**Money in the Early Years of the Soviet Union: Barter and Back Again - A Short-lived Experiment of Transformation**

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**Abstract**

In the earlier drafts of the *General Theory*, Keynes explicitly argued that the classical tradition of distinguishing between real and monetary variables was not helpful in analysing capitalist economies. While developing his ideas about a monetary economy, Keynes agreed with Marx’s analysis that parting with money (M) for a commodity (C) in order to earn more money (M’) reflected the true nature of production in capitalist economies. Although the early Soviet economists were inspired by Marx’s writings and might not have read the early drafts of the *General Theory*, they seemed to agree with Keynes’s observation that capitalist economies were inherently unstable precisely because of the role of money in the economic process. Since the Soviet authorities were committed to perpetual full employment, they attempted to abolish money and banks from the economic process altogether in the early years of the Soviet Union. Indeed, it is reported that by the early 1920, the Soviet economy became effectively a barter economy as the exchange of goods between enterprises was measured in physical terms, more than 93% of all wages were paid in kind, and all assets and liabilities of the banking sector were transferred to the Central Budgeting and Accounting Department of the Commissariat of Finance. This chapter analyses the theoretical and philosophical foundations behind the short-lived radical experiment with a moneyless society in the early years of the Soviet Union.

***Introduction***

In the earlier drafts of the *General Theory,* Keynes explicitly argued that the classical tradition of distinguishing between real and monetary variables was not helpful in analysing the real-world capitalist economies which could only be examined in monetary terms. To explain his point, Keynes made a distinction between a cooperative (barter) economy and an entrepreneurial (monetary) economy. He then showed that in a barter economy, where goods are exchanged for goods, effective demand didn’t fluctuate and hence perpetual full employment was attainable. In contrast, in a monetary economy, by which he meant modern capitalist economies, effective demand was inherently unstable by default: a part of current income might not necessarily be spent and hence a part of current production might remain unsold. While developing his ideas about a monetary economy, Keynes agreed with Marx’s analysis that parting with money (M) for a commodity (C) in order to earn more money (M`) reflected the true nature of production in capitalist economies.

Although the early Soviet economists were inspired by Marx’s writings*,* they seemed to agree with Keynes’s observation that capitalist economies were inherently unstable precisely because of the role of money in the economic process. Since the Soviet authorities were committed to perpetual full employment, they experimented with eliminating money from the economic process altogether in the early years of the former Soviet Union (FSU). Indeed, it is reported that by 1921, the Soviet economy became effectively a barter economy as the exchange of goods between enterprises was measured in physical terms and more than 93% of all wages were paid in kind. This chapter aims to analyse the theoretical and philosophical foundations behind this radical and short-lived experiment with a moneyless society.

The chapter is organised as follows. We will start our investigation by looking into the nature of money and its peculiar role in the economic process in the next section. Drawing heavily on Sheila Dow’s works on uncertainty, time and money, we will show that the very organisational structure of a capitalist economy explains why money plays a facilitating as well as a constraining role in the economic process. The discussion then will be linked to Keynes’s posthumously published works on the working of a co-operative economy, a neutral entrepreneur economy and an entrepreneur economy. In Section 3, we will examine Marx and Lenin’s theoretical perspectives on stabilising an unstable economy, and in Sections 4 and 5, we will discuss how practical difficulties associated with the implementation of Marx and Lenin’s theoretical ideas and ideals about a stable socialist economy resulted in two contrasting approaches towards money and banks during the periods of War Communism and the New Economic Policy. Summary and conclusions are presented in Section 6.

***Money, Uncertainty and Time***

A real exchange economy of the neoclassical world is implicitly modelled as a barter economy operating under the conditions of certainty. Money, introduced as a ‘veil’ to the barter economy, eliminates the hassle of double coincidence of wants. By reducing search and transaction costs, it speeds up the pace of trade, enhances trade opportunities and facilitates specialisation in production (Drake, 1980). Once incorporated, however, money becomes neutral, leaving the real variables unaffected.

The neoclassical method of approaching the economic system in this way is based on dualism (Chick, 2003, p.323), which is the central feature of the Cartesian/Euclidean mode of thought (Dow, 1996, p.16). According to this tradition, knowledge is represented by information; facts and events are classified as either known or unknown. Even unknown facts about the future are knowable, at least probabilistically. Hence, uncertainty can be classified as something that is quantifiable (Dow, 1996, p.18). True uncertainty, however, is non-quantifiable, non-measurable (Knight, 1935, p.20). ‘It refers to an absence of knowledge, a lack of confidence in one’s predictions’ (Dow, 1993, p.16).

Keynes uses a different method and mode of thought and thus produces a different theory (Chick, 1983 and 2003). The atomism and dualism of the Cartesian/Euclidean mode of thought are replaced by organicism and a move beyond dualism1 of the Babylonian mode of thought (Dow, 2012). Hence, the neoclassical dichotomy between monetary and real variables is rejected ‘in favour of a vision of the economy in which the influence of money is pervasive’ (Chick, 2003, p.315). The static method, with its corollary of certainty and perfect knowledge, is replaced by historical time, uncertainty and partial knowledge. As a result, a monetary theory of production is developed. This theory ‘is built on the unique properties of money, on expectations formation under uncertainty, and on historical rather than logical time, each of which necessarily implies the other two; any analysis which involves only one or two of the factors is both logically incomplete and irrelevant to a monetary economy’ (Dow, 1993, p.6).

Keynes argued that ‘as soon as we pass to the problem of what determines output and employment as a whole, we require the complete theory of a Monetary Economy’ (Keynes, 1970, p.293). He then defines the monetary economy as ‘essentially one in which changing views about the future are capable of influencing the quantity of employment and not merely its direction’ (Keynes, 1970, p.vii).

In a monetary economy, money becomes central in analysing the working of the economic system. It comes into this system in ‘an essential and peculiar manner’ as ‘a subtle device linking the present to the future’ (Keynes, 1970, p.294). Dow (1993, p.19) argues that money is the outlet for expression of uncertainty. In a neoclassical world where other assets yield some positive return, and money is ‘barren’, ‘[w]hy should anyone outside a lunatic asylum wish to use money as a store of wealth?’ (Keynes, 1937, pp.215-16). In contrast, in the real world, when expectations regarding future economic activities are weak, money enables individuals to preserve their purchasing power. In this sense, holding money can create a constraint on economic activity. Hence, ‘the very existence of money that is ‘non-neutral’, rather than simply variations in its quantity: an economy with actual money works quite differently from a barter economy with an arbitrarily selected numeraire labelled ‘money’’ (Cottrell, 1994, p.590).

Even though Keynes’s *Treatise on Money* was an early attempt to analyse the role and importance of money in the economic process, Keynes was already dissatisfied with the *Treatise* at the time of its publication (Rotheim, 1981, p.572). In the preface to the *General Theory,* Keynes notes that he ‘made some progress towards pushing monetary theory back to becoming a theory of output as a whole’ (Keynes, 1970, p.vi). He wanted to show that the fluctuations in effective demand were unavoidable in a monetary economy (Keynes, 1970, p.17).

Keynes’s posthumously published works reveal how his ideas about a monetary analysis evolved between his *Treatise on Money* and *General Theory*. One of the early draft table of contents of *The General Theory* shows that, initially Keynes named his new book *The Monetary Theory of Employment* (Keynes, 1979, p.62)*.* Another draft table of contents of *The* *General Theory* (Keynes, 1973, p.421)shows that Keynes originally intended to include two chapters called ‘*The Distinction between a Co-operative and an Entrepreneur Economy’* and ‘*The Characteristics of an Entrepreneur Economy’* in *The General Theory*.2Dillard (1963), Torr (1980 and 1988) and Rotheim (1981) suggest that the *General Theory* would have been more successful had Keynes included these early chapters in the final version of the book.

In the 1933 draft of the *General Theory*,Keynes makes the distinction between three types of economies: a co-operative economy, a neutral entrepreneur economy, and an entrepreneur economy (Keynes, 1979, pp.77-8). In the co-operative economy ‘the factors of production are rewarded by dividing up in agreed proportions the actual output of their co-operative efforts’ (ibid, p.77). In the neutral entrepreneur economy ‘the factors are hired by entrepreneurs for money but where there is a mechanism of some kind to ensure that the exchange value of the money incomes of the factors is always equal in the aggregate to the proportion of current output’ (ibid, p.78). In contrast, in an entrepreneur economy ‘the entrepreneurs hire the factors for money but without such a mechanism as the above’ (ibid).

Keynes starts his argument by explaining the functioning of a pure barter economy in which output is created by ‘co-operative efforts’. In a pure barter economy, where goods are exchanged for goods, there would not be effective demand failures as long as the ‘price’ ratios were perfectly flexible (Dow and Earl, 1982). Uncertainty would be dealt with ‘by holding on to one type of produciblegood as a store of value, before deciding when and how to exchange it for other goods’ (Dow, 1993, p.19). Any change in the relative ‘price’ of a particular good would make the production of that good more profitable and thus would attract more employment. As a consequence, any unemployment would be temporary due to time lags (Keynes, 1979, p.102) and therefore persistent unemployment would not result (Dow, 1993, p.17). Hence, in this type of an economy a perpetual full employment is obtainable: ‘only miscalculation or stupid obstinacy can stand in the way of production, if the value of the expected real product exceeds real costs’ (Keynes, 1979, p.67).

He then shows that perpetual full employment is also obtainable in an entrepreneur economy, if it is ‘made to behave in the same manner as a co-operative economy’ (Keynes, 1979, p.79). Keynes calls this economy a neutral entrepreneur economy where ‘the starting up of productive processes largely depends on a class of entrepreneurs who hire the factors of production for money and look to their recoupment from selling the output for money’(Keynes, 1979, p.77). Keynes argues that this economy is made to work as a co-operative economy by assuming that ‘the whole of the current incomes of the factors of production are necessarily spent, directly or indirectly on purchasing their own current output from the entrepreneurs’ (Keynes, 1979, p.77). Like in a co-operative economy, in a neutral entrepreneur economy unemployment would only be temporary due to time lags in the adjustment of demand in different sectors of the economy as long as everything that was earned was spent: there could not be *‘*general’unemployment(Rotheim, 1981, p.576). Hence, in this economy the role of money is limited to facilitating exchange only and indeed money can be seen as a ‘veil’.

Next, Keynes depicts the special features of an entrepreneur economy in which ‘we actually live to-day’ (Keynes, 1979, p.78). In this economy, money’s role is *not* limited to facilitating exchange only and thus money is *not* held just for temporary convenience. Rather, ‘money plays a part of its own and affects motives and decisions and is, in short, one of the operative factors in the situation, so that the course of events cannot be predicted, either in the long period or in the short, without a knowledge of the behaviour of money between the first state and the last’ (Keynes, 1973, pp.408-9). The process of production ‘will not be started up, unless the money proceeds expected from the sale of the output are at least equal to the money costs which could be avoided by not starting up the process’ (Keynes, 1979, p.78).

The objective of an entrepreneur in starting up production, then, is nothing but to end up with more money than s/he started with. As will be discussed below, and in more detail in the next section, some of Keynes’s thoughts on the inherent instability of a monetary economy are very similar to Marx’s. Keynes himself also acknowledges the similarity of his conclusion to ‘a pregnant observation made by Karl Marx’ (Keynes, 1979, p.81). Keynes agrees with Marx that the concept of exchanging a commodity (C) for money (M) in order to obtain another commodity, i.e. C-M-C, is not ‘the nature of production in the actual world’ (ibid). Rather, this concept may reflect ‘the standpoint of the private consumer’ (ibid). For Keynes, this type of economic organisation at most can be likened to *a neutral entrepreneur economy* (Rotheim, 1981, p.576). The production process in an entrepreneur economy then requires ‘the attitude of *business,* which is a case of M-C-M´, i.e. of parting with money for commodity (or effort) in order to obtain more money’ (Keynes, 1979, p.81, emphasis in the original).

By detailing the essential features of the entrepreneur economy, Keynes lays the foundations to show how effective demandcan fluctuatein the real world where some part of the current income may not necessarily be spent and thus a part of the production may remain unsold. In the real world, an entrepreneur is not interested in ‘the amount of the product, but in the amount of *money* which will fall to his share’ (ibid, p.82, emphasis in the original). Thus, the instability of effective demand in capitalist economies is a monetary phenomenon. ‘Money,’ emphasises Keynes, ‘is *par excellence* the means of remuneration in an entrepreneur economy which lends itself to fluctuations in effective demand’ (Keynes, 1979, p.86, emphasis in the original).

***Stabilising an Unstable Economy: Marx and Lenin on Money, Banks and Planning***

As is the case with the works of many great economists, Marx’s writings are interpreted in different ways. One interpretation of Marx that dominated in the FSU was that of a class struggle. The underlying assumption of this interpretation then was that a capitalist economy was not capable of achieving social justice objectives such as full employment, equal distribution of income and opportunities, etc. The organisational structure and design of a capitalist mode of production were blamed for such a failure. Marx’s teachings, especially the Soviet interpretation of them, implied that a direct human interference in terms of planning all economic decisions in advance was necessary to ensure the stability of the system. Construction of a centrally planned economy in the FSU was, by and large, a fruit of this line of reasoning (Ellman, 1989, p.10; Temkin, 1994, p.197-8; Temkin, 1998).

Marx believed that one of the reasons why a capitalist economy was inherently unstable was the anarchy of production. In particular, capitalist overproduction or crisis was seen as a result of a class struggle associated with the lack of organisation and planning of the economic process. As an alternative to this economy, Marx advocated a communist economy, in which the anarchy of production would be replaced by central planning so that it would become an organised and orderly system (Temkin, 1998, p.308).3 The market exchange system of a capitalist economy would be replaced by production for use, not for exchange (Bukharin and Preobrazhensky, 1994). The centralisation of the entire process of production, in turn, would imply an elimination of the market from the system.

Another important aspect of Marx’s analysis of a capitalist economy was the role of money in the economic process. In the writings of the classical economists prior to Marx, money was seen as a neutral link, merely connecting transactions of purchase and sale. All transactions were ‘spot transactions, taking place – somehow! – simultaneously’ (Hicks, 1989, p.47). Money was seen only as a means of facilitating exchange; as was noted by Ricardo: ‘Productions are always bought by productions, or by services; money is only the medium by which the exchange is effected’ (quoted in Sardoni, 1987, p.16).

Marx did not accept this argument. Referring to Ricardo’s above-mentioned statement, Marx said that it was ‘the childish babbling’ of Say ‘but unworthy of Ricardo’ (quoted in Sweezy, 1970, p.137). Marx disagreed with this point on the following grounds. Commodities are directly exchanged for commodities, i.e. C-C, in a simple barter economy. Here a person who is selling his commodity is concurrently involved in buying somebody else’s commodity. That is to say, acts of purchase and sale are necessarily inseparable, which in turn implies that supply creates its own demand. Hence, theoretically a barter economy is an ideal case for Say’s Law to apply.

Marx argued that in a commodity production economy, where money is employed to effect exchanges, Say’s Law does not necessarily hold true. To explain this process, Marx uses his well-known metamorphosis ‘C-M-C’, where C stands for commodity and M stands for money. He shows that when money is used in an exchange transaction, the acts of sale and purchase for an individual trader do not necessarily have to be simultaneous. When the trader sells his commodity for money, money enables him to postpone the act of a new purchase. In Marx’s own words ‘The purchaser has the commodity, the seller has the money…. No one can sell unless someone purchases. But no one is forthwith bound to purchase because he has just sold’ (quoted in De Brunhoff, 1976, p.42). Hence money separates the transaction in time and space, i.e. C-M and M-C are separate transactions now. As a result, when hoarded, money holds effective demand back and thus creates a possibility for general overproduction and thus crisis (De Brunhoff, 1976; Sweezy, 1970; Sardoni, 1987).

In reality, however, the nature of a commodity production economy dictates that the exchange values of C at the beginning and C at the end are identical. That is to say in this economy production is for consumption, implying the crisis of overproduction is unlikely to occur.

The conclusion is different in the case of a capitalist economy, in which the driving force of production is profit. In a capitalist economy, the dominant form of circulation is in the form of M-C-M`. Unless M` is expected to be greater than M, capitalists do not start up their business. It is more likely that overproduction and thus crisis can occur in this economy. If capitalists think that the rate of profit is not high enough to lure them to throw their capital into circulation, they may decide to hoard. As a result, some of the goods already produced will not be sold due to the lack of effective demand.

Hence, similar to Keynes, Marx was also well aware that the mere existence of money in a capitalist economy would make crises possible (De Brunhoff, 1976, p.40) and the contradiction of the capitalist production could turn this possibility into reality (Geraschenko, 1970, p.117). Despite the methodological differences in their approaches (Sardoni, 1987), Marx’s analysis of a capitalist economy and his rejection of Say’s Law is similar to Keynes’s analysis and his rejection of the same law. In this sense, there are many similarities between Keynes’s co-operative, neutral entrepreneur, and entrepreneur economies and Marx’s barter, commodity production and capitalist economies.

Marx also believed that money was a means by which the bourgeois class thrived by parasitically sucking the ‘blood’ of the working class. Since money served as a means of accumulation of capital, it was seen as a necessary evil and therefore relevant only to a capitalistic mode of production. Therefore, in a communistic society Marx had in mind, there would be no room left for capitalist money (Marx, 1893: Ch.18). Lenin readily borrowed the idea of a moneyless society from Marx (see, for example, Lenin, 1938, p.96). An economy advocated by Marx and Lenin, therefore, had to be free from any of the instability that was seen as an inherent feature of a capitalist system. In a capitalist economy, decision-making is carried out in a decentralised way by millions of individual private proprietors. It is a free market response to uncertainty (which in itself is an inherent feature of a decentralised capitalist economy) that gives money its peculiarity and thus non-neutrality in the economic process (Rousseas, 1992).

In theory, the centralisation of the entire process of production and distribution would imply an elimination of a capitalist uncertainty, which is embedded in the very structure of a decentralised capitalist economy. Moreover, in an economy where the entire process of production and distribution is centrally planned, there is no need for a capitalist money anyway. In this sense, central planning can be seen as a socialist response to uncertainty. Therefore, it is not surprising to see the rejection of money in a centrally planned socialist economy.

Essentially, in a socialist economy, central planning takes over the role of money to deal with uncertainty in the economic process. Thus, in principle, by means of planning the process of production and distribution, fluctuations in effective demand can be removed and the problem of chronic unemployment can be eliminated. Hence, Marx and Lenin advocated an economic system where the process of production and distribution would be planned. They also argued that in an economy organised in that way there would be no need for money, except perhaps for its use as a means of exchange.

***Disappearance of Money and Banks during the Early Years of the Soviet Union***

In this section, we will examine how practical difficulties associated with the implementation of Marx and Lenin’s theoretical ideas resulted in two contrasting approaches towards money and banks during the periods of War Communism and the New Economic Policy.

***War Communism***

War communism is ‘the name commonly given to the period of extreme communization’ (Nove, 1992, p.39). War Communism, full of revolutionary romanticism, lasted for only about three years until 1921. War Communism also gave the Bolsheviks a unique chance to implement Marx and Lenin’s ideas of a communist economy. The Bolsheviks, led by Lenin, were keen to implement these ideas after the 1917 revolution. Lenin, for example, noted that ‘The R.C.P. [Russian Communist Party] will strive as speedily as possible to introduce the most radical measures to pave the way for the abolishing of money’(quoted in Temkin, 1998, p.313).

Indeed, the idea of abolishing money was so widespread in the early years of the Bolshevik revolution that it was treated as an unquestionable attribute of an economy the Bolsheviks wanted to build. Summarising the debate on this issue, Yurovsky (1994) notes that this matter was not simply an intellectual debate among curious communist economists; it certainly had practical implications as the Bolsheviks set up several special study groups to investigate practical problems associated with the establishment of a moneyless economy.

Lenin also understood banks’ role to be of high importance in the successful completion of the revolution and the regulation of economic life. In line with the Marxist teachings, he maintained that banks had to be nationalised. On the eve of the Bolshevik revolution in 1917, he noted that, ‘a single state bank, the largest of the large, with branches in every parish and factory would already mean nine tenths of the socialistic apparatus’ (Lenin, 1938, p.96). However, in an economy advocated by Lenin, the functions of banks would only be limited to accounting and control. Although banks would become an important mechanism of the system, their role would be passive and accommodative.

Unsurprisingly, within the first few days of the revolution, the Bolshevikgovernment sent the Red Guards to occupy *Gosbank* (the State Bank). By November 1917, all private banks were closed, the management of *Gosbank* was replaced with soviet commissars and further steps were taken towards the unification of the banking system into a single body. Within a few months, *Gosbank* was renamed *Narodny Bank* (the People’s Bank)andthe whole banking system was declared to be a state monopoly. By the end of 1917, all major banks were liquidated and merged with *Narodny Bank*.

The centralisation of the banking system in a single body gave the young Soviet government a great advantage in terms of manipulating the entire financial system according to its needs. At the start of its activity, *Narodny Bank* served as the clearing centre of the economy; it was also in charge of money-issuing. In addition, the bank was engaged in providing short-term loans to the economy too. However, the bank’s lending activity lost its importance after it was decided that all short- and long-term financing decisions would be undertaken through the State Budget. The centralisation of financial decisions in this way by the Commissariat of Finance was a prelude to giving a crucial importance to physical distribution of goods, which inevitably downgraded the role of money and banks in the economic process.

With the completion of the nationalisation of the industrial sector, the Supreme Council for the National Economy (*VSNK*) became responsible for organising the production and distribution of industrial products. In other words, *VSNK* effectively became an official central body in charge of clearing moneyless exchange transactions in the socialised sectorof the economy, which at this stage mainly consisted of the industrial sector.

As a result of these policies, not only the concepts of loss and profit but also the notion of market-determined prices became irrelevant (Kuschpeta, 1978, p.27). Money and credit ceased to play a role in inter-enterprise relations, and taxes and wages were also paid in kind. Economic relations among state enterprises were brought about predominantly in physical terms. Starting from 1919, money accounts of the enterprises ceased to be important too. The accounting of the movement of goods from an enterprise to an enterprise in their various stages of manufacture, and their final transfer to individual consumers, was done in physical terms (Davies, 1958, pp. 38-9). Towards the end of 1920, deliberate steps were made to abolish monetary charges for the use of a number of services: postal, telegraph and telephone facilities; water and electricity supply; housing accommodation in municipal dwellings; railway travel; supply of basic food rations, etc. (Dobb, 1966, p.106; Geraschenko*,* 1970, p.32). By 1921, 93% of all wages were paid in kind, compared with 7% in money (Geraschenko, 1970, p.31; Kuschpeta, 1978, p.28).

As the role of monetary exchanges steadily declined, so did the importance of the *Narodny Bank* in serving the interests of the Soviet government. *Narodny Bank* became only a *de facto* central clearing office of the economy. As a result, on 19 January 1920, *Narodny Bank* ‘was liquidated and its assets and liabilities were transferred to the Central Budgeting and Accounting Department of the Commissariat of Finance’ (Baykov, 1946, p.35). The People's Commissar of Finance explained this by saying ‘finance should not exist in a socialist community’ (Garvy, 1977, p.26).

Hence, within the first few of years of ruling the country, the Bolsheviks largely demonetised the economy, put an end to the banking system, and effectively transformed the economy from a monetary economy into a barter one(or from an entrepreneur economy to a co-operative economy, to use Keynes’s analogy).

The experiment, however, turned out to be a disaster. When the civil war finally ended in 1920, the total production of the country was well below its pre-war 1913 level. By the end of 1920, the industrial output was equal to only one fifth, agricultural production to almost two thirds, and transportation to a little over one fifth of their pre-war levels (Gregory and Stuart, 1998, p.48). Along with the civil war, the attempts to abolish money and banks from the economic process contributed significantly to the collapse of the economy (Garvy, 1977). As the political situation deteriorated and got unfavourable for the new government, Lenin assessed the situation quickly and drastically changed the course of events by announcing the New Economic Policy (NEP) in 1921.

***Money and Banks in the period of NEP***

NEP was to develop a mixed economy with the elements of state socialism and a free market, sometimes referred to as ‘state capitalism’. Private entities were permitted to engage in both wholesale and retail trade. In the agricultural sector, the system of compulsory requisitioning was replaced with an in-kind food tax. In the industrial sector, small-scale production entities were transferred to private hands.4 The government kept control over the ‘commanding heights’ of the economy, which included military production, metallurgy, transportation, foreign trade and banking. Thus, the state control over the production and distribution of goods among different sectors of the economy, except for the ‘commanding heights,’ was partially replaced by free market forces. As a pragmatic leader, Lenin also reconsidered his call to abolish money by noting: ‘the immediate abolition of money is not possible. In order to abolish money, it is necessary to organise distribution of commodities for hundreds of millions of people. It is the work of many years’ (quoted in Geraschenko*,* 1970, p.32).5

The restoration of property rights and re-introduction of monetary exchange helped with the revival of trade. Subsequently, the need for banking services was reconsidered too. *Gosbank* was re-established in October 1921 and began its operations in November 1921. Itwas re-established ‘to assist the development of industry, agriculture and trade as well as to concentrate monetary transactions and apply measures aimed at the establishment of a sound monetary circulation’ (Baykov, 1946, p.83). *Gosbank* was allowed to carry out standard banking operations, including extending loans not only to the state but also to private and co-operative entities. In October 1922, *Gosbank* was also awarded the right to issue the new currency – *chervonets* (equal to 10 pre-war golden roubles). In order to promote confidence in the new currency, the government decided that *chervonets* would be backed by gold and foreign currency. A number of other specialised banks and credit institutions were also created in 1922. In short, during the first three years of the NEP a varied and widespread system of banking and credit institutions emerged. By the end of 1923, there were more than 150 commercial banks and credit societies with over 750 branches in the country.

NEP also brought changes to the state-owned industrial sector too. The basic market principles of profit and loss were reintroduced. The relationships between enterprises and central regulating state bodies were reorganised. Enterprises were given financial autonomy to some considerable degree and workers were again paid money wages.

Hence, NEP was developed to revive the economy torn apart by both the civil war as well as the radical economic changes introduced by the Bolsheviks during the period of War Communism. In many sectors of the economy private ownership of production was re-introduced. Those enterprises which were kept under the direct control of the government were also encouraged to operate their business strictly under the principles of profit and loss. As a result, trade revived, which in turn necessitated restoration of money and banks. These reforms restored confidence in market exchange and helped the economy to grow. However, the NEP was only a ‘temporary retreat’ from comprehensive central planning. Towards the end of the 1920s, NEP was replaced by central planning, which focused industrialisation of the economy and collectivisation of agriculture.

***Conclusion***

Early experiments in the FSU to remove money and banks from the economic process proved to be unimaginably difficult and hence unfeasible, resulting in massively reduced output. As a result, money and banks were reintroduced to the system during NEP. Later, Stalin extended the lifespan of money by saying that money would remain in a socialist economy until full communism was reached. After Stalin, the issue of eliminating money from the economic system was never discussed seriously again. The matter was left to be resolved in due course. A later generation of soviet economists clarified that the functions of money in the soviet economy were quite different from those of a capitalist money (Lavrushin, 1984; 1991; Shenger, 1983). The functions of money were no longer of ‘capital’ but rather that of a planned and managed economy (Kuschpeta, 1978, p.13).

Although nominally there were such notions of money and banks in the traditional planned economy of the FSU, they were nothing like the money and banks of a capitalist system. The soviet planners always argued that perpetual full employment was achievable only under central planning. In many ways, the working of the traditional soviet economy can be likened to Keynes’s co-operative economy. The means of production belongs to the proletarian government and thus output is generated by ‘collective efforts.’ Because money per se was not employed in this economy, there could be no room for fluctuations in effective demand and no room for chronic, as distinct from temporary, unemployment. The role of the planning authorities in the process of production and redistribution could be seen such that continuous full employment was attainable unless authorities made some ‘stupid miscalculations.’

***End Notes***

1. Chick (2003) notes that using the term non-dualism would again represent dualism.
2. According to Rotheim (1981, p.572) Keynes made changes to his work taking into account the comments of his critics. However, Torr (1988, p.26) suggests that Keynes might have been afraid of being accused of plagiarism because D. H. Robertson had already been working in a similar direction.
3. Temkin (1998, p.308) suggests that actually Marx borrowed these ideas from Saint-Simon.
4. By the government decrees of 17 May and 10 December 1921 all enterprises with less than 20 workers reverted to their previous owners or were leased to new ones.
5. Author’s translation from the original source in Russian.

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