**The Formation of Modern Economic Science in Russia:**

**Paradoxes of Escaping the Marxist Yoke**

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During the NEP period, a number of brilliant economists worked in Russia, whose results, given favorable circumstances, could have become the basis for including Russia in the world stream of economic research. But this did not happen. There came an era of the dogmatic political economy of socialism. The creation of a general economic theory that corresponds at least minimally to reality has become impossible.

In the second half of the 1950s this began to change (Campbell, 1961). The engine of change was the idea of using computer calculations and mathematical methods in planning. There were established Laboratory of Economic and Mathematical Methods of the USSR Academy of Sciences, which formed the basis of the Central Institute of Economics and Mathematics of the USSR Academy of Sciences, the Mathematical and Economic Department of the Institute of Mathematics of the SB AS USSR, headed by L. V. Kantorovich, and the Economic and Mathematical Department of the Faculty of Economics of MSU. The new scientific direction proved to be attractive to young people who had graduated from mathematics, physics, and engineering faculties. The ideas of decentralized planning and then of a competitive market, albeit in a veiled form, became central to the theoretical work of representatives of the new streem. Further development of economic theory in the USSR took place to a large extent within the tough controversy between economists-mathematicians and political economists-Marxists.

One of the largest battles in terms of time and number of publications between the two directions unfolded in connection with the problem of the efficiency of capital investments. Representatives of the mathematical economics, relying on the analysis of optimal planning models, believed that the normative rate of return (efficiency norm) should be the same for all projects, while representatives of the traditional direction insisted on the need for its differentiation by industry. Their point of view had no theoretical justification, but led to results that corresponded to economic intuition. At the same time, the thesis about the existence of a single optimal normative was based, as emphasized by L. V. Kantorovich (Kantorovich, 1959), on the assumption that resource prices are proportional to Lagrange multipliers in the optimal planning problem, while in a real economy when estimating projects, current prices were used, which were far from optimal. The use of some other prices would lead to decisions with which neither the leaders of the planning bodies nor the executors of the projects could agree: they reported to the party and the government on indicators formed in accordance with established practice.

The paper analyzes the arguments of both sides (Lurie, 1973, Chapter 22; Abalkin, 2006). Using the results of the work (Polterovich, 1985), which proposed a refined model of planning based on the concept of priority management (Yaremenko, 1981), we show that the "traditionalist" viewpoint had theoretical grounds. Decisions on the implementation of certain projects were made (and in many cases should have been made) taking into account the circumstances not reflected in the prices in any way. Instead of the "shock" recommendation to use a single norm, a plan for gradual equalization of sectoral norms should have been developed, which, however, should have been based on the strategy of transition to the market developed and adopted for implementation. However, the theory of such transition did not exist.

Despite the (not acknowledged) defeat of the attempt at a concrete application of the theory, the efforts of representatives of the new direction led to a positive transformation of economic science in Russia. In the unfolding polemic, substantive arguments were needed, and Marxist scholasticism was gradually losing its dominant role. However, the described paradoxical effect would most likely not have been achieved if a relatively simple economic and mathematical tool - the input-output model - had not been adopted and gradually introduced into planning practice (Kossov, 2014; Leontief, 1963).

The lack of a theory of transition to the market was the main reason for the ambiguous, paradoxical role played by representatives of the economic and mathematical direction in the processes of choice of strategy and implementation of reforms of the 1990s. Mathematical economists were overwhelmingly "market proponents". They developed methods of decentralized planning, used models of competitive equilibrium, developed the theory of equilibrium at inflexible prices. Their views were hidden from censorship by a veil of formulas; this ensured the possibility of publication. But there were also "heralds" of market ideas, skillfully hiding behind references to the classics and resolutions of party congresses. Their works presented these ideas in a form accessible to a wide range of economists. However, a unifying concept of transition to the market was not developed.

As a result, there was a split. The young adherents of the new direction ((supported by some older people from CEMI) formed the core of the first Yeltsin government, which implemented the “shock therapy”. And the vast majority of the older generation of mathematical economists united with the representatives of the political-economic direction in order to oppose the destructive policy of reforms. They were supported by a number of prominent American economists[[1]](#footnote-1). The report shows that economic theory by that time already contained arguments in favor of the gradualist approach, so that with a deeper understanding of it by young economists the split and maybe even the shock therapy itself could have been avoided.

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1. **http://www.r-reforms.ru/indexpub275.htm** [↑](#footnote-ref-1)