutions in the whole Leningrad region²⁸. Meanwhile, sections did not coordinate their work, and the entire process of coordination was performed at the levels of bureaus and the Council's Presidium.

In Leningrad in 1986–1989, several prominent figures were among those to whom the fate of reforms in Leningrad was entrusted. Some became acquainted with each other by discussing burning issues of economic and social development. (Among participants in Council work were many future leaders: Anatoli Sobchak, Anatoli Chubais, Valentina Matvienko, Viktor Zubkov, and others.) A section on the Advancement of economic mechanisms and regional development where then Professor Anatoli Chubais, who got to know Leningrad State University Professor Anatoli Sobchak²⁹. Chubais took initiative to offer his section a set of radical innovations for financing Soviet applied R&D. Chubais was the first to openly challenge the old resource-intensive system and to suggest the need to assess the value of applied research not only from the direct calculation of costs of activities on the bases of centrally established norms, but also as the share of profit that a consumer would get by using that R&D. The combination of two approaches ought to create a stimulus for researchers and demonstrate the link between final results and remuneration³⁰. The future mayor of St Petersburg Anatoli Sobchak also played a role in debates in this section, albeit less active. Sobchak suggested the need to extend the Law “On Enterprise” to activities of research institutes and construction bureaus. When Sobchak was elected the first mayor of St Petersburg, he invited Chubais to become one of his deputies in charge of city property. Later Chubais moved to Moscow to help acting Prime Minister Yegor Gaidar to undertake liberalization of the whole Russian economy.

Although *perestroika* lifted many taboos, debates on economic reforms in Smolny had ideological limits. Chubais had to answer a direct question about whether his proposals contradicted Marx's views on pricing³¹. Even hotter debates took place in a session on salaries. Some argued against efficiency wages and instead called for “scientifically proved norms”, as “productivity should belong the

state”, and otherwise “we will lose control over workers’ wages”³². Proponents and opponents of wages based on productivity split fifty-fifty across the heads of commercial departments of factories, where there was general support for efficiency wages³³.

Despite coordination challenges, by 1989 the Council provided the Party apparatus what it wanted: basic ideas for developing appropriate economic programs, and people with skills and ambitions to fill numerous vacancies as market opportunities began to open wider and wider. However, by then the regime lost control over discourse about reforms, economic and political. While experts and their kin were having intense and complicated discussions in the arcane language of economic theory (such as it was in the USSR at this time), outside those closed doors a different discourse was developing.

Framing Reforms: Local Public Discourse in Parallel to the Councils

While discussions over economic and then political reforms grew louder in Moscow, similar public discussions in Leningrad rose and then fell by 1989 in the city’s most important newspapers, *Vechernyi Leningrad* and *Leningradskaja pravda*. These two newspapers set formal themes and limits of public discussions in Leningrad, and so the quality and quantity of writing, and specific themes and tone, regarding local economic reforms reflects the strategies and habits of the local elite, at least until the end of the Gorbachev era³⁴. The three phases of public discourse were cautious discussion and maintaining boundaries (1985–1986); more open discussion with variation in opinions and economists as a new source of opinion (1986–1987); and a decline in discussion of economic reforms but growing attention to political reforms (1989–1990)³⁵.

In April 1985, Gorbachev noted that the Soviet economy had to move from extensive to intensive growth; this was the policy of *uskorenie* (acceleration). Gorbachev also visited Leningrad to repeat and reinforce this theme of the need to take economic improvement more seriously, as if the lack of seriousness was the real obstacle to growth. Leningrad’s news media repeated this formula, that Leningraders (like the rest of the country) had to improve the efficiency of labor through “intensification” (*intensifikatsiia*). In practice, realizing this broad policy meant quasi-reforms to education (educating new technical cadres) and labor productivity and discipline, and combatting consumption of alcohol. Such reforms, like much talk of reform and content of agitprop, focused on the characteristics of individuals rather than on institutions and incentives³⁶.

Between the April plenum of the Central Committee until the end of 1985, the local press published 37 articles on “intensification” that cited enterprise inspections, the use of new technology, and other examples related to labor discipline. Leningrad Obkom First Secretary Zaikov repeated the mantra of needing to inspect and compel more responsible labor across the board, through the mechanisms of local Party cells — in other words, the same formula and practices as earlier³⁷. Additionally, in October 1985, local newspapers reported the Party’s new economic program to create some sense of transparency: 35 articles in 1985 were devoted to

discussing key documents in advance of Party meetings to keep citizens informed. Interestingly, two groups led these discussions in print: Party cadres (including Party chairs, enterprise directors, heads of local institutions of higher education), and works, police, and veterans. The first group contributed two thirds of these articles. However, this variation in cadres consulted led to no real discussion of reforms and ideology: rather, they were more formulaic than innovative. In sum, at the local level, Gorbachev's reforms were treated with no special attention beyond that accorded to reproducing the primacy of the Party and the elite.

For 1986, the 27th Party Congress was a key event to shape economic discourse, and newspapers provided documents for discussion at the Congress ahead of time. The same types of discussants—professionals and average workers — had their “say” in newspapers, and in the same proportion as earlier. “Intensification” remained the buzzword for reforms, and citizens were cajoled to improve disciplined labor — once again, institutional arrangements and incentives were not addressed. The best return on investment was from the “human factor”, i. e. individual disciplined effort, which meant education (including agitprop efforts). The editor of *Leningradskaja pravda* echoed this general line: the population should mobilize itself to implement discipline. To the extent institutions mattered, it was less their structure, than people manning them³⁸. However, by the middle of 1986, reports emerged that Congress participants wanted a more holistic and flexible management system to realize socialism and improve economic performance — a hint that some lower-level autonomy and an appeal to incentives might be necessary, rather than simply demanding discipline and hierarchical order. *Perestroika* (the word was now used openly) could involve some devolution of decision-making to appeal to incentives and interests, and to correct the ongoing problem of Party cells and organizations being out of touch with realities on the ground inside enterprises³⁹. If the usual Marxist-Leninist line remained in place, on the margins discourse outside the Councils and Smolny was starting to shift.

In 1987, “intensification” faded from Leningrad’s mass media. While the usual talk of mobilization for discipline persisted, shifts on the margins persisted as well and began to seep into the discursive core. Discipline and the struggle with alcoholism were still key policies, and the Plan structure continued to dominate assessments of economic “success”⁴⁰. Enterprises were expected to be self-sufficient, as per the policy of cost accounting (*khozraschët*)⁴¹. However, occasional commentators noted that for any socialist competitions or similar usual practices to truly work, more than “moral encouragement” was needed: “material forms of encouraging winners [of socialist competitions] are very limited”, due to the lack of funding for social and cultural activities and similar provision⁴². The wage fund was one source for improving material incentives, and some suggested that the source of the wage fund be earnings rather than the state — essentially a reduction of the soft budget that often hindered productivity⁴³.

If one discursive shift was increasing attention to material incentives and linking them to real productivity gains (an entering wedge for a possible future discussions of profit), another shift was moving away from usual practices of inspections and mobilization rhetoric — neither of which worked all that well — although towards *what*

new mechanisms was unclear. There was also some appreciation for the first results of reforms and the need for even more support from the government. L. G. Petrovskii, a deputy from Leningrad's Vyborg district, noted satisfaction with these initial reforms: a few new cooperative cafés were giving state-run cafés a run for their money⁴⁴. *Khozraschët* remained on the agenda as one attempt to align laborer's preferences with desired economic outcomes — and all of this still fit neatly under the umbrella of “socialism”.

By 1988, public discourse shifted more. Rhetoric about discipline and accountability for not fulfilling Plan targets almost disappeared from Leningrad newspapers. New topics of interest were decentralizing decision-making, more autonomy to enterprise managers, and greater self-financing and self-sufficiency. This devolution of authority away from Moscow to localities was evolving in tandem with a similar political process, *demokratizatsiia*. This was not full market reforms, just as “democratization” was nothing close to “democracy” as understood elsewhere in the world at that time. Rather, devolution remained Party-centered: not only enterprise managers, but also lower-level Party cells, would gain both enhanced agency and enhanced accountability (in theory). If directors were to have more autonomy and responsibility, then the question of pricing was likely to arise — and it did. The local press, still under the direction of the Leningrad Party organization, broached the problem of inefficient pricing in the command economy.

In pursuit of gross indicators, manufacturers sought to obtain from the pricing authorities the highest possible prices for their goods or services. The link between the spheres of consumption and production was almost completely absent, as the consumer did not have the opportunity to influence prices. In other words, what is now often referred to as the “dictate of the producer over the consumer now has its place... Current radical restructuring of economic management is aimed at changing the mechanism of relations between those who produce goods and those who use them. And the essence of price reform is that prices and rates reflect socially necessary costs for the production and sale of products, its consumer properties, quality, and popular demand. This means the need to establish feedback from consumption to production through the pricing mechanism”⁴⁵.

Once devolution of authority to set prices had come into the open, questions about property and cooperatives in Leningrad followed. In 1988, as a new project on cooperatives was in the works, *Leningradskaia pravda* turned attention to the various issues and challenges involved. The previous law on self-employment turned out to have many deficiencies, and the current draft law on cooperatives did not do enough to clarify legal rights and limits to cooperatives. Hungary and East Germany, according to some, had managed to create a context in which cooperatives could grow and serve the interests of the state and consumers (not only cooperatives themselves). Competition from cooperatives encouraged state-run organizations to improve, but Soviet law did not seem to provide the opportunity to reap this reward. Instead, existing legislation and the draft law would encourage labor exploitation by allowing an unequal distribution of profit (more to the “owners”). Further, the current system for distributing profits among employees created incentives to maintain a small number of employees, which would dampen the expansion of cooperatives

across the labor market⁴⁶. Once the law “On Cooperation” was adopted, *Lenin-gradskaia pravda* let the issue be, with only one major article on the number of co-operatives appearing in the city and the kinds of goods and services they provided⁴⁷.

By 1988 economic reforms were increasingly non-trivial and risked a break with core tenets of Marxism-Leninism, at least as articulated since Stalin’s defeat of the Right Opposition and NEP. Some writers in the local press called attention to this and to problems of ideology, or at least of the economic reality that evolved under that ideology: “The administrative command system of management operating for many years was focused on more homogeneous groups of people, on average consciousness. In conditions of costly methods of management, a special type of managers and teams arose, accustomed to low labor organization, backward technology, irresponsibility, and charity at the expense of the state.” Too many creative people were not allowed full expression of that creativity, as they had to work alongside others who simply came in to do a job and to leave. The challenge now was to find a balance between state planning, for the benefit of everyone and the principle of egalitarianism, and greater lower-level autonomy that would facilitate more accurate calculation and decision-making. This should fulfill a variation on the old socialist slogan, “From each according to his abilities, to each according to his labor”⁴⁸.

In 1988, the previous formulaic rhetoric of discipline and mobilization gave way to new probing discussions about incentives, autonomy, devolution, and local decision-making. This triggered discussions of existing problems of the command economy, partly possible because of *glasnost*, and partly possible because justifying increasingly ambitious reforms, that went deeper into economic institutions, demanded more critical scrutiny of Soviet economic reality. This did not mean such discourse was smooth. In early 1989, for example, one article appeared in the press criticizing cooperatives⁴⁹. “Property” remained a mysterious term — not as “property” *per se*, as Soviet citizens knew the economic foundation of their geopolitical adversaries, but rather “property” as applied to a *socialist* setting, where private ownership of the means of production was not supposed to exist. Yet devolution of autonomy and accountability raised the issue of property, or of some similar mechanism to encourage competition and effective use of resources. This was an omen for the last phase of public discourse, an increasing pluralism of viewpoints and sometimes of confusion in that discourse. However, here we find a paradox: *political* discourse was expanding, diversifying, and growing increasingly contentious. *Economic* discourse, on the other hand, began to retreat in public discourse⁵⁰.

The new constants in public economic discourse were related to autonomy: self-financing and self-sufficiency. However, deeper institutional roots of economic malaise remained out of the public eye, at least in Leningrad newspapers: in particular, the soft budget was not an overt point of public discussion, and property rights remained a blurry topic. Devolution of decision-making remained linked to a planned economy; instead of the Party mobilizing workers and managers to work better, now more direct financial incentives (of sorts) would so that heavy lifting: for example, “To consider the main task of the Leningrad Party Organization the consistent implementation of the socio-economic development of the region in accordance with the main provisions of the General Plan... It is more active to influence

the acceleration of all work on the implementation of the party's course, not social reorientation of the economy, to make a qualitative breakthrough in this direction by changing investment policy⁵¹. Cooperatives now received less attention than before; what was published revealed some non-trivial resistance from various quarters of Leningrad society, and an attempt to provide a defense of the experiment.

What most often outrages citizens in cooperatives? The answer is simple: high prices for goods and services. Alas, this is true. You can't like the high cost. Nevertheless, I believe it is impossible to stigmatize all cooperative owners indiscriminately. There are many different people in this movement. There are several, unfortunately, who come to the cooperative with one aim: grabbing maximum profit and leaving with a tight purse. These tricksters are noticeable, they stick out on all corners, selling their usually useless, but catchy, products... However, these are not the people defining the face of the cooperative movement. A real cooperative today is not a shop in a crowded place, but a solid, well-organized enterprise, where business is set widely, on a long-term basis, money is earned not by playing on prices, but by a large volume of production. We have many cooperatives that sell their products at state prices (an example of this is the Dialogue architecture and repair cooperative). People there came to work not only in the hope of a higher salary. Many were led there by the inability to realize their capabilities in their former service, where they constantly had to look back at instructions and prohibitions, where business risk, sometimes absolutely necessary, was impossible at all⁵².

The occasional article reported on successful cooperatives⁵³, while others related problematic cases. One cooperative in Tikhvin had been violating the law — e. g. not providing assurances for quality or work or liability — but no one from the local ispolkom altered them of the fact, and existing law provided no mechanisms to protect parties involved in business deals with cooperatives⁵⁴. These stories, and general discourse on reform, faded in importance in the popular press as political movements and issues gained traction and contention. Some people noticed this: the First Secretary of the Vyborg Gorkom (city Party council) noted that political reforms and debates outstripped those over economics, leaving many institutional and legal inconsistencies⁵⁵.

Conclusion

How did we get from cautious discussions, focused on state channeling of possible innovations and some agency, to increasing opportunistic autonomy that contributed to economic problems in Leningrad and, more broadly, to the collapse of the USSR?

One lesson of our brief discussion on public discourse, parallel to what was going on inside Leningrad's Council of Social and Economic Reform, is that events in Moscow and, eventually, in the media were initially more conservative and sluggish than the discussions behind closed doors in Leningrad — but before long, roles were reversed, and public discourse became increasingly more creative and even radical than those private discussions requested by Smolny. This was not the only case of Smolny falling behind events. The story we tell here then intersects with another: how enterprise directors (and other organizational actors and elites, e. g.

in the Komsomol) acted on their own interests and opportunities. That is another story with its own twists and turns that has been covered elsewhere; for now we suffice with brief comments to embed our topic in its wider context, especially of institutional outcomes. Two facets of that context are of particular importance: first, that Gorbachev's reforms eventually ran ahead of the more conservative discussions in Leningrad's Council of Social and Economic Change; and second, that practices and structures of the shadow economy were vaster than envisioned or expected.

Until 1988, it was not clear whether Gorbachev's reforms were a serious change in policy and political economy, but eventually directors took bolder steps to take advantage of new-found autonomy (or at least lack of accountability). The growing acceptance of some form of Western market economies (even if adapted to some "Soviet" form) meant that directors could steal a step on Smolny and even Moscow⁵⁶. In July 1987, the Supreme Soviet passed the law "On Enterprise", which gave enterprise directors expanded autonomy for production and similar decisions. Once enterprises fulfilled state purchase orders (*goszakazy*), they could produce for outside clients, whether other enterprises or private clients. (A classic example was building dachas.) Worker brigades and shopfloors could organize cooperatives, small firms (*maloe predpriiatie*), and rental firms (*arendnoe predpriiatie*)⁵⁷. The May 1988 law "On Cooperation" eventually expanded cooperates to entrepreneurial activities separate from enterprises. The goal of such liberalization of labor was to tap into the shadow economy of production and services⁵⁸. Rules and relations of exchange were also liberalizing for enterprises: the *birzha* (currency and commodities exchange) was reborn. Starting up a *birzha* was not terribly difficult: in the beginning, all that was needed was some money and good connections⁵⁹. Ultimately, the *birzha* also encouraged various forms of speculation: for example, enterprises would obtain deficit goods through the centralized state system at low state-set prices through what remained of the command economy, and they would trade them at higher market prices⁶⁰.

Organizational managers took their own steps because *national* legislation and their own interests and opportunities outpaced those within the Leningrad system. Had local elites and officials been more savvy, then perhaps some of the institutional unraveling could have been controlled, at least for Leningrad itself. First, these initial reforms were targeted at reforming the state-led system, changing incentives and aims of different processes, along with local discussions of possibly expanding reforms beyond industrial production. This reflects Gorbachev's early phase of reforms, involving discipline and *uskorenie*, rather than *fundamental* reconfiguration of economic structures and practices. However, Gorbachev almost undercut these efforts by granting autonomy through his reforms for enterprises, the *birzha*, and cooperatives. Those policies and laws offered the possibility of taking reforms beyond local Party and state headquarters — Smolny and the Councils — to economic actors themselves. This threatened to make the Councils redundant, if such reforms were serious. As our second section suggests, this is what happened. However, we await more chances for archival research to trace more fully this relation between Smolny's real plans and power, and what enterprise managers and other economic actors were willing and able to do. Second, initial discussion of reforms and what should be

implemented were fragmented and not well integrated. Reforms came from above, but not with usual rigid procedures of the command economy. This was already a telling signal: reforms might involve some devolution of decision-making autonomy. At the same time, it seems Smolny was not sure how to use these possibilities for some local autonomy. If Gorbachev's initial reforms were cautious, local initiatives were cautious as well, but more than simply going through the motions. However, we add one observation that we will not dwell on for now: these Councils in this early stage of reforms created networks that would underpin Yeltsin's reform team. It was here that the likes of Chubais and Sobchak came to know each other; institutions created personal networks that would become the core of a set of reformers who would smash those institutions and try to build new ones.

Our data suggest that the Councils in this initial phase of reform (and perhaps Gorbachev) underestimated how important and central the shadow economy had become by then. We know that state-centered systems by their very nature generate shadow practices, in part through the possibility of deficits, nodes of control over resources (that can tempt opportunism, e. g. theft), and the basic idea that overall control means anything autonomous is in "shadows" by definition. Shadow exchange and practices were already in place in the 1930s and expanded even more during the struggle for civilian survival in World War II — at least in blockaded Leningrad. (We suspect this was true elsewhere in the USSR, and anecdotal evidence supports this.) Kosygin's reforms in the 1960s were a modest attempt to harness the individual interests and opportunism through *khozraschët* and some autonomy to enterprises, although those reforms were hindered by the bureaucratic politics of Kosygin versus Brezhnev for top status in the state and Party. By the 1980s, evidence of the shadow economy was legion. These early stages of reform — from local Councils to disciplinary measures — suggests that Gorbachev initially wanted to rein in the shadow economy. As he gained authority through the pursuit of bureaucratic politics, Gorbachev opened the economy even more, hoping that devolution and some liberalization would harness, not fight, the initiative in the shadows. Shadow markets would aid the state economy. However, shadow practices were so wrapped up in formal institutions, and so ingrained among economic (and other) actors, that unleashing the shadow economy risked unraveling institutions as actors used the brief open window to gain as much as they could. Turning from the likes of Smolny and the Councils was perhaps thought of as a wager on the sober and the strong. It ended up a wager both on the entrepreneur and the thief — leaving Smolny and the Councils, the first stage of reform, in history. What did survive, however, were those networks of younger reform-minded cadres, who in the new world would find their place driving the next stage of radical reforms.

¹ There were possible opportunities but existing structures could get in the way. Leningrad had advanced industries and R&D and requisite know-how (or at least "advanced" in the Soviet context). Further, Moscow did not have the sufficient funds to invest in local improvement, leaving Leningrad's leaders to carry the burden of improving local economic for the benefit of Leningrad and the country. However, many such enterprises were oriented to Moscow rather than Leningrad, even

if they employed Leningraders and affected local conditions (including local environmental degradation).

² E. g.: Wohlforth W. *The Elusive Balance: Power and Perceptions during the Cold War* (Ithaca — London: Cornell University Press, 1993).

³ E. g.: Brown A. *The Human Factor: Gorbachev, Reagan, and Thatcher, and the End of the Cold War* (New York: Oxford University Press, 2020).

⁴ Weber S. 'Interactive Learning in U.S. — Soviet Arms Control', in Breslauer G., Tetlock P. E. (eds) *Learning in U.S. and Soviet Foreign Policy* (Boulder, CO: Westview Press, 1991), pp. 784–824; Adler E. 'The Emergence of Cooperation: National Epistemic Communities and the International Evolution of the Idea of Nuclear Arms Control', *International Organization*, vol. 46, 1992, pp. 101–146.

⁵ English R. *Russia and the Idea of the West: Gorbachev, Intellectuals, and the End of the Cold War* (New York: Columbia University Press, 2000), p. 5.

⁶ Hopf T. *Social Construction of International Politics: Identities and Foreign Policies, Moscow, 1955 and 1999* (Ithaca: Cornell University Press, 2002).

⁷ For one analysis of local structures and their importance for centralized power, see: Gorlizki Y., Khlevniuk O. *Substate Dictatorship: Networks, Loyalty, and Institutional Change in the Soviet Union* (New Haven: Yale University Press, 2020).

⁸ Another center for such thinking was Akadimgorodok outside Novosibirsk. Tatiana Zaslavskaja, the famous reformist sociologist for Gorbachev's and Yeltsin's reforms, came out of this community.

⁹ Gaidar Y. *Gibel' Imperii. Uroki dlia sovremennoi Rossii* (Moscow: AST, 2013), p. 191.

¹⁰ See: Shirk S. *The Political Logic of Economic Reform in China* (Berkeley: University of California Press, 1993).

¹¹ *Kontseptsiia sovershenstvovaniia khoziaistvennogo mekhanizma predpriatiia*. See: Gaidar Y. *Dni porachenii i pobed* (Moscow: Vagrius, 1997).

¹² Decisions and discussions by all bureaus of the Council are collected in twenty files at TsGAIPD SPb (the former Leningrad Party archive).

¹³ By "Smolny" we mean Leningrad's Party leadership, which had its headquarters in the former girls' school where the Bolsheviks had launched the October 1917 *coup d'état*.

¹⁴ The Council was originally created in 1962 during the Khrushchev reforms, but it lapsed since 1965 and the initiation of *perestroika*.

¹⁵ TsGAIPD SPb, f. 24, op. 212, d. 5b, l. 21.

¹⁶ *Ibid.*, d. 5a, l. 64.

¹⁷ *Ibid.*, d. 1a, l. 7. Standards were set on the bases of information collected by the Center for Scientific and technical information. This Center monitored relevant foreign scientific and technical periodicals and made suggestions on benchmarking for different sectors of the Soviet industry.

¹⁸ TsGAIPD SPb, f. 24, op. 212, d. 10, l. 14. The factory began producing a small commercial tractor for independent farmers in the 1990s.

¹⁹ TsGAIPD SPb, f. 24, op. 212, d. 14, l. 18.

²⁰ *Ibid.*, l. 14.

²¹ In 1986 the city emitted about 400,000 t of CO₂ and Leningrad lacked a system for processing water dumped into the Neva (TsGAIPD SPb, f. 24, op. 212, d. 14, l. 43).

²² TsGAIPD SPb, f. 24, op. 212, d. 1a, l. 49–50.

²³ *Ibid.*, d. 5b, l. 20.

²⁴ About 10 percent of the Leningrad region's GDP came from the chemical industry. R&D in chemistry was viewed by Leningrad and Moscow authorities as one key to increase productivity, to minimize costs by introduction of energy and material saving technologies (TsGAIPD SPb, f. 24, op. 212, d. 5v, l. 49–55).

²⁵ Those bureaus dealt with the following issues: economic intensification; social problems; production of consumer goods and services; agriculture, construction, transport, and modern means of communication.

²⁶ TsGAIPD SPb, f. 24, op. 212, d. 1a, d. 27.

²⁷ *Ibid.*, l. 26, 28.

²⁸ Ibid., l. 27.

²⁹ Ibid., d. 7, l. 30–31.

³⁰ See the session for June 25, 1987: TsGAIPD SPb, f. 24, op. 212, d. 7, l. 32–33.

³¹ Ibid., l. 31.

³² Ibid., d. 9, l. 14, 19.

³³ Ibid., l. 16.

³⁴ The dynamic was different for enterprise newspapers, which said little on economic reforms until 1989, after which they exploded in *glasnost*, including contentious debates that reflected growing worry over the future of enterprise health and growing differences between workers and managers. See: Hass J.K. *Power, Culture, and Economic Change in Russia 1988–2008: To the Undiscovered Country of Post-Socialism* (New York and Abingdon, UK: Routledge, 2011), chap. 3.

³⁵ For this section of our paper, we thank Danila Mironov for his hard work going through *Vecherny Leningrad* and *Leningradskaiia pravda* and documenting these phases.

³⁶ “Vo vsem byt’ na vysote trebovaniia partii”, *Vecherny Leningrad* (hereafter *VL*), June 10, 1985, p. 1.

³⁷ “Po-partiinomu, printsipal’no”, *VL*, July 18, 1985, p. 1.

³⁸ E. g.: “Uderzhat’ novyi stil’, tvorcheskii podkhod v osushchestvlenii planov kommunisticheskogo sozidaniia”, *VL*, January 25, 1986, p. 1; “Zhivoe tvorchestvo mass, energiiu, initsiativu — vypolneniiu resheniiu 27-go syezda KPSS”, *VL*, March 24, 1986, p. 1.

³⁹ ‘Kursom uskoreniia, perestroika i initsiativy’, *VL*, July 3, 1986, p. 1.

⁴⁰ “Perelomit’ inertsiiu”, *VL*, January 6, 1987, p. 2.

⁴¹ “Sobranie aktiva partiinykh, sovietskikh, profsoiuznykh, komsomol’skikh organizatsii sovместno s predstaviteliami trudovykh kollektivov goroda i oblasti”, *VL*, January 12, 1987, p. 1.

⁴² “Reshaiushchaia sila”, *VL*, January 16, 1987, p. 1.

⁴³ “Povyshat’ tempy ekonomicheskogo rosta”, *VL*, January 24, 1987, p. 1.

⁴⁴ “V Obkome KPSS”, *VL*, January 7, 1987, p. 1.

⁴⁵ “Tsenu ustanavlivaet potrebitel’”, *Leningradskaiia pravda* (hereafter *LP*, January 5, 1988, p. 1.

⁴⁶ “Delo lichnoe i obshchee”, *LP*, April 15, 1988, p. 1.

⁴⁷ “Zakon priinat, prepony ostalis’”, *LP*, July 8, 1988, p. 2.

⁴⁸ “Doklad Iu. F. Solov’eva”, *LP*, April 12, 1988, p. 1.

⁴⁹ “Kooperativ: pora vzrosleniia”, *LP*, February 21, 1989, p. 1.

⁵⁰ Or at least in city-wide newspapers in Leningrad. In enterprise newspapers, economic discourse exploded into contention, confusion, and sometimes panic.

⁵¹ “Postanovlenie 27-oi otchetno-vybornoii konferentsii Leningradskoi oblastnoi partiinoi organizatsii”, *LP*, February 8, 1989, p. 3.

⁵² “Slovo v zashchitu kooperatora”, *LP*, January 29, 1989, p. 1.

⁵³ “Pribyl’noe delo: Rasskaz o zavode, kotoryi nachal sam rasporyazhat’sia svoei sud’boi”, *LP*, March 10, 1989, p. 1.

⁵⁴ “Vot takie chetvergii, ili O tom, kak kooperativ ‘Stroitel’ obmanul svoikh klientov”, *LP*, February 2, 1989, p. 3.

⁵⁵ “Ne otstupat’! Segodnia ispolniaetsia tri goda so dnia otkrytiia 27-go syezda KPSS, vziavshego razvernutyi kurs na perestroiku, revoliutsionnoe obnovleniie vsekh sfer zhizni sovetskogo obshchestva”, *LP*, February 25, 1989, p. 1.

⁵⁶ See: Hass J.K. *Power, Culture, and Economic Change*, and *Rethinking the Post-Soviet Experience. Markets, Moral Economies, and Cultural Contradictions of Post-Socialist Russia* (New York and Basingstoke, UK: Palgrave Macmillan, 2012).

⁵⁷ The legal difference between *maloe predpriiatie* and *arendnoe predpriiatie* was payment to the mother enterprise. An *arendnoe predpriiatie* paid a fee (rent) for autonomy and use of equipment and resources. A *maloe predpriiatie* might pay part of its profits to the mother firm, if the latter was one of its founders.

⁵⁸ Åslund A. *Gorbachev’s Struggle for Economic Reform* (Ithaca: Cornell University Press, 1989); Bunin I.M. “Novye rossiiskie predprinimateli” in Listovskaia (ed.), *Biznesmeny Rossii*, pp. 392–399; De Melo M. *Private Service Firms in a Transitional Economy: Findings of a Survey in*

St Petersburg (New York: World Bank, 1994); Slider D. “Embattled Entrepreneurs: Soviet Cooperatives in an Unreformed Economy”, *Soviet Studies*, vol. 43, no. 5, 1991, pp. 797–821.

⁵⁹ *Leningradskii stankostroitel* (enterprise newspaper, Sverdlov machine-tool factory), April 1, 1992, p. 1; Yakovlev A. A. “Chastnyi biznes i vlast’: v poiskakh vzaimoponimaniia”, *EKO*, no. 9, 1993, pp. 95–96.

⁶⁰ *Maiak* (enterprise newspaper, Pozitron), April 25, 1991, p. 2.

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Abstract: The article examines the perestroika processes from the Leningrad point of view. Surprisingly, but events in Moscow and, eventually, in the media were initially more conservative and sluggish than the discussions behind closed doors in Leningrad — but before long, roles were reversed, and public discourse became increasingly more creative and even radical than those private discussions requested by Smolny. The other point is that local enterprise directors (and other organizational actors and elites, e. g. in the Komsomol) started to act on their own interests and opportunities. The growing acceptance of some form of Western market economies (even if adapted to some “Soviet” form) meant that directors could steal a step on Smolny and even Moscow. Gorbachev reforms offered the possibility of taking reforms beyond local Party and state headquarters — Smolny and the Councils — to economic actors themselves. This threatened to make the Councils redundant, if such reforms were serious. Authors suggest, this is what happened. Authors’ data suggest that the Councils in the initial phase of reform (and perhaps Gorbachev) underestimated how important and central the shadow economy had become by then. Gorbachev opened the economy, hoping that devolution and some liberalization would harness, not fight, the initiative in the shadows. However, shadow practices were so wrapped up in formal institutions, and so ingrained among economic (and other) actors, that unleashing the shadow economy risked unraveling institutions as actors used the brief open window to gain as much as they could. It ended up a wager both on the entrepreneur and the thief — leaving Smolny and the Councils, the first stage of reform, in history. What did survive, however, were those networks of younger reform-minded cadres, who in the new world would find their place driving the next stage of radical reforms.

Keywords: perestroika, Gorbachev, reforms, Leningrad, USSR.

Authors: *Hass J. K.* — PhD, Professor, University of Richmond (Richmond, USA); St. Petersburg State University (St. Petersburg, Russia); jhass@richmond.edu | *Lomagin N. A.* — Dr. Sci. in History, Professor, European University at St. Petersburg; St. Petersburg State University (St. Petersburg, Russia); lomagin@eu.spb.ru

University of Richmond, 28, Westhampton Way, Richmond, VA 23173, USA

European University at St. Petersburg, 6/1A, Gagarinskaya ul., St. Petersburg, 191187, Russia

St. Petersburg State University, 7–9, Universitetskaya nab., St. Petersburg, 199034, Russia

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