



Lecture: The Rise and Fall of Really Existing Socialism, -350 to 2016

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Let us talk about the rise and fall of really existing socialism—the system that lived behind what Winston Churchill called the Iron Curtain from 1917-1991, that shook the world, and that in the end turned out to be far, far, far from the brightest light on the tree of humanity’s good ideas.

I. The Rise of Fundamental Equality as an Idea

A. Inequality as Gods' and Nature's Command

There was a profound shift from the belief in “divine right” and “natural order” as the fundamental grounding for an unequal society to enlightenment values—that human institutions should be rationally designed on the basis of a rational understanding of human psychology in order to attain the greatest good of the greatest number, and thus that inequality is not given by the gods or by the requirements of nature, but rather is a thing to be allowed to the extent that it incentivizes cooperation and industry and thus enriches us all.

Back in the century of the -300s, Aristotle had taken it for granted that a good society was only possible if the society allowed for philosophy. And philosophy was only possible if you had a leisured upper class. And a leisured upper class was possible only with large scale-unfree labor—serfdom, or its harsher cousin slavery. Thus it was and thus it would always, be unless and until humans obtained the fantasy technologies of the mythical Golden Age. That was what Aristotle wrote: that “chief workmen would not want servants, nor masters slaves” only if:

every instrument could accomplish its own work, obeying or anticipating the will of others, like the [blacksmithing] statues of Daedalus, or the three-wheeled catering serving-carts of Hephaestus, which, says the poet: "of their own accord entered the assembly of the Gods"... the shuttle would weave and the plectrum touch the harp without a hand to guide them...

Thus it was fortunate that:

It is manifest therefore that there are cases of people of whom some are freemen and the others slaves by nature, and for these slavery is an institution both expedient and just.... There exist certain persons who are essentially slaves everywhere.... Slavery for the one and mastership for the other are advantageous and just, and it is proper for the one party to be governed and for the other to govern by the form of

government for which they are by nature fitted, and therefore by the exercise of mastership...

And even in the middle of the 1800s, Abraham Lincoln thought it prudent in the Lincoln-Douglas debates to give a bow to the belief that humans were unequal, grossly unequal, by command of nature or of God:

I have no purpose to introduce political and social equality between the white and the black races. There is a physical difference between the two, which, in my judgment, will probably forever forbid their living together upon the footing of perfect equality, and inasmuch as it becomes a necessity that there must be a difference, I, as well as Judge Douglas, am in favor of the race to which I belong having the superior position.... I agree with Judge Douglas he is not my equal in many respects—certainly not in color, perhaps not in moral or intellectual endowment...

B. Radical, Natural Equality

But Lincoln then turned on a dime, and making his main point after a “but”:

There is no reason in the world why the negro is not entitled to all the natural rights enumerated in the Declaration of Independence, the right to life, liberty, and the pursuit of happiness.... In the right to eat the bread, without the leave of anybody else, which his own hand earns, he is my equal and the equal of Judge Douglas, and the equal of every living man...

Moreover, humanity was about to begin to gain the autonomous robotic blacksmithing statues of master-craftsman Daedalus—and more, a thousand-fold—and also food-production, food-processing, and food-distribution technology vastly outstripping the self-propelled catering carts of Hephaestus the smith-god. Our shuttles now weave without hands to guide them. And as for the need for a hand to guide each making of a musical note—well...

Thus between 1870 and our day it ceased to be a necessity to own or to have some direct or indirect dominion over slaves and near-slaves in order to be rich in material terms and thus approach utopia.

Who was the first person to write down words like these?:

We hold these truths to be sacred & undeniable: that all men are created equal & independant, that from that equal creation they derive rights inherent & inalienable, among which are the preservation of life, & liberty, & the pursuit of happiness; that to secure these ends, governments are instituted among men, deriving their just powers from the consent of the governed...

This means: if people do not consent and believe that the government is vindicating their inherent and inalienable rights that they derive from their equal and independent creation, then it is a sacred and undeniable truth that that government—and the societal order it supports and maintains—is no true government at all.

Do you think the writer was John Locke, Niccolo Machiavelli, Thomas Hobbes, Thomas Jefferson, or George Washington?

Yes, it was Thomas Jefferson in the year 1776.

This is the opening of his first draft of the Declaration of Independence of the United States of America: the glorious statements of (a) fundamental human equality, and (b) equal human rights—to life, liberty, and then what usually shows up as “property” but which TJ called “pursuit of happiness”.

Perhaps he wrote it thus to make it broader than just a right to own property and turn it into a right to have one’s own sphere of autonomy within which one could form plans and try to accomplish them to pursue one’s happiness. That broader right simply could not be accomplished by a

narrow right to own property, but required and requires much broader support.

But perhaps it was to make the right narrower.

In Virginia in 1776 to assert that it was a “sacred and undeniable” truth that “all men” had an “inherent and inalienable” right to one property would cast considerable shade on the key Virginia institution of slavery—for the slaves had, in Virginia mythology, not only alienated their own inalienable right to own property, but they had alienated their children’s right to own property and their own and their descendants rights to be anything but property.

However, here we are interested in the shift in ideals to enlightenment utilitarian values, rather than in the hypocrisy of the gap between ideals and reality.

C. What Kind of Government Best Vindicates “inherent & inalienable” Rights?

Accepting the enlightenment values of the U.S. Declaration of Independence—that governments are instituted among humans to vindicate their rights to life, liberty, and the pursuit of happiness; and that governments that do not vindicate those rights and to which humans thus do not consent are no true governments at all—does not give much guidance to what kind of government should be instituted, and what kind of societal order it should support.

In the late 1700s James Madison had not been enthusiastic about democracy:

Democracies have ever been spectacles of turbulence and contention... incompatible with personal security or the rights of property... as short in their lives as... violent in their deaths...

James Madison was enthusiastic about a republic. People who counted were to choose a small, select group of representatives who had their values and well-being at heart, but not their passions or their interests. Representatives would then govern subject to procedural checks-and-balances. Under Madison and company's America constitution, remember, states could restrict the franchise as much as they wished—as long as it preserved “a republican form of government.”

James Madison's suspicions had been widely shared. His one-time friend and co-author Alexander Hamilton even held that a constitutional monarchy—in which the monarch, the aristocracy, and the masses all held real power to balance one another—was the best of all attainable governments, with “the British government... best” as the only one “unit[ing] public strength with individual security...” And Thomas Jefferson suspected George Washington thought Hamilton was right, and that the American republic might fail: “General Washington had not a firm confidence in the durability of our government”. Jefferson thought this fear “had some weight in his adoption of... ceremonies... calculated to prepare us gradually for a change which he believed possible.” And John Adams proposed that the American president be announced as: “His Highness, the President of the United States, and Protector of the Rights of the Same”.

We had thought that the questions of political order had been settled first in the rubble of Berlin in 1945, and then in the streets of East Germany in 1991: We had thought they had been settled in favor of representative democracy that balanced off interests and got as close as possible to the will of the median voter necessary for proposals to command majority assent, while having sufficient constitutional checks-and-balances to ensure the protection of minority rights. (Rather than a “leadership state” in which popular unity was created by obeying the commands of a visionary ruler). We had thought they had been settled in favor of private

property, a mixed economy, and social insurance. (Rather than either a laissez-faire “free to starve” system or a command economy directed by the elite cadres of a ruling party that possessed the intellectual key to the lock that guarded the riddle of historical development.)

We had thought that the questions had been settled in favor of constitutional representative and liberal democracy, plus a private-property market-heavy mixed economy with social insurance.

But are these now reopened? As senior Chinese leader Min Zhu (朱民) said to me—with absolutely no trace of irony at all—back in 2015: “What are you Americans going to do to fix your broken political system?”

II. Toward Political Equality

A. “Divine Right” & “Conquest” No Longer Suffice

In spite of fears about the instability and irrationality of democracies and the desirability of keeping politics in the hands of sober successful people with property, as the 1800s moved forward, democracy—at least in the form of one male of the right age and race, one vote—as the touchstone of political legitimacy made massive strides, if at deliberate speed. Claims that kings ruled by divine right and that aristocracies ruled by virtue of their ancestors having been among those who conquered the Anglo-Saxons with William of Normandy or the Romano-Gauls with Clovis the Frank became increasingly risible and ran aground. So many aristocrats were noble because their ancestors had been fixers, pimps, or bureaucrats for past kings.

B. Prosperity as a Temporary Alternative

For a while prosperity was an alternative touchstone: rulers should be elected or at least advised by those selected by vote, yes, but by a vote of the prosperous. François Guizot, left-of-center Prime Minister of France's constitutional monarchy in the early 1840s, responded to demands for a broader electoral franchise with the words “enrichessez vous”: if you want to vote, get rich enough that you qualify. It did not work. On February 23, 1848, King Louis-Philippe of France's Orleanist dynasty—the only king of the Orleanist dynasty—threw Guizot over the side in the hope of avoiding revolution and dethronement. Louis Philippe abdicated the following day.

C. The 19th-Century Balance Point

Worldwide, politicians on the left wanted, eventually, more than one person-one vote. They sought the abolition of private property and the rational distribution of the products of the societal division of labor... well, by it was not clear what. But that position was rejected by the bulk of political society: only rarely could it win any majorities for its position that the government should have a totalizing role—that all questions should be settled and all social life organized by a government, in which each one counted for one and one alone.

Worldwide, politicians on the right held the view that some existing inequalities of wealth, influence, and political power were just or holy or both. But they were divided. Some viewed inequalities emerging from the creative destruction and accumulation of the market with, at best, suspicion. Others viewed inherited and status inequalities with grave suspicion. Some tried to reconcile and exalt all the groups of inheritors, entrepreneurs, and crony capitalists, but that was a difficult balancing act.

Thus the balance point was in the middle. Over the 1800s the political principle that caused the least offense to the greatest number being that

political society would be a realm in which some or most of the male individuals' preferences counted equally in choosing the government, and that the government would then curb and control the economy, to limit but not extinguish the extra influence of those whom American Republican President Theodore Roosevelt called the "malefactors of great wealth" early in the 1900s.

D. Franchise Extension Creeping Forward

When the left of center was in power they would try extend on the principle that the new, poorer voters would be less conservative and would support them.

When conservatives were in power they might convince themselves to extend the suffrage, on the grounds that the workers were loyal to king and country, were being exploited by the merchant, manufacturing, and commercial agricultural classes, and would be grateful: it would "dish the Whigs".

When revolution threatened, governments fearing armed mobs in the streets would decide that franchise extension would divide the potentially-revolutionary opposition: "The Principal... is to prevent... revolution.... I am reforming to preserve, not to overthrow," said Earl Grey in the debate over the 1831 franchise-extension reform bill.

Thus extension of the suffrage tended to creep forward, step by step. Up until 1913, at least in the increasingly prosperous North Atlantic industrial core of the world economy, the prospects for increasing and stabilizing democracy looked good.

Franchise expansions put real power in the hands of poorer and less aristocratic voters—or, rather, of those they chose as their representatives. Thus even aristocrats sought to make them able to wield that

responsibility. British cabinet member Robert Lowe argued that after making the richer segment of the working class the masters of the government: “we must educate our masters”.

Sometimes—as with Britain’s Benjamin Disraeli, or Germany’s Otto von Bismarck—conservatives even led the way in extending the franchise, thinking that poor rural voters had more in common with landlords than with plutocratic industrialists and the urban bourgeoisie; and that poor urban voters would hate those who screwed down their wages more than those who sought to preserve ties of authority and respect between rich and poor.

III. Political Voice and Economic Justice

There was or would be great tension between the political voice and power that came with one man-one vote democracy and the market economy.

A. The Mirage of “Social Justice”

In a later day, Friedrich von Hayek always argued that to inquire whether a market economy’s distribution of income and wealth was “fair” or “just” was to commit a fatal and basic intellectual blunder. “Justice” and “fairness” of any form requires that you receive what you deserve. But a market economy gives not to those who deserve well, but rather those who happen to be in the right place at the right time to control resources that are valuable for future production. Once you step into the morass of “social justice”, Hayek believed, you would be forced into adjustment after adjustment. You would not be able to stop chasing a “just” and “fair” outcome “until the whole of society was organized... in all essential respects... [as] the opposite of a free society.”

Note that Hayek did not believe (much) in inherited feudal, guild, and customary blockages to decentralized market exchange: they should be steamed away. Then the market would giveth; the market would taketh away; and blessed would be the name of the market. That a market economy can produce a highly unequal and can produce a less unequal distribution of income and wealth was besides the point. We lacked and would always lack the knowledge to create a better society.

The only rights the market economy recognizes are property rights—and then it only recognizes those property rights that are valuable, and the most valuable property rights are those useful in making things for which the rich have a serious jones.

Yet people thought they had other rights than just the rights that accrued to the property they happened to hold. They had bigger and more fundamental objections to a market society than just the objection that it makes some rich and others poor.

B. But Society Demands Socio-Economic Justice

Hungarian-Jewish moral philosopher Karl Polanyi wrote during World War II in his book *The Great Transformation*, not everything is or can be a commodity: making some things into commodities is a fiction. A market society will thus face a backlash—it can be a left-wing, it can be a right-wing backlash, but there will be a backlash, and it will be powerful. Polanyi wrote about how land, labor, and finance were “fictitious commodities” that could not be governed by the logic of profit-and-loss but had always and needed to be embedded in society and managed by the community taking account of religious and moral dimensions.

These were—are—brilliant insights. But in *The Great Transformation* they are incomprehensible to an overwhelming proportion of those who try to read Polanyi.

Let me try to put it better:

The market economy believes that the only rights that matter at all are property rights. The market economy believes that the only property rights that matter a lot are those that produce things for which the rich have high demand.

But people believe that they have other rights:

- With respect to *land*, people believe that they have rights to a stable community: that the natural and built environment in which they grew up or that they made with their hands is theirs, whether or not market logic says it would be more profitable and lucrative if it were different or if somebody else lived there.
- With respect to *labor*, people believe that they have rights to a suitable income: they have prepared for their profession, they have played by the rules in so doing, and so society owes them a fair income commensurate with their preparation, whether or not the world market's logic says that what they make has a free-market price that can support that income or not.
- With respect to *finance*, people believe that as long as they do their job of working diligently, the flow of purchasing power through the economy should be such as to give people the wherewithal to buy. The decisions of rootless cosmopolite financiers who may be thousands of miles away that this or that flow of purchasing power through the economy is no longer sufficiently profitable, and so should be shut off, should not be able to make your job dry up and blow away.

IV. Society's Backlash Against the Market

A. Not Necessarily a Demand for *Equality*

Note that these rights that society will attempt to validate do not—or might not—be rights to anything like an equal distribution of the fruits of industry and agriculture. And it is probably wrong to describe them as fair: they are what people expect given a certain social order of society. A market order that generates wages seen as too high for Chinese immigrants and opportunities seen as insufficient for white Californians seeking jobs in agriculture will call forth riots and a Chinese Exclusion Act in California late in the 1800s. A market order that generates too much Polish spoken on too many German-owned farms in the early 1900s will start German right-wingers thinking about the *drang nach Osten*, by which the military-religious order of the Teutonic Knights pushed the German-Slavic language frontier a couple of hundred miles east in the Middle Ages. A market order that replaces blue-collar assembly-line worker jobs with robots while generating new jobs only in big liberal cities early in the 2000s will generate “economic anxiety”.

But society will not like the tension between the market economy and its beliefs about the rights governments should vindicate. And as, with one man-one vote, society rather than its comfortable upper stratum gains political voice, it will seek a political solution: it will seek something that people will call “socialism”.

B. Egalitarian Socialists' Hopes Dashed

Left-wing socialists believed that the backlash to the market would produce overwhelming popular revolutionary demands for a government to take control of the economy and guarantee jobs at equal and fair wages for all. They were to be surprised and astonished when the mass of the people disagreed.

We first saw this in 1848, in the June days of Paris. Urban workers wanted the government to guarantee full employment and fair wages in publicly-funded and -run urban workshops. They sought to overthrow the government. They found that the peasants disagreed: The peasants had gotten their farms in the Great French Revolution half a century earlier. They did not want urban workers to seize control and force them to pay higher taxes to support urban layabouts who ought to go back to their families' farms when there was no work in the city.

French intellectual and politician Alexis de Tocqueville was amazed. He wrote of:

The insurrection of June [1848]... class against class... a blind and rude, but powerful, effort on the part of the [urban] workmen to escape from the necessities of their condition, which had been depicted to them as one of unlawful oppression.... The closing of the national workshops... occasioned the rising....

Thousands... hastening to our aid from every part of France.... Thanks to the railroads, some had already come from fifty leagues' distance... every class of society... peasants... shopkeepers... landlords and nobles all mingled together... They rushed into Paris with unequalled ardour: a spectacle as strange and unprecedented in our revolutionary annals.... The insurgents received no reinforcements, whereas we had all France for reserves...

V. Over in America

A. Political Democracy & the Absence of Aristocracy Insufficient

America in the late 1870s—in spite of its absence of a true plutocratic aristocracy (outside of the south) and early achievement of stable democracy with one (white) man-one vote—also found that political democracy and liberty were insufficient for utopia. America was no exception to the societal judgment that the market economy was going

wrong. By 1900 the United States was as unequal an economy in relative terms as—well, today. it had become the Gilded Age country of industrial princes and immigrant tenements. 146 largely-immigrant workers died in the 1911 Triangle Shirtwaist Factory fire in Manhattan. Why? Because the exits had been locked to keep workers from taking fabric out of the building in order to make their own clothes.

Alexis de Tocqueville, a keen-eyed commentator on American society in the first half of the nineteenth century, had feared this, for while:

the territorial aristocracy of past ages... [was] obliged... to come to the help of its servants and relieve their distress...

no such reciprocal ties of obligation bound the aristocrats of manufactures to their workers: thus:

>the manufacturing aristocracy which we see rising before our eyes is one of the hardest that have appeared on the earth...

Abraham Lincoln had thought he lived, and to some degree had lived, in an America in which :

the prudent, penniless beginner... saves a surplus... and at length hires another new beginner to help him...

And so he took:

it that it is best for all to leave each man free to acquire... [and] get wealthy...

In America as Lincoln saw, there was always opportunity—save for in the slave South, where African-Americans had no opportunity and whites who did not own slaves had little.

But by 1900 the workers of Lincoln's Illinois saw things differently: "‘Land of opportunity’, you say. You know well my children will be where I am—that is, if I can keep them out of the gutter." Things weren't working. The market economy had, somehow, become unfair.

B. Who to Blame? How to Reform? Populism & Progressivism

Many of the middle class, especially the farmers, blamed the rich, the easterners, immigrants, and the bankers for what was going wrong with late nineteenth-century America.

The Populists of the 1890s sought the free coinage of silver at a ratio of 16-to-1 to boost the money supply, lower interest rates, and raise farm prices. They sought antitrust to bust monopolies and restore competition. They sought railroad and other forms of rate regulation to make sure that the largely-rural backbone of real Americans were not exploited by those in the cities with market power—whether rail barons, manufacturing monopolies, or bankers.

They blamed the eastern bankers, the gold standard, the monopolists, the immigrants, and—and this was what broke them as a political movement—the African Americans. Rich Bourbon establishments in the south could and did win votes by segregating and disenfranchising African-Americans. And so southern American populism died as a political force.

The Progressives of 1900 sought reforms to try to diminish the power of what they saw as a wealthy-would be aristocracy: the "malefactors of great wealth" in Theodore Roosevelt's words. They sought an expanded government role to protect the environment, a progressive income tax, curbs on financial manipulation, and also to make the world safe for democracy.

The Progressives got their chance when the assassination of William McKinley moved Republican Progressive Theodore Roosevelt out of the Vice Presidency—the powerless job dismissed by John Nance Garner as “a bucket of warm piss”—and into the White House in 1899, and then again when Roosevelt’s disgust at his successor Taft’s betrayal of Progressive values and sharp, corrupt Republican National Convention practice led him to throw the presidency to Democratic Progressive Woodrow Wilson in 1912.

However, these remained minority political currents in America. Voters typically elected Republican presidents—or that triangulating bastard Grover Cleveland—who were more-or-less satisfied with American economic and social developments, and who believed that “the business of America is business.”

The Populist and Progressive movements in America around 1900 were broken on the anvils of racial animosity, & fear of left-wing socialism, & belief—hope—that the proper business of America was business, and that America contained no proletarians for we were all just temporarily embarrassed millionaires...

C. Governing Chicagoland

Let us take a look at economics and politics interacting at the bleeding edge—at the most-rapidly growing and industrializing place on the pre-World War I earth, in that era’s counterpart to today’s Shenzhen: Chicago.

In 1840, when the Illinois and Michigan canal opened connecting the Mississippi River with the Great Lakes, Chicago had a population of 4000. In 1871 Mrs. O’Leary’s cow burned down a third of the city. In 1885 Chicago built the world’s first steel-framed skyscraper. By 1900 Chicago

had a population of two million. 70 percent of its citizens had been born outside the United States.

On May 1, 1886, the American Federation of Labor declared a general strike to win the eight-hour workday. On May 3, 400 police officers protecting the McCormick farm equipment factory and its strikebreakers opened fire on a crowd, killing six. The next day eight police officers were murdered by an anarchist bomb at a rally in protest of police violence and in support of the striking workers—and the police opened fire at the crowd and killed perhaps twenty civilians, largely immigrants, largely non-English speaking (nobody seems to have counted). A kangaroo court convicted eight innocent left-wing politicians and organizers of murder. Five were hanged. In 1893 Democratic Governor John Peter Altgeld pardoned the surviving innocent “bombers”.

In 1889 Samuel Gompers, President of the American Federation of Labor asked the world socialist movement—the “Second International”—to set aside May 1 every year as the day for a great annual international demonstration in support of the eight-hour workday and in memory of the victims of police violence in Chicago in 1886.

In the summer of 1894 the Democratic Party President Grover Cleveland persuaded Congress to make a national holiday in recognition of the place of labor in American society—not on the International Workers’ Day that was May 1 in commemoration of Chicago, but rather a moveable feast on the first Monday in September instead.

As Governor of Illinois, Altgeld lobbied for and persuaded the legislature to enact the then-most stringent child labor and workplace safety laws in the nation, increased state funding for education, and appointed women to senior state government positions. The largely-Republican and Republican-funded press condemned John Peter Altgeld for his Haymarket pardon. For the rest of his life he was, to middle-class newspaper readers

nationwide and especially on the east coast, the foreign-born alien anarchist, socialist, murderous governor of Illinois.

D. America's Pullman Strike and After

On May, 11, 1894, workers of the Pullman Corporation, manufacturer of sleeping cars and equipment, went on strike rather than accept wage cuts. The railroads asked the government to come in on their side, and that Triangulating Bastard President Grover Cleveland—the only Democrat elected president between James Buchanan and Woodrow Wilson—decided to grant their request. He attached a mail car to every train, thus making blocking any train an interference with the U.S. mail and thus a federal crime. United States Attorney General Richard Olney got the courts to enjoin the strikers, forbidding the obstruction of trains and forbidding providing any assistance to anyone obstructing trains.

Cleveland ordered the U.S. army to deploy in Chicago.

Illinois Governor Altgeld protested. Altgeld pointed out in two telegraphs to Cleveland that Art. IV §4 of the Constitution gives the power to the President to use troops inside states against domestic violence only “on application of the [state] legislature, or the executive (when the legislature cannot be convened).” Altgeld pointed out that neither he nor the legislature had applied. Cleveland responded that it was more important to protect property against rioters, anarchists, and socialists: “If it takes the entire army and navy of the United States to deliver a postcard in Chicago, that card will be delivered!”

On July 7, 1894 Debs and the other union leaders were arrested for violating the terms of the legal injunction, and the strike collapsed.

At the next election Altgeld led a revolt that ran President Cleveland out of the party. Altgeld sought to get the Democratic Party to nominate former U.S. Senator Richard P. Bland. The young William Jennings Bryan,

however, had other ideas. Bryan wowed the convention. Grover Cleveland and his supporters then ran ex-Republican Illinois governor and ex-Union general John M. Palmer and ex-Kentucky governor and ex-Confederate general Simon Bolivar Buckner to split off votes from William Jennings Bryan and Arthur Sewall. Bryan and Sewall lost to McKinley and Hobart—with a swing of -500000 votes relative to the average of the last five elections, 3.5% of the electorate. The crucial swing voters in the American electorate did not then want a Democratic candidate from the Democratic wing of the Democratic Party.

V. European Socialism

A. Reformist-Practical Policies

In Europe, also, the center of the electorate was fearful of the unregulated market economy, yet also fearful of a left-wing socialism that looked hazily forward to some form of revolution and a utopia in which private property would not be. And socialist parties were hopelessly confused.

On the one hand the policy changes they asked for now were weak tea: the reform plans were mild. The Socialist Party of Germany's Erfurt and Gotha programs sought things like: holidays for elections, two-year legislative terms, the right to bear arms, equal rights for women, the prohibition of spending public funds for religious purposes, free public schools and colleges, free medical care including midwifery, an eight-hour working day, no child labor under 14, a 36-hour minimum weekend, an occupational safety and health administration

B. Revolutionary-Utopian & Class-War Aspirations

But then they also looked forward to revolution—and to class war. They did say that the revolution would be peaceful: “By every lawful means to bring about a free state and a socialistic society...”

But their goals were maximal.

This peaceful, legal, constitutional revolution would “effect the destruction of the iron law of wages by doing away with the system of wage labor...”

This peaceful, legal, constitutional revolution would lead to large-scale confiscations of all private property: “The transformation of the capitalist private ownership of the means of production—land and soil, pits and mines, raw materials, tools, machines, means of transportation—into social property and the transformation of the production of goods into socialist production carried on by and for society...”

And they believed in class war, or at least that the industrial working class was the only class that had a right to govern: “This... emancipation... [is] of the entire human race.... But it can only be the work of the working class, because all other classes... have as their common goal the preservation of the foundations of contemporary society...”

C. Maximal Confusion About the Gap

Hence there was an immense gap between their policies and their rhetoric. This led to great confusion—on the part of the voters, and of the left-wing socialist leaders and cadres themselves. What were they for? Which did they really mean? Were they violent revolutionaries biding their time? Were they constitutional politicians and organizers with utopian aspirations and a tendency to get carried away when addressing

the faithful? Voters did not know. Their opponents did not know. They did not know.

VI. The Russian Revolution

A. Czarist Russia Ripe & Overripe

Before World War I, almost all observers—including the Czar’s government—had long seen Czarist Russia as heading for a revolution. In 1914 Russia was perhaps half as rich as the United States and two-thirds as rich as Germany, and more unequal than both: figure four dollars a day as a typical standard of living. Life expectancy at birth was barely thirty years at a time when western Europe was 50, and the United States 55. Its wealthy classes were dominated by aristocratic landlords who had no functional societal role. Its educated classes were in close cultural contact with western Europe, especially France: only one of the first 68 words of Tolstoy’s novel *War and Peace* is Russian—*pomest’ya*, a feudal estate governed by the rules of lordship and vassalage rather than private property. The other 67 words are French. Ideas about equality before the law, governments deriving their just powers from the consent of the governed, meritocracy and the end of caste-status privileges, and constitutions had been flowing into Russia through the window on the West that was the Czar Peter the Great-built Baltic Sea port capital of St. Petersburg for centuries.

The Czarist regime barely survived the uprising of 1905 triggered by the short unvictorious war against Japan. Yet rather than avoid war in 1914, Nicholas II Romanov and his advisors embraced it. And the Czarist régime did not survive. The Czar, without supporters, fell.

B. Lenin's Bolshevik Coup

A Russian Republic was proclaimed. The semi-socialist Kerensky government that followed tried to continue the war against Germany on the side of Britain, France, and America. It organized an election for a constituent assembly to write a constitution for a democratic-socialist Russia. Kerensky's republic was then overthrown in a coup by Vladimir Lenin and his Bolsheviks seven months later in their October Revolution.

Lenin was not interested in democracy. Lenin sent the Constituent Assembly home at bayonet point, and decided to form Marx's dictatorship of the proletariat—although how you could have an industrial working class that barely existed run a dictatorship was unclear.

B. Civil War & Power Consolidation

For a government to survive when there are no powerful social classes or interest groups that have ideological allegiances or substantive reasons to back it requires great ruthlessness. A brutal Civil War followed.

“White” supporters of the Czar, local autocrats seeking effective independence, Lenin's “Red” followers, stray other forces—including a Czech army of ex-prisoners-of-war that found itself effective ruler of Siberia for a while, plus Japanese regiments—fought back-and-forth over much of Russia for three years. The United States sent both troops to secure base areas for anti-Communist forces, and food to feed Russians (and Red Army soldiers) in Communist-controlled areas.

It soon became clear that volunteer cadres with their own elected officers were not very effective: the Communist government needed to draw on the skills of the old Czarist army officers. But could they be trusted? Leon Trotsky, Commissar for War, came up with the answer: draft the officers, and shadow each one with an ideologically-pure political commissar, who needed to sign each order and would indoctrinate the soldiers in socialism.

This system of “dual administration” could be—and was—applied to everything. It was the origin of the pattern of administration that was to be common throughout Soviet society: the party watches over the technocrats to ensure their obedience (at least to the formulas of Communist rule). And if the technocrats do not behave, the Gulag is waiting for them.

Lenin and the Communists won the Civil War, in part because of Trotsky's skill at organizing the Red Army, in large part because although the peasants hated the Reds (who confiscated their grain), they hated the Whites even more. The Whites brought back the landlords whom the peasants had expelled in 1917-1918.

Lenin and the Communists won the Civil War, in part because of Feliks Dzerzhinsky's skill at organizing the secret police. During the Civil War the Communist Party acquired the habit of great ruthlessness that was in the end exercised not only against society outside the Communist Party but against the activists of the Communist Party itself. A “command economy” turned out to require a “command polity” as well.

The Communist Party won the Russian Civil War as a one-party dictatorship with a powerful and aggressive secret police, committed to using mass terror to suppress counter-revolutionaries, banning even internal democracy and discussion of policies and politics, and without even the ability to protect its own cadres against purge and murder.

We can gain at least some insight into Lenin's character from a short monologue that the writer Maxim Gorky reported, of Lenin as a classical music critic:

I know nothing that is greater than the Appassionata [by Beethoven]; I'd like to listen to it every day [Lenin said].... What marvelous things human beings can do! But... music... makes you want to say stupid nice things, and stroke the heads of people who could create such beauty while living in this vile hell. And now you must not stroke anyone's head: you might get your hand bitten off. You have to strike them on

the head, without any mercy, although our ideal is not to use force against anyone. Hm, hm, our duty is infernally hard.”

VII. Consolidating Really Existing Socialism

A. They Thought Managing the Economy Was Easy

Lenin was interested in ruling Russia—and managing its economy. They thought the second would be easy. They thought they had an example to follow.

Mobilizing economic resources for the total war that was World War I was not something anybody had planned for. Desired production became much more that dictated by the representatives of industry's largest customer, the military, than by market forces. Yet the army could not simply pay through the nose what the industrialists wanted to charge. And so the market needed to be substantially replaced by rationing and command-and-control.

Was that possible? Yes. In all cases, those that ran the industrial materials-allocation directorates succeeded. Such success turned out to be surprisingly easy, even though to do so efficiently would have been surprisingly difficult.

The example of the German war economy made some, like Vladimir Lenin, confident that a socialist “command economy” was possible: that you could run a socialist economy not through the market but by using the government as a command-and-control bureaucracy not just during national emergency, but as a matter of course. Indeed, Lenin believed that large corporations did this as a matter of course. So he and his cadres could easily run Russia's socialized economy as a hobby in the spare time they could spare from their other jobs. As he wrote in his 1918 book *State and Revolution*:

After the overthrow of the capitalists and the bureaucrats...proceed immediately... to replace them in the control over production and distribution, in the work of keeping account of labor and products, by the armed workers.... Accounting and control—that is mainly what is needed for the "smooth working", for the proper functioning, of the first phase of communist society.

All citizens are transformed into hired employees of the state.... All citizens becomes employees and workers of a single countrywide state "syndicate". All that is required is that they should work equally, do their proper share of work, and get equal pay; the accounting and control necessary for this have been simplified by capitalism to the utmost and reduced to the extraordinarily simple operations which any literate person can perform of supervising and recording, knowledge of the four rules of arithmetic, and issuing appropriate receipts.

When the majority of the people begin independently and everywhere to keep such accounts and exercise such control over the capitalists (now converted into employees) and over the intellectual gentry who preserve their capitalist habits, this control will really become universal, general, and popular... escape... will... become... difficult... exception[al], and will probably be accompanied by such swift and severe punishment (for the armed workers are practical men and not sentimental intellectuals, and they scarcely allow anyone to trifle with them), that the necessity of observing the simple, fundamental rules of the community will very soon become a habit...

B. The "Dictatorship of the Proletariat"

The Communist Bolshevik régime of Vladimir Lenin in Russia was the first seizure of power by disciples of what was to become the most murderous of the totalitarian ideologies of the twentieth century—Communism, or perhaps we should call it what it called itself: really existing socialism, implemented as something called the dictatorship of the proletariat.

The dictatorship of the proletariat: what was that supposed to be?

That first word, dictatorship, meant for Lenin—as it had meant for Karl Marx and Friedrich Engels—the temporary concentration of authority, and the temporary suspension of checks-and-balances, procedural impediments, and established powers of resistance to the will of the government.

Marx and Engels saw Abraham Lincoln’s January 1, 1863 Emancipation Proclamation as an act of such a dictatorship: in spite of the lack of any authority anywhere in the U.S. Constitution for the federal government to interpose itself between any “person held to service or labor” and the owner of the property right to benefit thereby, Lincoln freed 4 million slaves in the eyes of U.S. law by a stroke of a pen. On what authority? His power as commander-in-chief in a time of “war or insurrection” and his judgment that emancipation was a military necessity.

Lenin believed that Russia needed a similar act of emancipation: freeing workers and peasants from wage slavery by nationalizing and socializing the land and property of nobles and industrialists, and so reconstituting patterns of economic control, production, and exchange.

But in whose interest was the economic order of Russia to be reconstituted? That is the second word: proletariat.

Rule was, in Lenin’s—and earlier in Marx’s and Engels’s—mind to be administered of and for the proletariat. Why the proletariat? Why not just have a dictatorship of the people—a democracy? Because, Lenin believed—and Marx and Engels had believed before him—all other classes of society had selfish interests that would block the progressive evolution of society toward true socialism. The bourgeoisie, the petty bourgeoisie, the peasantry, the aristocrats were all “reactionary”, hence did not deserve a voice or a vote. To allow them any political power during the initial post-revolutionary dictatorship could only bring trouble.

Perhaps Lenin had hoped that the democratically-elected constituent assembly could be convinced or browbeaten to accept his leadership. They did not. And what happened when the industrial working class—the proletariat itself—did not support his policies? Even that did not matter. For Lenin, legitimacy and power were not derived from any sort of mandate from the masses; or from the expressed will of the sole progressive class, the industrial working class; or even from strange women in ponds handing out magic swords in some farcical aquatic ceremony. Legitimacy proceeded from the conformity of policy to history and historical necessity, as those had been determined by the Marxist-Engelsian sciences of dialectical and historical materialism.

C. No German Revolution to Help

German Kaiser Wilhelm II Hohenzollern abdicated in November 1918. A democratic republic was proclaimed, with Socialist Party leader Friedrich Ebert as its provisional president. The German army high command agreed to support and defend the republic, if the political leaders of the republic would suppress any social revolution that would expropriate and nationalize property and redistribute wealth. Germany's relatively moderate socialists and social democrats agreed.

Their leaders then turned out to be more ruthless and more “Leninist” than their more left-wing comrades. German socialist leaders Karl Liebknecht and Rosa Luxemburg called for not just a political but a socialist republic. Their “Spartakist” movement thought that a revolution was like a dinner party, or writing an essay—refined, leisurely and gentle, temperate, kind, courteous, restrained and magnanimous. Their Spartakist demonstrations were quickly suppressed by ex-soldiers hastily organized into a militia. Luxemburg and Liebknecht were arrested. Then they were shot—without even the pretense that they were trying to escape.

The left wing of the Socialist Party of Germany split off to become the Communist Party of Germany. They never forgave. They never forgot. From then on the principal adversary of those on the left wing of German socialism was not the monarchists, not the plutocrats, not the center-right, not the fascists, but rather the social democrats.

Lenin had expected his task to be greatly aided by a similar revolution to his, happening in prosperous Germany to his west, and then by a flood of technical assistance and aid from his German comrades. It did not happen. Lenin found himself alone. “Socialism” in one, and only one, very very country.

D. Marxian Political Theology

Karl Marx, one of the few in the mid-1800s to foresee anything like the explosion of wealth that the long twentieth century 1870-2016 would bring, mocked the sober, dark-suited businessmen of his time. They claimed to want only stability. They claimed to view revolution with horror. Yet they were themselves, in a sense, the most ruthless revolutionaries the world had ever seen.

The business class—what Marx called the bourgeoisie, grabbing a French concept for his German texts, and what most translations leave in its French original—were indeed a most revolutionary and progressive class. In a real sense, the prehistory during which scarcity, want, and oppression had been human destiny was about to end. It was the business class of entrepreneurs and investors, together with the market economy that pitted individual businessmen against each other through competition, that was responsible for this greatest of all revolutions in the potential human condition.

But Marx also saw an overpowering danger: the economic system that the bourgeoisie had created would inevitably soon become the main obstacle

to happiness. It could, Marx thought, create wealth, but it could not distribute wealth evenly. Alongside prosperity would inevitably come increasing polarization of wealth. The rich would become richer. The poor would become poorer, kept in a poverty made all the more hateful because needless.

Marx spent his entire life trying and failing to make his argument simple, comprehensible, and water-tight. He failed. He failed because he was wrong. It is simply not the case that market economies necessarily produce ever-rising inequality and ever-increasing immiserization in the company of ever-increasing wealth. Sometimes they do. Sometimes they do not. And whether they do or do not is within the control of the government, which has sufficiently powerful tools to narrow and widen the income and wealth distribution to fit its purposes.

Marx, however, thought he had succeeded. He thought he had proved that, as long as the existing system was not overthrown by one that nationalized and socialized the means of production:

The more productive capital grows, the more the division of labor and the application of machinery expands. The more the division of labor and the application of machinery expands, the more competition among the workers expands and the more their wages contract. The forest of uplifted arms demanding work becomes thicker and thicker, while the arms themselves become thinner and thinner...

Fortunately for humanity, Marx further thought, his dystopian vision of what late capitalism would be would not be the end state of human history. The rule of the business class was creating and would create a truly prosperous society:

more massive and more colossal productive forces than have all preceding generations together... machinery, application of chemistry to industry and agriculture, steam-navigation, railways, electric telegraphs, clearing of whole continents for cultivation, canalisation of rivers, whole populations conjured out of the ground—what earlier

century had even a presentiment that such productive forces slumbered in the lap of social labour?...

And then the rule of the business class would “produce... above all... its own grave-diggers”.

Increasing capital intensity, increasing development of machinery, increasing scale of production would all gather workers into larger and larger groups. The workers would find it easy to organize, and obvious that treating the immense economic productivity of the value chain in which they and their skills were embedded as the private property of a single boss, or even a group of shareholders, was absurd. Then the:

centralisation of the means of production and socialisation of labour at last reach a point where they become incompatible with their capitalist integument. This integument is burst asunder. The knell of capitalist private property sounds. The expropriators are expropriated...

Perhaps this happens from a democratic revolution that turns into a social revolution. Perhaps this happens from the free vote of a representative assembly with the interests of the masses at heart—but that was unlikely, for the rich were unlikely to passively surrender their property. But it would happen.

What would society be like after the revolution? Instead of private property, “individual property based on... cooperation and the possession in common of the land and of the means of production.” And this would happen easily, for socialist revolution would simply require “the expropriation of a few usurpers by the mass of the people”, who would then democratically decide upon a common plan for “extension of factories and instruments of production owned by the State; the bringing into cultivation of waste-lands, and the improvement of the soil generally...”

E. Consequences of Political Theology

It did not happen that way. It no more happened that way than that the New Jerusalem descended from the heavens, as the gospels and the letters of St. Paul declared it would, before the then-currently-living generation of believers had passed away.

Yet they continued to believe.

As American literary critic—and then believing communist—Edmund Wilson was to write in 1940, this was bonkers. Lenin’s and Trotsky’s statements about what they were doing and why it was justified made, as Wilson put it, absolutely “no sense whatever unless one substitutes for the words history and dialectic of history the words Providence and God.”

The right take on what Lenin was doing, and in its prospects for success, was made in advance by German-Polish left-wing socialist Rosa Luxemburg before her murder by the right-wing militia who were servant-masters of German moderate socialist and Weimar Republic President Friedrich Ebert. Red Rosa’s voice has not been heard enough, and is certainly worth hearing:

Without general elections, without unrestricted freedom of press and assembly, without a free struggle of opinion, life dies out in every public institution.... Only the bureaucracy remains.... A few dozen party leaders of inexhaustible energy and boundless experience direct and rule.... An elite of the working class is invited from time to time to meetings where they are to applaud the speeches of the leaders, and to approve proposed resolutions unanimously—at bottom, then, a clique affair.... Such conditions must inevitably cause a brutalization of public life: attempted assassinations, shooting of hostages, etc...

For:

>Freedom only for the supporters of the government, only for the members of one party—however numerous they may be—is no freedom

at all. Freedom is always and exclusively freedom for the one who thinks differently. Not because of any fanatical concept of “justice” but because all that is instructive, wholesome and purifying in political freedom depends on this essential characteristic, and its effectiveness vanishes when “freedom” becomes a special privilege...

Rosa Luxemburg was not alone. Center-right German sociologist Max Weber and Austrian economist Josef Schumpeter shared her fears. Let me quote Guenther Roth on the last time Weber and Schumpeter talked in their lives:

Weber and Schumpeter... had their famous falling-out in a Viennese coffeehouse in 1918. Weber, ‘who took nothing lightly,’ and Schumpeter, who ‘took nothing hard,’ recalled Somary who witnessed the scene, clashed over the Russian Revolution...

Schumpeter welcomed it as a laboratory experiment.... For Weber it was going to be ‘a laboratory heaped with human corpses.’ When an enraged Weber stormed out, a smiling Schumpeter remarked: ‘How can someone carry on like that in a coffeehouse?’—the proper place for irony, never seriousness...

An experiment on humans that ended in a laboratory heaped with human corpses—if you want to understand really existing socialism in one sentence, that is the one.

VIII. Really Existing Socialism in Power

A. RES as an Alternative

The Great Depression convinced many all that elected-representative parliamentary assemblies doing the governing and markets doing the economizing manifestly did not do the job. What were the options? One option was really existing socialism.

I write “really existing socialism” rather “Marxism” or “communism” because the Marxist movement had, by 1930, transformed itself from a

river to a delta. We can at least point to what really-existing socialism was: the régimes that ruled the Soviet Union from its creation to destruction, that ruled the occupied Soviet satellites of Eastern Europe after World War II, post-Chiang Kaishek pre-Deng Xiaoping China, Cuba after 1959, and North Korea after 1945.

Other words? They were and are all up for grabs.

In Western Europe and North America after and indeed before World War I, most who called themselves any flavor of “socialist” held that in a good society there ought to be enormous scope for individual initiative, for diversity, for the decentralization of decision making, for liberal values, and for private property. In price regulation and in public ownership, the question was an empirical one: private where private belongs, public where it was needed, with circumstances altering cases. And representative democracy and rational argument could be trusted to settle things case-by-case.

But there were those who were less meliorist. The rich, especially, could buy large megaphones, their speech could seriously degrade the public sphere. The rich could hire guards and mercenaries and equip them with automatic weapons, so they could not be trusted to acquiesce when the mechanisms of representative government decided against them—they would then resort to what Karl Marx and Friedrich Engels called a “pro-slavery rebellion”, harking back to American southern slaveholders’ refusal to accept the election of Abraham Lincoln in 1860.

So the people needed to be ready to stand to arms to suppress such a rebellion. Perhaps the people, or rather the people who belonged to the progressive industrial working class that Marx and Engels had called the proletariat, needed to do more—to stand to arms to overcome institutional or bureaucratic blockages, or even, perhaps, to offset the hegemony of the ideas of the ruling class in the public sphere by depriving classes whose

interests were opposed to the general and public interest the rights to vote or speak.

You had to make the omelette. That is what the Great Depression demonstrated. And you cannot make an omelette without breaking eggs.

From 1917-1990, really existing socialism:

- was socialism in that it claimed to be as close as there was or could be to Marx's and other socialists' of the 1800s hopes.
- was existing in that it was there, on the ground, in régimes that at their peak ruled perhaps one-third of the world's population.
- was real in that it was not an intellectual utopian fantasy or a dream, but rather a necessary compromise with the messiness of this world that its propagandists and apparatchiks claimed was as close as possible to utopia.

It is now gone.

What would Marx have thought of it?

Throughout most of really existing socialism's career, Marx would probably have regarded most of it with the dismay and perhaps disdain that St. Paul would have felt for evangelicals who misinterpret his strictures against rituals as strictures against the works of mercy,. Those and claim as long as you had accepted Jesus Christ as your personal savior “in your heart” it was unimportant whether you fed your hungry, nursed your sick, visited your imprisoned neighbors, or loved your neighbor—even the hated and loathed Samaritans—as yourself.

B. RES Was Not Popular

Czechoslovak-British sociologist Ernest Gellner had a cruel way of describing the surprise and shock of the followers of really existing

socialism when it turned out in the end that their doctrines were not irresistible or even popular. Rather than the overwhelming mass of a people in waves of enthusiasm enthusiastically installing really existing socialist regimes over the globe, such regimes only appeared where armies marched. They were then consolidated by bait-and-switch. First, popularity was gained by distributing land to the peasants. Then, after the regime was consolidated, the peasants were reenslaved and herded into communes under the guns of the army and the secret police, and under the authority of the apparatchiks of the party.

As Gellner wrote:

Just as the most extreme Shi'ite Muslims held that Archangel Gabriel made a mistake, delivering the Message to Muhammed when it was intended for Ali...

So Marxists... think... [the] message was intended for classes, but was delivered to nations.

It is now necessary for revolutionary activists to persuade the wrongful recipient to hand over the message and the zeal...

For it was movements based on nation and ethnicity—that the people, poor and rich, were brothers and sisters who ought to act in solidarity under the direction of a leader against enemies foreign and domestic—who had an easier time rallying support from 1900 to 1950 and, indeed, from 1990 to today.

C. Building the RES Economy

Really existing socialism at the end of World War I found itself under the leadership of Vladimir Lenin and confined to one country—albeit a very large country—and to a very poor country, in which few had ever imagined socialism might be attempted: Russia. How could they succeed

at such a task, when none of them had ever done anything other than organize political rallies and write propaganda?

Lenin stepped back from “War Communism” to the “New Economic Policy”, letting prices rise and fall, letting people buy and sell and get richer, requiring that managers of government factories make profits or be sacked.

By 1927 the new Soviet Union was back—in life expectancy, in population, in industrial production, in standards of living—to what it had been in 1914. And there was no longer the deadweight of the Czarist aristocracy consuming resources and keeping the country down. As long as Lenin’s successors could avoid destroying the country through their own mistakes, and as long as they could keep the baseline to which people compared them to the privations and chaos of war, plague, and civil war, it would be hard for them to be very unpopular.

The first imperative facing Lenin's regime was to eliminate capitalism by nationalizing private property and removing business owners from management. But how do you run industry and economic life in the absence of business owners—of people whose incomes and social standing depend directly on the prosperity of individual enterprises, and who thus have the incentives and the power to try to make and keep individual pieces of the economy productive and functioning?

Lenin’s answer was that you organize the economy like an army: top down, planned, hierarchical, with undermanagers promoted, fired, or shot depending on how well they attained the missions that the high economic command had assigned them.

Lenin had been impressed by what he saw of the German centrally-directed war economy of World War I:

The war has reaffirmed... that modern capitalist society... has fully matured for the transition to socialism. If... Germany can direct the economic life of 66 million people from a single, central institution... then the same can be done... by the nonpropertied masses if their struggle is directed by the class-conscious workers.... Expropriate the banks and... carry out in [the masses'] interests the same thing the [wartime] Weapons and Ammunition Supply Department is carrying out in Germany...

The World-War I era German war economy, as run by Walther Rathenau, his advisor Wichard von Moellendorff, and their colleagues in the Prussian War Ministry's Raw Materials Section started with war materials, especially ammunition, especially explosives—which meant nitrogen compounds—were the first to come under the aegis of planning. Foodstuffs followed. War expenditures rose from one-sixth of national income to two-thirds. The government began planning and commanding not just the movement of key raw materials to and through the factories and then finished products off to the front, but that factories be expanded and built to provide for additional war production.

So things were in the Soviet Union.

D. How Well Did the RES Economy Work?

By 1928 Lenin was dead and Josef Stalin was in the driver's seat. He claimed that the “scissors crisis” was caused by a few bad-apple rich peasants who were holding back their grain in order to extort unfairly high prices: the kulaks. The kulaks were the problem. If there were no kulaks, no problem.

Stalin called for the reenservment of the peasantry: the forced movement of peasants into communes run by bosses working for the state. This would, Stalin claimed, boost agricultural productivity massively: communes could realize economies of scale and build up agricultural machinery to a level impossible for a small farm. And the state could then

set peasant standards of living as low as it wished, and so gather resources for rapid industrialization and urbanization. This process of industrialization would be guided by the planning process, calculating material balances for key commodities and rationing materials in scarce supply to the highest productivity uses.

The system had very limited coverage. The planners could only track material balances for 100 commodities in the mid-1930s.

Yet the system worked surprisingly well.

How? Commodities subject to material balance control were tracked. Those who did not fulfill their goals according to the plan were sanctioned. Otherwise, commodities were exchanged between businesses and out to users either through standard market cash-on-the-barrelhead transactions or via *blat*: connections:

the use of personal influence for obtaining certain favors for which a firm or individual is not legally or formally entitled...

Where none of personal *blat*, market exchange, nor the plan could obtain the raw materials an enterprise needed to appear to be successfully contributing to the plan, there was another option: the *tolkach*, the fixer-intermediary. Individuals want to accomplish the mission of the organization, please their bosses so they don't get fired (or to get promoted), and assist others. They swap favors, formally or informally. They note that particular goals and benchmarks are high priorities, and that the top bosses will be displeased if they are not accomplished. They use social engineering and arm-twisting skills. They ask for permission to outsource, or dig into their own pockets for incidentals. Market, barter, *blat*, and plan. The system held together.

The system held together and delivered a higher standard of living to Russians—those not executed or sent to concentration camps—than they

had had before 1914. The system held together politically as well—but was not an improvement over the pre-1914 Czarist regime, not by a long shot.

Could the system lead to an economic utopia?

Almost surely not: As Red Rosa—Rosa Luxemburg—wrote before her murder in 1918:

The tacit assumption underlying the Lenin-Trotsky theory of dictatorship is this: that the socialist transformation is something for which a ready-made formula lies completed in the pocket of the revolutionary party....

We [do] know more or less what we must eliminate... But when it comes to the nature of the thousand concrete, practical measures, large and small, necessary to introduce socialist principles into economy, law and all social relationships, there is no key in any socialist party program or textbook. That is not a shortcoming but rather the very thing that makes scientific socialism superior to the utopian varieties...

That makes sense. Unless you are copying a recipe that has been tried, worked, and debug to elsewhere, to assume you have a plan that you just need to implement is always foolish. The saying in military affairs is: no plan survives contact with the enemy. The saying in all other areas of human life is: no plan survives contact with reality. Adjustments must always be made. One must, as dang shopping like to say, cross the river by feeling with your feet for the stones at the bottom of the ford.

So why did what Lenin did work—after a fashion?

The answer is that they were following a previous path—simply look west, and duplicate what you see, bringing in foreign experts to do the construction managing and engineering. Material balance control of key commodities, exchange, command, barter, *blat*, *tolkachniki*, & social network favor exchanges could accomplish that—and that was something:

resource mobilization plus deployment in standardized, elsewhere-tested forms. That could produce a society much richer than Russia before 1914.

E. Was It Doomed to Be Criminally Wicked

Would it have been so bad if it could have kept from being so authoritarian, so murderous, so purge-ridden? John Maynard Keynes thought it did not—in fact, that it was not so bad:

Russian Communism... tries to construct a framework... in which pecuniary motives... shall have a changed relative importance.... Money-making... will simply not occur to a respectable young man as a possible opening, any more than the career of a gentleman burglar or acquiring skill in forgery and embezzlement....

This system does not mean a complete leveling down of incomes.... The private trader is a sort of permitted outlaw, without privileges or protection.... The effect of these social changes has been, I think, to make a real change in the predominant attitude towards money.... Money-making and money-accumulating cannot enter into the life-calculations of a rational man who accepts the Soviet rule in the way in which they enter into ours....

All this may prove Utopian, or destructive of true welfare, though, perhaps, not so Utopian, pursued in an intense religious spirit, as it would be if it were pursued in a matter-of-fact way.

But is it appropriate to assume, as most of us have assumed hitherto, that it is insincere or wicked?...

Keynes was an upper-class twit who vastly preferred artists, intellectuals, and the leisured to the money-grubbing business class in either its high-finance or low-shopkeeper forms. And Keynes was wrong: it was massively wicked. And Keynes was right: it was massively inefficient. And Keynes was right: it did turn an error-ridden economic treatise into a Holy Writ, that then had to be frantically reinterpreted and re-reinterpreted to match the twists and turns of the party line, and was, as an intellectual pursuit, silly and monstrous and monstrously silly.

But Keynes was still relatively optimistic about it. Remember, for Keynes, the economic problem was not the permanent problem of the human race—economists should aspire to be like dentists, keeping things in functioning order, and otherwise staying in the background.

And really existing socialism's major sins in its first generation were political and anti-human, rather than its transgressions against the laws of economics and economic efficiency.

IX. Reasons for Economic Relative Failure

A. Vis-a-Vis Benchmarks

If the benchmark against which we measure the economy of the Soviet Union and its satellites is a “western European” or a “recent settlement” benchmark, it is an absolute disaster. Compare the Soviet Bloc to the countries around its edge—those fortunate enough to have escaped conquest by the Red Army or the People's Liberation Army—at the end of the 1980s, when the system collapsed. Whether we compare North to South Korea, China to Taiwan, Cambodia to Thailand, Hungary to Austria, Poland to Sweden, or Cuba to Mexico, the countries outside the Iron Curtain are five times richer.

Why? Because bureaucracies undisciplined by markets are really not very good at organizing production. They can—sometimes—duplicate things they can see elsewhere. They can—sometimes—generate amazing feats of resource mobilization toward a single end—producing T-34C tanks. They can sharply reduce “profiteering”. That seems to be all they can do.

So it limped along. Where none of personal *blat*, market exchange, nor the plan could obtain the raw materials an enterprise needed to appear to be successfully contributing to the plan, there was another option: the

tolkachnik. *Tolkachniki* would find out who had the goods you needed, and what goods you might be able to acquire those who had the goods you needed might value. They were barter agents. In 1930, only two years after the turn away from the NEP, there were already more than 2500 *tolkachniki* hard at work in Moscow alone.

B. The Secret Logic of Capitalist Business

One hidden secret of capitalist business is that most companies' internal organizations are a lot like the crude material balance calculations of the Soviet planners. Inside the firm, commodities and time are not allocated through any kind of market process. Individuals want to accomplish the mission of the organization, please their bosses so they don't get fired (or to get promoted), and assist others. They swap favors, formally or informally. They note that particular goals and benchmarks are high priorities, and that the top bosses will be displeased if they are not accomplished. They use social engineering and arm-twisting skills. They ask for permission to outsource, or dig into their own pockets for incidentals. Market, barter, blat, and plan understood as the organization's primary purposes always rule, albeit in different proportions, with the market confined to the external interfaces of most organizations.

The difference is that a standard business firm is embedded in a much larger market economy, and so is always facing the make-or-buy decision: can this resource needed be acquired most efficiently from elsewhere within the firm, via social engineering or arm-twisting or blat, or is it better to seek budgetary authority to purchase it from outside, or even to dig into one's own personal pocket to save the hassle? That make-or-buy decision is a powerful factor keeping businesses in capitalist market economies on their toes, and more efficient.

And in capitalist market economies factory-owning firms are surrounded by clouds of middlemen whose livelihoods depend on their anticipating

demand and finding supplies. The broad market interfaces of individual factories and the clouds of middlemen were absent in the Soviet Union. Hence its economy was grossly wasteful.

But, though wasteful, material-balance control is an expedient that pretty much all societies adopt during wartime. Then hitting a small number of specific targets for production becomes the highest priority. Then allowing market prices to grossly fluctuate and massively enrich some and impoverish others dissolves societal harmony.

X. Judging Really Existing Socialism

A. Just a Technologically-Enabled Tyranny?

Should we dismiss the Soviet Union as simply a tyranny? Another in the sad roll of régimes of inequality and domination, made worse than almost all in this case because of bureaucracy, machinery, and a religious devotion to whatever current orthodoxy was decreed by today's high priests in Moscow's Kremlin? One in which the standard ways of bullying and oppressing people were amped up and reinforced by technologies of bureaucracy and indoctrination—just as technologies had amped up production? “Fake News” goes back to the Norman Conquest, after all...

We in the long 20th century are just better at it...

The butcher's bill is impressive: The Russian Civil War: 3M? Collectivization of agriculture: 10M? Great Terror: 2M? Post-WWII purge: 2M? Anti-landlordism: 4M? Collectivization: 4M? Great Leap Forward famine: 50M? Cultural Revolution: 5M? Pol Pot: 1.5M? Kim Dynasty: ??? Add question marks after all those numbers. And add a triple question mark after North Korea's Kim Dynasty.

Yet to the end of its days and beyond, it had its defenders. Consider British Marxist historian Eric Hobsbawm, who could write about how the post-WWII social democratic institutions of Britain needed and were improved by much of the cold neoliberal douche imposed by Margaret Thatcher.

Eric Hobsbawm could also write, of really existing socialism:

In a period in which, as you might imagine, mass murder and mass suffering are absolutely universal, the chance of a new world being born in great suffering would still have been worth backing. Now the point is, looking back as an historian, I would say that the sacrifices made by the Russian people were probably only marginally worthwhile. The sacrifices were enormous; they were excessive by almost any standard and excessively great. But I'm looking back at it now and I'm saying that because it turns out that the Soviet Union was not the beginning of the world revolution.

Had it been, I'm not sure. After all, do people say we should not have fought World War II? More people died in World War I than died in Stalin's terror.... Had the radiant tomorrow actually been created the loss of 15-20 million people might have been justified...

As best as I can figure out, what Hobsbawm is thinking and not quite daring to say completely explicitly right here is this: Lenin and Stalin's decision to sacrifice 15 to 20, million people on the altar of Moloch in a bet that it would produce the Radiant Future was a good and worthwhile bet to make ex ante—just as WWII was a good war to fight—but just a bet that, unfortunately, did not pay off in the end.

B. Is There Such a Thing as “Totalitarianism”?

Great worries spring from the experience of really existing socialism and fascism about the future of humanity. George Orwell's novels 1984 and Animal Farm are the classic locus of this worry, as is Hannah Arendt's Totalitarianism, and even a short beast fable by Leon Trotsky that goes like this:

A cattle dealer once drove some bulls to the slaughterhouse. And the butcher came at night with his sharp knife. "Let us close ranks and jack up this executioner on our horns," suggested one of the bulls. "If you please, in what way is the butcher any worse than the dealer who drove us hither with his cudgel?" replied the other bulls, who had received their political education in Manuilsky's institute. "But we shall be able to attend to the dealer as well afterwards!" "Nothing doing," replied the other bulls firm in their principles, to the counselor. "You are trying, from the left, to shield our enemies—you are a social-butcher yourself." And they refused to close ranks...

The worry is that, just as estate- and status group-based authoritarianism is the natural Agrarian Age form of human government, so propaganda and party cadre-based totalitarianism is the natural Industrial Age form of government: "a boot stamping on a human face, forever...", in Orwell's phrasing. That the combination of propaganda, a cadre of those who receive ample material rewards, a cadre of those who receive ample spiritual rewards, and a very elastic attitude toward truth will be a stable point in the post-industrial age in a sense similar to warrior-cleric aristocracies of domination were in the Agrarian Age.

Three decades ago, with the triumph of liberal and social democracy and the mixed economy over both fascist alternatives to the right and really existing socialist alternatives to the left, these worries could be dismissed. But in today's world of a post-truth media and of a revival of ethnicism on the one hand and of leader-worship on the other, they cannot be so easily.

Indeed, whenever I think about the career of Eric Hobsbawm they greatly worry me. Consider these two passages from Hobsbawm's works:

[Only joining a] Moscow aligned Communist party... offered both to interpret the world and to change it, or looked better able to do so.... It was, for most of the world's believers in the need for global revolution, the only game in town.... Lenin's 'party of a new type'... gave even small organizations disproportionate effectiveness, because the party could command extraordinary devotion and self-sacrifice from its members, more than military discipline and cohesiveness, and a total

concentration on carrying out party decisions at all costs. This impressed even hostile observers profoundly...

And:

[The allegiance of all Communist Parties to Moscow's alliance with Hitler when World War II began was] something heroic.... Nationalism, political calculation, even common sense, pulled one way; yet they unhesitatingly chose to put the interests of the international movement first.... They were tragically and absurdly wrong. But their error... should not lead us to ridicule the spirit of their action. This is how the socialists of Europe should have acted... carrying out the decisions of the International.... It was not their fault that the International should have told them to do something else...

He was what Orwell most feared.

C. Looking Back from Late Really Existing Socialism

In his novel *Red Plenty*, author Francis Spufford puts the final word into the mouth of his character—not the historical—Soviet leader Nikita Khrushchev, who looks back at his life and sees that it was all working and bulding and killing to, in the end, construct nothing but a pile of shit:

So much blood, and only one justification for it.... If it had been all prologue, all only the last spasms of death in the old, cruel world.... Today the radio was reporting... [anti-Soviet domenstrations in] Prague....

He fumbled with the tape machine... found the RECORD key.... 'Paradise', he told the wheat field in baffled fury: 'is a place where people want to end up, not a place they run from. What kind of socialism is that? What kind of shit is that, when you have to keep people in chains? What kind of social order? What kind of paradise?...'

And then... the retired monster sat very still on the bench by the field...

X. Intimations of the Fall

Now it is time to turn to the end of really existing socialism. Pick up the story after 1953, after World War II and after the death of Russian genocidal tyrant and dictator Josef Stalin. For after the mid 1950s Russia sits down. In one sense, it sits down after great accomplishments. By 1960, it had attained a roughly First World level of health, education, and other social indicators—although not, by a longshot, material prosperity. By 1970, it had attained what the Pentagon claimed to think was global military parity with the United States and its NATO alliance—but it is still not clear to me whether the Russians agreed, whether the Pentagon was hyping the threat, or what the balance really was.

And the U.S.S.R. was the first to send satellites and then humans into outer space. And the U.S.S.R. regarded itself as on the ideological offensive in the 1970s: believing that other peoples and other countries were coming to see that its system was superior, and were eager to join it.

However, this apogee was followed by a very swift relative decline. It had never attained a first-world material standard of living. And by the early 1980s its economy was in clear relative decline—masked, it is true, by the high price of its oil exports.

Why did Russia sit down?

A. The Crisis of Bureaucratic Central Planning

One person who saw this most clearly what was to come from the Soviet Union and really-existing socialism was the German classical liberal Max Weber.:

History shows that wherever bureaucracy gained the upper hand, as in China or Egypt, it did not disappear. A progressive elimination of private capitalism is theoretically conceivable. What would be the practical result? The destruction of the [dehumanizing] steel frame of

modern industrial work? No! Simply that also the top management of the socialized enterprises would become bureaucratic.

>There is even less freedom, since every power struggle with a state bureaucracy is hopeless. State bureaucracy would rule alone if private capitalism were eliminated. The private and public bureaucracies, which now check one another to a degree, would be merged into a single hierarchy. This would be similar to the situation in ancient Egypt, but it would occur in a much more rational[ized]—and hence unbreakable—form.

>[Bureaucracy] together with the machine is busy fabricating the shell of bondage which men will perhaps be forced to inhabit as powerless as the fellahs of ancient Egypt. Who would want to deny that such a potentiality lies in the womb of the future?

This was written in 1917.

Weber was right. From the perspective of 1990 when the Soviet Union fell or of today in 2020, there is little to add. One slogan of the turn of the century American labor movements was “one big union”. The slogan of twentieth century socialism might as well have been “one big bureaucracy”.

B. Mass Terror

Weber had no inkling of the periodic waves of mass terror required to preserve Communist Party power in the face of the enormous gap between the party's official ideology and its actual practice. In fact, socialism turned out in the direction that but much worse than Weber had anticipated beforehand. For that we have to turn to Rosa Luxemburg—Red Rosa, murdered by the German social democratic government in 1919:

Without general elections, without unrestricted freedom of press and assembly, without a free struggle of opinion, life dies out in every public institution.... Only the bureaucracy remains.... A few dozen party leaders of inexhaustible energy and boundless experience direct

and rule.... An elite of the working class is invited from time to time to meetings where they are to applaud the speeches of the leaders, and to approve proposed resolutions unanimously—at bottom, then, a clique affair.... Such conditions must inevitably cause a brutalization of public life: attempted assassinations, shooting of hostages, etc...

And neither saw the inefficiency produced by the absence of market signals—the “where should resources move?” signals of prices, and the “this organization needs to shut down” signals of bankruptcy.

Weber thought really-existing socialism would be regimented and organized—but efficient. Luxemburg thought it would be brutal and dictatorial—but efficient. Neither saw the waste, the lines, the irrationality of economic organization and the degree to which things would run off of corruption, influence, and networks: *blat*.

C. Yet Many Outsiders Saw a Radiant Future Made Flesh

The reality of the Soviet Union in the 1930s was in strong contrast to the image that many outside had of it. Outsiders focused on three things. First, the Soviet Union had eliminated unemployment—in a decade in which unemployment was bitter and pervasive outside of Russia. Second, Soviet production was expanding rapidly—in a decade in which production stagnated elsewhere in the world. Third, shortcomings in the Soviet Union could be blamed on the past: the country’s backwardness, the heritage of the Czars, the necessity of doing everything as fast as possible to strengthen the country and catchup to the advanced industrial powers. “You can’t make an omelette without breaking eggs.”

And, fourth, outsiders also focused on how the Soviet Union seemed to many to exhibit in extreme trends that were being found all over the industrialized world. Had not the years leading up to 1929 seen the increased monopolization and concentration of the economy? Were not the

largest firms in 1929 bigger than whole economies had been half a century earlier? Did not major investment banking firms like J.P. Morgan and Company (in the U.S.), the Deutsche Bank (in Germany), or the Yasuda zaibatsu (in Japan) exercise a remarkable amount of command and control over the economy's large-scale investment decisions? As Vladimir Lenin had written during World War I:

When a large enterprise... on the basis of exact computation of mass data, organizes according to plan the supply of primary raw materials to the extent of two-thirds or three-fourths of all that is necessary for tens of millions of people; when the raw materials are transported to the most suitable place of production, sometimes hundreds or thousands of miles away, in a systematic and organized manner; when a single center directs all the successive stages of work... then it becomes evident that we have socialization of production... that private economic relations and private property relations constitute a shell which is no longer suitable for its contents... [and] which will inevitably be removed...

Yes, the Soviet Union exerted a definite attraction on leftists and non-leftists alike.

Those like writer Lincoln Steffens returned from Stalin's Russia saying: "I have seen the future, and it works."

And consider, once again, John Maynard Keynes, effete intellectual upper-class snob. He had many reasons to dislike Leninism and the Soviet Union:

Brought up in a free air... Red Russia holds too much which is detestable... a creed that does not care how much it destroys the liberty and security of everyday life, which uses deliberately the weapons of persecution, destruction, and international strife... spending millions to suborn spies in every group and family at home...

He was especially annoyed by its use of Marxism:

How can I accept a doctrine which sets up as its bible, above and beyond criticism, an obsolete economic textbook [Marx's Capital]

which I know to be not only scientifically erroneous but without interest or application for the modern world?...

Yet even he could also write:

I should like to give Russia her chance; to help and not to hinder. For how much rather... if I were a Russian, would I contribute my quota of activity to Soviet Russia than to Tsarist Russia!//

It was tyrannical and detestable, but “eyes were turned towards, and no longer away from, the possibilities of things...

Lenin—and many others—had seen socialism already fully built in the large organizations of vertically-integrated manufacturing firms and in the loose financial empires of bankers: the new economy in the womb of the old. Laissez-faire advocates had promised that the market economy could deliver. And in the 1930s it had not. It was time for socialism. And by 1945 there was a socialism up and running in the USSR. Lenin and Stalin’s brand of socialism had turned a country of peasants, animal-powered small farms, and craftsmen into a country of industrial workers, machine-powered collective firms, and factories. They had—they claimed—done in one generation the economic transformation that had taken five generations in Britain. And it was they, not the Johnny-come-latelies who has only dared put troops into northwest Europe in the final year before the Nazi collapse, who had won World War II.

Many outside the USSR—take left-wing economist Paul Sweezy, fired from Stanford for being a communist during the McCarthy era even as the establishment pontificated about the importance of maintaining academic freedom—would confidently predict that Leninist socialism and government planning would deliver a more efficient allocation of productive forces, a faster rate of economic growth, and greater human happiness than any alternative system. And many who feared Leninist socialism as destructive of human liberty, happiness, and high mass

consumption agreed that the USSR and its satellites were likely to forge ahead in total and per capita production.

D. Yet Many Outsiders Saw an Overregimented but Productive System

And even if centrally-planned economies of scale did not outweigh inefficiencies from abandoning market coordination, a centrally-planned economy would have no difficulty in attaining a high rate of investment. Paul Samuelson—no Leninist he—had the leading post-World War II American economics textbook. Up until the late 1960s its forecasts showed the USSR surpassing the American economy in production per head well before 2000.

That the Soviet Union might produce superior production and equality, if not prosperity, even if inferior with freedom and choice, seemed a live possibility even into the 1960s.

Indeed, many thought the Soviet Union was ultimately going to win the battle of production with the United States. It would be much less free. It would be a dictatorship. It would be detestable: destroying liberty and security in everyday life, using persecution, destruction, and international strife, and suborning spies in every group and family. Plus it was post-truth: telling lies that everyone knew were lies was a way of enforcing dominance: cf. *Nineteen Eighty Four*, by George Orwell. But it would be able to outproduce the capitalist industrial west. One person who held this view was journalist I.F. Stone, who wrote in 1956:

This is not a good society and it is not led by honest men. No society is good in which men fear to think—much less speak—freely. I don't care how many tons of steel the Russians produce.... This society is a paradise only for a rather stupid type of Communist party member...

Why was it thought more likely to be more productive? Think of it this way: The level of technological and organizational capabilities in the Soviet Union is lower than in the United States—centrally planned economies are inefficient. As my teacher Rick Ericson wrote, the Soviet economy had to be inefficient: Prices... [were] used for measurement, accounting, and control purposes”, that is, expressly not to provide incentives. But inevitably, prices do drive people’s incentives: they thus provide information, information that is inevitably acted on, that are “irrelevant or incorrect... about relative values and scarcities”.

As a result, the traditional Soviet economic system is very good at mobilizing scarce resources and concentrating on a few clear, well-defined objectives. It can succeed as long as these objectives could be expressed in measurable, quantitative, and communicable terms. It could succeed as long as plan success or plan failure produced large and very observable outcomes. It could not succeed otherwise.

However, this mode of failure would not grow in relative importance over time. The economy would be inefficient. But there would be no strong tendency for the proportional gap in technological and organizational capabilities to grow.

The Soviet Union would remain a totalitarian state. It would thus remain very good at squashing consumption, and in thus channelling extra savings into boosting the capital stock. Thus in the long run the USSR would have a higher capital stock per worker but a lower efficiency of labor. And as time passed while Soviet consumption remained depressed, it would have a much higher capital intensity, which would make it more productive—even though its people would still be very likely to lead poor and impoverished lives.

This turned out to be wrong: inefficiency in consumer goods allocation

turned out to be generated by forces that also produced gross inefficiency in investment allocation as well.

E. Resource Mobilization

1. Education, Life Expectancy—and Victory

By 1960, the Soviet Union had attained roughly First World level of health, education, and other social indicators. (However, this was to be followed by the relative decline. And it had never attained a First World standard of living.)

Moreover, it had the victory in World War II—and the heavy-industrial and military production that made this possible. No market economy would ever have built a heavy industrial complex in Magnitogorsk. And all praise to comrade Alexei Kosygin for the most extraordinary industrial relocation effort in history, moving a huge chunk of Soviet industry out of the path of the Nazi panzers and setting it up again to produce.

But the purged Marshall Tukhachevsky would have done a lot better commanding the armies than Stalin-toady Zhukov. And if the Ukrainians had not had to learn to be anti-Nazi—if they had not started out welcoming Hitler on the grounds that he could not be worse than Stalin—then things would have gone much better.

The Soviet Union had relatively equal income distribution. Or was it a relatively equal income distribution?

And it had the attainment of military-strategic parity with the United States in the 1970s. But what do you have to believe about the world to see that as an achievement rather than as a mistaken waste of resources?

2. Substituting for Absent Capitalist Market institutions

There is an argument, made by economic historian Robert Allen, that the Soviet road was the only road open to Russia. The argument is worth registering. As he puts it:

[In Britain] private property and... representative government... was the basis of civil society independent of the state.... [In Russia] the "rule of law" was a tool by which the tsar and nobles exploited the peasants rather than an impartial umpire.... Tsarist Russia [thus] lacked the social, legal and economic institutions that theorists of economic growth have argued are prerequisites for capitalist development. Indeed, much of the rest of the world lacked--and still lacks--this as well...

In such a situation, Allen says:

Two responses are possible... create the missing prerequisites... create substitutes.... Russia's path to industrial society was based on the state's creating policies and institutions to substitute.... In the absence of the communist revolution and the Five-Year Plans, Russia would have remained as backward as much of Latin America or, indeed, South Asia. That fate was avoided by Stalin's economic institutions...

Allen's belief is that the Soviet Union brought resource mobilization. Growth from resource mobilization is not the productivity-frontier post-industrial market capitalist development from higher productivity that has marked the twentieth century. But it is resource mobilization.

3. An Early Demographic Transition

Allen's belief is that the Soviet Union brought birth control—via its early introduction of much of feminism. And an early demographic transition greatly reduces the burden of population growth on an economy.

The counterfactual image would then be not something like the Czech Republic, but rather something like India, as what Russia would have become had it followed a non-really-existing socialist and more “normal”

road in the twentieth century. Outside of the North Atlantic (and Australia and New Zealand), the Soviet Union was clearly outstripped only by Japan.

Thus if you take a non-North Atlantic benchmark, there is a substantial amount in the Soviet record that is very impressive—especially if you avert your eyes from the genocide, the terror, the purges, the forced labor, the dictatorship.

But was Russia saved from India's fate by a rapid demographic transition fueled primarily by the large scale emancipation of women?

Perhaps. But unlikely.

Yet Soviet successes were such only from a particular point of view. Robert Allen moves the goalposts, and points out that if one compares growth from 1917 to 1990 in the Soviet Union to growth in Latin America rather than to growth in Europe, the Soviet Union does relatively well. The problem with this, however, is that such a yardstick is not terribly natural: the Soviet Union's neighbors closest to the overwhelming bulk of its population were Finland and Sweden, Poland and Germany, Czechoslovakia and Roumania, and Turkey.

F. Was Reform Possible?

Could it have been reformed? Tony Judt:

Moreover, Marx's other youthful intuition—that the proletariat has a privileged insight into the final purposes of History thanks to its special role as an exploited class whose own liberation will signal the liberation of all humankind—is intimately attached to the ultimate Communist outcome, thanks to the subordination of proletarian interests to a dictatorial party claiming to incarnate them. The strength of these logical chains binding Marxist analysis to Communist tyranny may be judged from the many observers and critics—from Mikhail

Bakunin to Rosa Luxemburg—who anticipated communism’s totalitarian outcome, and warned against it, long before Lenin got anywhere near the Finland Station. Of course Marxism might have gone in other directions: it might also have gone nowhere. But ‘the Leninist version of Marxism, though not the only possible one, was quite plausible’...

X. The Irrationality of the Soviet Economy

A. The Narrow Focus of Soviet Growth

The increased output achieved under the Communists was limited to steel, machinery, and military equipment. Surely the welfare of the working class would have been better served by capitalism? The collectivization of agriculture was a particularly vicious example: we do not know how many died. We think it was in the mid seven figures. It might have been eight figures. And the Soviet growth rate was not impressively high when seen in a European context. Even before 1917, the Russian economy had taken off.

Soviet socialism was economically irrational: driven by ideology, bureaucratic infighting, and despotic caprice. Its economic calculations were massive misallocations.

The growth slowdown after 1970 showed the ultimate weakness of really existing socialism. It could mobilize resources via command and terror. It could copy factories as long as it had foreign engineers on call to assist and advise. It could function in a mediocre way to build smokestack industries.

Now smokestack industries are good things. But a rich modern economy is more.

The USSR was incapable of the sustained technological advance required for the postindustrial age.

B. Wasting 80% of Productive Potential

When the Iron Curtain fell in 1990, we could compare the economic prosperity of the countries on either side of it. And the division between Iron Curtain and outside was where communist armies were lucky enough to march at the end of World War II. We do not need to worry about other factors than communist rule confounding our conclusion that the gulf was caused by really existing socialism here.

The lesson I draw from this is that Ukraine and Russia seriously underperformed relative to what would be the natural benchmark. And much more so did Lithuania, Latvia, Estonia, and Leningrad oblast underperform relative to the other Baltic Sea economies.

By contrast, you might say that Soviet Georgia and Kazakhstan, places where a non-European benchmark might or might not be more appropriate, may have suffered less, from the very narrow perspective of forgone an economic growth as a result of the rule of really existing socialism.

C. Hopes for Peaceful Coexistence

N. S. Khrushchev seized control of the Soviet Union in 1956 after the death of Stalin, and dialed down the paranoia. He reigned until 1964.

Khrushchev believed that the Soviet union was or could become a better system. He believed that history was on his side. He believed it all he had to do was build up the Soviet Union economy, society, and culture, and avoid both a major war that would be a catastrophe for the world, while also deterring minor wars in which the capitalist imperialists nibbled away

at the edges or prevented the natural growth of the socialist camp as more and more people saw it as the better wave of the future.

Then, Khrushchev thought, Soviet victory in the Cold War would be natural, inevitable, and easy.

He is, I think, worth quoting:

Must we, in this period of the flourishing of human genius which is penetrating the secrets of nature and harnessing its mighty forces, put up with the preservation of relations that existed between people when man was still a beast?...

Time is a good adviser, or as the Russian people say, 'Take counsel of one's pillow'. This is a wise saying....

We shall do everything we can to tilt the barometer's hand away from 'Storm' and even from 'Changeable' to show 'Fine'...

I am confident, comrades, that... when the socialist camp has some one billion people and tremendous productive potential, when the Soviet Union has reached great heights in industry and agriculture, science, technology and culture, we can do a lot for the sake of peace.

In our actions we rely on reason, on truth, on the support of all the people. Moreover, we rely on our great potential. And let it be known to those who want to continue the cold war so as to turn it sooner or later into a shooting war, that in our time only a madman can start a war and he himself will perish in its flames...

Soviet Union paramount leader Nikita Khrushchev, who ruled from 1956 to 1964, was the last true communist. He the last who was certain that the Soviet Union was the wave of the future and the road to Utopia.

D. Attempts at Reform

Aleksey Kosygin, by contrast, was hopeful, But he knew something about the economy and economics. He believed that the triumph of

socialism on the level of production and living standards would require a lot of hard work.

During World War II Kosygin had managed the move of the Soviet industry out of territories soon to be overrun by the Nazi Army: an extraordinary managerial accomplishment, and one about which I know much too little. By March 1959 Kosygin had been promoted to run the Soviet Union's State Planning Committee. In 1964 Nikita Khrushchev was removed from office: In the judgment of his colleagues, he had tried to implement too many unsuccessful "hair-brained" schemes.

Kosygin, Leonid Brezhnev, and Nikolai Podgorny then formed a triumvirate to rule the Soviet union. However, previously, all attempts at collective rule had proven unstable. This triumvirate was to be no exception.

Initially, in the latter half of the 1960s, Kosygin was the most prominent figure. He ran the economy. He ran arms control talks with the US. He was responsible for relations with Eastern European satellites.

However, the Prague Spring in 1968 resulted in a severe backlash against him: Too reformist, too soft, too willing to question the system—and the fact that the Communist Party of Czechoslovakia had attempted to move away from the Soviet model showed that a stricter lockdown was necessary. By 1971 it was "the Politburo led by Brezhnev", and Kosygin was in eclipse.

Before his eclipse, however, Kosygin had recognized that the Soviet economy was in trouble, and attempted its reform.

The reformers' belief was that the increasing complexity of economic relations was greatly reducing the effectiveness of the existing system of planning. It did not provide incentives to produce goods of high-quality, or

to produce them efficiently. It, rather, focused attention on achieving one target and one target only: for example, the number of T-34 tanks that could start up and shoot at least one round when they came off the assembly line. All else was subordinated to achieving the single quantitative metric that the planners could see and focus on.

With respect to Magnitogorsk's production of T-34C tanks, the center can command Magnitogorsk to receive big flows of raw materials. The center can require that managers beg, buy, borrow, steal, and trade for the rest of what they need, all the while threatening to tell the higher-ups who was uncooperative with them and impeded the plan. The managers can then show the final output: the tank starts up, drives off the assembly line, and shoots a round. That the tank is a piece of crap as far as its quality is concerned is not a problem: The tank will only last for 14 hours in battle before the Nazis destroy it. And it will certainly be committed to a campaign in which it will see those 14 hours of battle before it has time to rust for more than six months.

But that was no way to run the railroad that was a much more complicated, much more differentiated, modern economy.

XI. Can You Be a Little Bit Market?

A. The Cuban Sugar Harvest

In the middle of the 1960s, Fidel Castro and Che Guevara were in charge in Cuba. They decided they wanted to make Cuba richer. Cuba exported sugar. Sugar was a high priced commodity on the world market. They decided that if they could make Cuba export 30% more sugar, they would have many more resources to grow the Cuban economy.

So they called for a 10,000,000 ton annual sugar harvest.

In order to achieve that harvest, they tried to borrow from the Soviet tradition and from the Maoist tradition as well: They laid out a plan for planting — getting the machetes into the cane fields and then for transporting the cane to the factories. They called upon the people of Cuba to make a great effort for the common good and put down their usual tools so they could go into the sugarcane fields, pick up the machetes, thus providing the extra labor force needed to cut the harvest produced by the extra-thick and extra-extensive plantings.

Did it work? No.

Sugarcane is more complicated than steel.

It has to be cut at the right time, when it is ripe. And unskilled workers fresh from the cities do not know when it is ripe. It has to be stacked and transported quickly to the factories, before the sugar rots away. Extra drivers brought into the fields have no clue. They do not understand the necessity. Their livelihoods do not depend on the cane being high-quality when it arrives at the factory door. So they see little reason not to idle and delay.

If you want to push decision making out to the periphery where the information is, and if you want managers who know what is going on to make decisions that involve tradeoffs among which good things to produce and which resources to use to produce them, then there are requirements. They have to take the prices they face—not the commands of the ministry—seriously, and that means that the prices they face have to be ones that correspond to societal utility, not ones that get applause from bureaucrats when they are set at particular values.

And if you give managers the freedom to set their own prices, you need to be sure that there is no monopoly power in the system.

Thus the answer to “can you be just a little bit market?” is, inevitably, “no”.

The problem for Kosygin, and for the Soviet Union, was that his reforms involved re-introducing elements of the market system into the Soviet economy. And in the end his colleagues in the bureaucracy reacted the conclusion that it just could not be done. You cannot be just a little bit pregnant: you could not have a system that was mostly central planning, with a little bit of market allocation.

B. The China Road

You can go full-hog with reform. You can take the China road. Proclaim Deng Xiaoping’s “to get rich is glorious”. Turn your local government officials into a full-fledged business class, by assisting them in starting township and village enterprises. Then the profits can be devoted to accomplishing local projects that please higher-ups. Then the managerial jobs in the enterprises can be allocated to smart clients and relatives who need careers. Then the demand by the TVEs can be channeled to private startups in which local officials and party bosses have substantial silent ownership interests. And at the end of the process you have socialism with Chinese characteristics—or rather state capitalism with Chinese characteristics and some socialist utopian aspirations.

Or you can stick to bureaucratic central planning, with its inefficiencies kept from causing the economy to freeze-up completely by making ad hoc adjustments through patronage networks and via corruption.

You cannot stop halfway.

C. The Soviet Union Retreats from Reform

Economist Evsei Lieberman had already been allowed in 1962 to publish in Pravda an article arguing for the re-introduction of profitability as a key economic indicator: workers and managers should be materially rewarded if their enterprises were profitable, and materially sanctioned if their enterprises were not. If it is productive and useful for society, Lieberman argued, the government should make it profitable for the enterprise. And then, having set prices appropriately to correspond with societal values, the government could step back and no longer issue inefficient and often nonsensical commands.

The reforms that Kosygin attempted to introduce had four major elements:

First, firms would be rewarded if they were profitable. A fraction of the extra profits would then be earmarked for the business, for it to use to acquire capital equipment, acquire better housing for its workers, spend on bonuses for workers, or spend on other government-approved uses.

A second was that the government should reset wholesale prices so that the prices were realistically tied to actual costs to society.

A third was that enterprises were required to make their own decisions: determine what and what kind and what exact variety of things they would produce, determine how many workers to hire, and set up their own long-term relationships with upstream suppliers and downstream customers.

And, fourth, the number of policy targets that an enterprise had to report to its ministry (and explain if it failed to meet them) was reduced from 30 to 9.

By the end of 1966, more than 700 enterprises comprising some 20% of the economy were on the new system. By the end of 1968, it was nationwide.

Up until then, managers had followed a standard game: underestimate your resources and productive capacities during the planning stage, so that your targets are set low enough that you can overfulfill them in the implementation stage. The new system confused them.

Moreover any system that proposes to remove power to control and extort from bureaucrats is going to face obstacles. Ministry officials continued to issue commands that they were not supposed to to enterprise managers—and they still decided on what the enterprise managers' next postings would be.

Wholesale metal ore and hydrocarbon fuel prices went way up. Consumers found themselves paying higher prices, for firms introduced new expensive and withdrew old cheap models that did not enhance their profitability. Yet the pace of economic growth picked up. In retrospect, 1966-1970 was the golden age.

However, the central planners were not satisfied. Kosygin lost influence with Czechoslovakia's drive to create "socialism with a human face", and with the subsequent Soviet military overthrow of the government. Many reforms were reversed. Kosygin, now in a secondary position, pushed on. He demanded that the Ninth Five Year Plan increase the Soviet consumer standard of living by 50%. It did not.

Kosygin proposed that the Tenth Five Year Plan of 1976-1980 be a "plan of quality" and focus on further expanding production of consumer goods. Brezhnev vetoed it: in his view, for 25% of industrial production to be devoted to consumer goods—with the rest devoted to investment goods, and the military—was more than enough. Kosygin lamented that the requirements of the military would be the grave of the Soviet economy, and lead it to ruin.

One-third of all investment was devoted to agriculture—ten times its share of the Soviet economy. Agriculture had emerged as the most backward and inefficient sector in the USSR. Odessa had exported more grain than any other port in the world before 1914. But by the end of the 1970s the USSR could not produce enough of staple grains to feed itself.

XII. The Collapse

A. Oil and Wheat

Yet in the late 1980s it all came tumbling down. Soviet General Secretary Mikhail Gorbachev decided to try to reform the system. And instead of being reformed, it collapsed.

The late Yegor Gaidar liked to tell the story of the collapse through the lens of oil and wheat—two key commodities in the economy of the Soviet Union

But first, back to 1928 and 1929. Back then, as Gaidar put it:

Bukharin and Rykov essentially told Stalin: ‘In a peasant country, it is impossible to extract grain by force. There will be civil war’. Stalin answered, ‘I will do it nonetheless’.

As of 1950 Khrushchev was dealing with the consequences of the backward, enserfed agricultural sector of collective farms managed by party bosses controlling workers who had little stake in productivity or production that Stalin had created. We think that 25% of Soviet agricultural output came from the 2% of the land that the collective farms allowed their workers to grow and sell on their own.

And as of 1950, Khrushchev was writing:

In the last fifteen years, we have not increased the collection of grain.
Meanwhile, we are experiencing a radical increase of urban population.
How can we resolve this problem?

The decision made, implemented under Khrushchev's rule, was to throw resources at the problem: large projects and a tremendous extension of land put under wheat and rye cultivation. It did not work. In 1963 the USSR informed its allies that it would no longer be able to ship them wheat and rye. In 1965 it began to buy wheat and year on the world market. And after 1970, wheat and rye production in the Soviet Union was stagnant: year-to-year fluctuations around 65 million tons per year that was the harvest.

B. Exporting Oil, Importing Wheat

Russia before World War I had been the world's largest wheat exporter, and Odessa the world's largest wheat export port. The post-1970 Soviet Union became the world's largest wheat importer.

How to pay for food imports? Russian military hardware could not be sold to wheat and rye exporting nations, even had they wanted. And other Russian industrial production was of too low quality to be attractive to buyers abroad in Canada and the United States. But the USSR had to pay for its grain by selling something. And it did have oil and natural gas surplus to its needs.

Thus the post-1970 Soviet economy's ability to feed its people with staple wheat and rye bread on the shelves hinged on its ability to earn hard currency by exporting oil and natural gas. It may be that the collapse of the Soviet economy and the Soviet model was delayed for a decade by the more-than-tripling of world real oil prices during the OPEC decade of the 1970s. For the western Siberian oil and gas fields came through—although the Soviet Union could not calculate whether its concentration of

resources on their exploitation was economically productive in the long run or not.

Did this save the USSR for a decade? The USSR did manage to put bread on the shelves of the stores. If it had not managed to reliably put bread on the shelves, would it have fallen a decade earlier? Or did the fact that it could buy grain keep it from a “Chinese reform” until it was too late? And would a late-Kosygin “Chinese reform” have gotten Kosygin the trust and political capital Deng Xiaoping’s dissolution of the collective farms won for him? Or was Soviet agriculture too mechanized for a return to peasant farming to have been productive? Deep questions I do not know the answer to.

C. Consequences of the 1985 Oil Price Collapse

Yegor Gaidar certainly traced the collapse of the Soviet Union to the Saudi decision at the end of 1985 to resume pumping oil at capacity, and thus to crash the price of oil, largely to curb the ambitions of Iran’s theocrats.

How was the Soviet Union to respond? Stop supplying its eastern European satellites with hydrocarbons? Cut domestic grain rations and supplies substantially? Shift industrial production from the military to export manufactures?

The Soviet Union had no competence to do the third.

Its leaders did not believe it could, politically, survive the second.

And the first meant total ideological defeat: giving up the prizes won from the sacrifices of World War II.

As Gaidar assessed the situation, the Soviet Union started to borrow in 1986.

D. Political Concessions for Wheat

By the late 1980s it was too late for a “Chinese reform”—no time to boost wheat and rye production by dividing the land up into private plots, returning to peasant agriculture, and praying that businesses could spring up from nothing in the countryside to provide the peasants with the services of all of Khrushchev’s, Kosygin’s, and Brezhnev’s expensive agricultural machinery that they would have needed to make peasant hand production of staple wheat and rye more productive than the collective farms had been.

And in 1989:

[When] the Soviet Union tried to create a consortium of 300 banks to provide a large loan... [it] was informed that only five of them would participate... received a final warning from the Deutsche Bank and from its international partners that the funds would never come from commercial sources. Instead... it would have to start negotiations directly with Western governments about so-called politically motivated credits....

That was the ultimate revelation of the industrial bankruptcy of the Soviet Union: in a time of low oil prices, the regime could only feed its people by bargaining away political concessions in returns for concessionary loans with which to purchase wheat from abroad. The underlying rigidity and poverty of the system are there revealed.

As Gaidar put it:

In 1985 the idea that the Soviet Union would begin bargaining for money in exchange for political concessions would have sounded absolutely preposterous to the Soviet leadership. In 1989 it became a reality, and Gorbachev understood the need for at least \$100 billion from the West to prop up the oil-dependent Soviet economy...

Gaidar quotes the then-chairman of the State Planning Committee, Yury Maslyukov:

We understand that the only source of hard currency is, of course... oil... If we do not make all the necessary decisions now, next year may turn out to be beyond our worst nightmares... As for the socialist countries, they may all end up in a most critical situation. All this will lead us to a veritable collapse, and not only us, but our whole system...

And Gaidar quotes one of last Soviet General Secretary Mikhail Gorbachev's lieutenants, Anatoly Cherniyeva, on the situation as of 1991:

If [the grain] cannot be obtained somewhere, famine may come by June... Moscow has probably never seen anything like that throughout its history—even in its hungriest years...

The Soviet Union started to have severe food shortages, and grain deliveries were not being made to large cities. To keep bread on the shelves, Mikhail Gorbachev traded for subsidized wheat by committing to keep the USSR from supporting hard-line communists in Eastern Europe with tanks, as they had in 1953, 1956, 1968, and 1981, and thus to let Eastern European countries abandon really existing socialism.

The Soviet Empire was thus at an end.

The question was what the Soviet Union would do itself with its internal process of reform.

E. Gorbachev's Failure

The last General Secretary of the Communist Party of the Soviet Union was Mikhail Gorbachev. He was relatively young when chosen: not one of the gerontocrats of the Brezhnev era. He had a good reputation as a friendly glad-hander and an excellent manager. He had won a reputation as

a guy who could make the trains run on time, for he could keep all the people under him pulling in harness.

But he was also thought to be tough enough for the job in a situation in which the party bosses understood they were in trouble and were seeking a leader, a boss: "a bright smile, but his smile shows iron teeth" was how Gorbachev was described. And the party bosses who chose him hoped he would save them, somehow.

Gorbachev came early to the conclusion that it was the party itself that was the principal obstacle to reform. Party members and party bosses had relatively cushy positions in the Russia of really existing socialism. The system ran off of networks of patrons and clients, networks of bribees and bribers, commands from above that pretended to have relevance to the economic situation on the ground and messages from underlings pretending to obey—and all the while a combination of commands, redistributions, purchases, bribes, beggary, and favors offered, received, called in, and extracted kept the system bumping along. But any reform would disrupt these webs of licit and illicit social network transactions that were the basis for the social power of the nomenklatura: those on the list of those worthy for positions of authority.

Gorbachev's central idea was to rally society and society's demand for reform to overawe the party. There would be glasnost: free discussion and debate, about what had gone wrong, where the system was inadequate, and about how to fix it. That process of glasnost would lead to a societal consensus, led by Gorbachev, as to how to undertake perestroika: restructuring and reform. The party bosses would then have no choice but to acceded to the reform plans of the charismatic Gorbachev.

The problem was that Gorbachev never had any sense of what form perestroika could possibly take.

F. The Chinese Model

In China, Deng Xiaoping did have a sense. Start by dismantling the party official-bossed collective farms and returning the land to the peasants. Chinese agriculture at the end of the 1970s was not that mechanized—it was still mostly done by hand. Dissolving the collective farms was easy. You then immediately doubled the standard of living of the peasants and increased agricultural production by more than 50%. Much richer peasants in the countryside, cheaper staple rice and wheat in the cities, and a renewed flow of high-quality market garden produce and meat from farms near the cities. Those would win enormous political credit for a régime that was perceived as a new broom—even though, before his purging in 1966, Deng Xiaoping had been among the oldest of old brooms.

But then Xiaojing understood the most important thing: for China since 1975, the most important thing about the cat is not whether the cat is white or red, the most important thing is whether the cat fails or succeeds in catching the mouse.

Then you use government revenues to keep the old central planning industrial apparatus on life support, while you use the TVEs as your motor of economic growth in a way very pleasing to the party cadres. You bet that growth will be fast enough that in the end the subsidies to the inefficient central planning industrial apparatus will not be an unsustainable load. And at the end you have turned your nomenklatura into a bourgeoisie. And at the end your long march through agriculture and TVEs has produced state capitalism with Chinese characteristics and utopian socialist aspirations

In China it worked.

In Russia it might well not have worked.

But in Russia it was never tried.

And nothing else was tried, for there was no consensus from below and no plan from above.

In the end Gorbachev was overthrown in a coup. Yeltsin led a demonstration in Moscow. The coup plotters lost their nerve—or perhaps found that they did not have police support. The Soviet Union collapsed. And Boris Yeltsin took over in Russia.

XIII. Trying to Pick Up the Pieces

A. The *Nomenklatura* Still Dominant

Outside of the former Soviet Union, the end of really existing socialism saw the former nomenklatura no longer in dominant control. Inside the former Soviet Union, the former nomenklatura were still in control. And that shaped everything.

Boris Yeltsin's first decision was to recognize necessity: to decontrol agricultural prices, and radically move to a market economy. It was, as Gaidar told me, either that or send the Red Army into the countryside to collect the harvest at gunpoint. Staliin had done that. It had not worked out well. It was better to try something else.

But the rapid move to a market economy involved the unwinding of the favor- and network-based division of labor that the Soviet economy had possessed, while attempting at the same time to build up a market-economy division of labor while the wrecking was ongoing. This was not easy to do. Measured in constant dollars of 2011's purchasing power, the annual real GDP of the Russian Federation fell from \$3.2 trillion—about \$21,000 per capita—in 1990 to \$2.1 trillion—about \$14,000 per capita—

in 1994, and then was still only \$2.1 trillion in 1999. Half of this decline was a decline in the military.

You can argue that improved efficiency in allocating goods to those who valued them made up for the decline. But if you do that, you also have to recognize that a sharp increase in inequality greatly reduced any utilitarian estimate of societal wellbeing. Russia, in what counts for people, was 20% poorer from 1994-1999 than it had been under Gorbachev.

Moreover, the swift movement to a market economy gave state enterprises freedom. But state enterprises were still bossed by ex-nomenklatura members. The obvious thing for an ex-nomenklatura member who bossed a state company to do was for him to start up a private company that he owned on the side, and then for him to give everything of value from the company he managed to the company he owned.

Could this process of the expropriation of the state sector have been stopped? The Chinese Communist Party retained control and authority over the managers of the state sector. But Boris Yeltsin had no such levers of control.

The hope was for voucher privatization: transfer ownership of Russian enterprises to the people at large, and then let shareholders elect boards of directors that would control and curb the tunneling of productive resources into the hands of the ex-nomenklatura. It did not work. The people who served on boards of directors were still enmeshed in their favor networks: you let me tunnel valued property out of the enterprise I run and I will let you tunnel valued property out of the enterprise that you run. And the dismantling of the really existing socialist division of labor generated high unemployment: if you wanted to keep your job, it was wise to sell your voucher privatization shares to your factory boss at an attractive price.

B. Loans-for-Shares

The nadir was reached in loans-for-shares: the transfer of the crown jewels of ownership of the Russian economy to a small group of plutocrats in exchange for their support for Yeltsin's reelection. The U.S. Treasury protested: bad economics, bad political economy, bad politics, and short-sighted to boost. The US State Department believed that the United States had few levers, and should definitely not threaten to cut off subsidies to Yeltsin. And U.S. President Bill Clinton had bonded with Yeltsin: one charismatic and undisciplined politician understanding another one's limited room for maneuver and being willing to cut him some slack.

Russia at the end of the Yeltsin years was extremely unequal and quite poor. And Yeltsin decided that the country needed at its head an ex-KGB agent who could boss the plutocrats: Vladimir Putin. Putin took control just as Russia was about to realize the bonanza of rising energy prices: oil that had averaged \$20/barrel over Yeltsin was to average \$50/barrel over Putin's first decade in control, and then \$90 for the first half of his second decade before its fall in 2015 back to \$50.

C. Vladimir Putin's "Weimar Russia"

Buoyed up by higher oil price—up from \$20 a barrel to \$50 a barrel, and then \$80, and then back to 50 again —Putin's Russia has become considerably richer than Boris Yeltsin's or Mikhail Gorbachev's Russia. Russian real national income today is something like \$26,000 per capita, as opposed to \$14,000 per capita under Yeltsin, and \$21,000 per capita under Gorbachev. Figure that, with the Soviet Union's superpower level of military spending, and the really existing socialist level of allocative inefficiency, the 21,000 per capita under Gorbachev was probably worth only 16,000 or so. Russia today is richer than under communism.

Russia today is also an example of a form of political economy that we thought was dead. We might as well call it what people called it in the 1930s, and what Mussolini who founded this form called it: fascism.

Under Putin, Russia has moved from crony capitalism to state capitalism: plutocracy controlled by the state and managed via a leader focused on national self-assertion and creating national pride.

The state owns and controls increasingly the commanding heights of the economy: finance, energy, and media for propaganda purposes. The state makes sure that other important key sectors—construction, transportation, high-tech—are in the hands of reliable partners, and partners who are not reliable wind up in jail, or dead.

Under Putin, strategic energy exports are used as instruments for foreign policy. Higher living standards have been delivered to the people by redistributing wealth from the energy boom. The concentration of wealth has increased still further. And popular approval has been sought via an assertive foreign policy—the conquest of the Crimea, an attempt to establish a Monroe doctrine for the "near abroad" of those countries within the boundaries of the former Soviet Union, and more recently an attempt to project Russian power still further.

Nevertheless, Putin's Russia is not the world-shaking ideological and military power of Stalin or even of Brezhnev. It is Muscovy, not the Communist East Bloc, or even the Russian Empire of Tsar Alexander in 1815.

The lack of structural reform to drive economic growth, a large-scale emigration of skilled and educated workers, and a plutocracy that now fears being creatively destroyed—these are all hobbling Russia's economic growth. And many believe that the stability of Putin's regime will come

under strong threat from anything that significantly reduces the value of its oil exports.

Nevertheless, it is a “Weimar Russia”—and thus a danger to the world.

Back in the 1990s, with the rise of the BJP party in India and with China's increasing nationalist assertion, I used to say that I feared three things as far as world geopolitics was concerned: Wilhelmine China, National Hinduist India, and Weimar Russia. Wilhelmine China was by analogy with the German Empire of the early 1910s: a country with an upper class that had lost its societal role and that sought to distract people from the upper class's parasitic nature by making enemies abroad and then asserting itself against it. National Hinduist India was by analogy with Germany's Third Reich of the 1930s, with the Muslims of India cast in the role that the Nazis cast Germany's Jews.

Weimar Russia was by analogy with Germany in the 1920s: a country that had lost an international struggle but, rather than being welcomed and aided by the world community, and so assisted in its tasks of societal development, was or saw itself as treated as a pariah state by others who did not give it proper respect and assistance.

We have National Hinduist India today.

And we have Weimar Russia in spades.

Notes, etc.

Presentation files: <https://github.com/braddelong/public-files/blob/master/econ-135-lecture-19.pptx> <<https://github.com/braddelong/public-files/blob/master/econ-135-lecture-19b.pptx>>