

Lecture 19b:

5.1.2 Eastern Europe: Fall of Really Existing Socialism

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last revised: Th 2020-04-03

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Original course by Melissa Dell (Harvard Econ 1342), revised by Brad DeLong

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

<<https://www.icloud.com/keynote/0PmM5m3ew16yzegH3YQJrbILQ>>

Coronavirus!

Members of the public were told to avoid gatherings of 10 or more



ABC News



Trump warns coronavirus crisis could stretch into summer

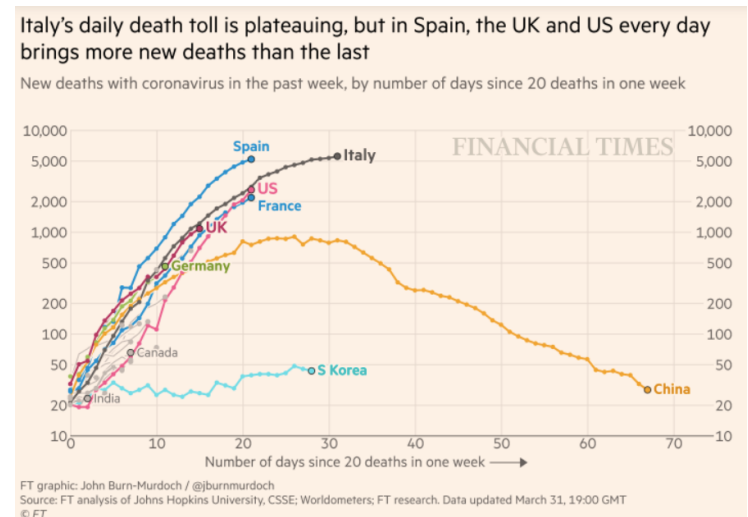
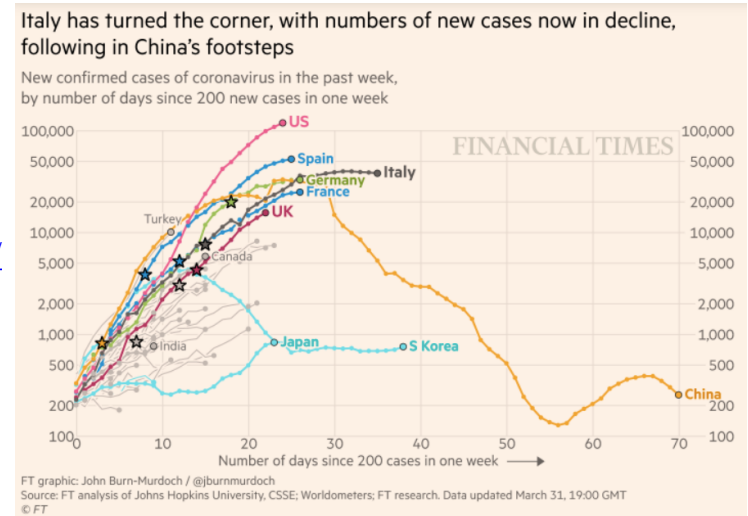
Watch

Members of the public were told to avoid gatherings of 10 or more and older people and those with underlying condition were asked to stay home.

Coronavirus

Where we think we are as of Wed Apr 1:

- We really do not know
- No random samples...
- Best thing I have read comes from Jim Stock <<https://drive.google.com/file/d/12MV466ZZy5xHir4xdPhoTrL1oO8CbZU-/view>>:
 - The basic SIR epidemiological model of contagion
 - The effect of social distancing and business shutdowns on epidemic dynamics enters the model through a single parameter: the case transmission rate β
 - Re-express the model in terms of β and the asymptomatic (or not very symptomatic) hence non-tested rate—the fraction of the infected who are not tested
 - The COVID-19 non-testing rate is unidentified in our model
 - Estimates in the epidemiological literature range from 0.18 to 0.86.
 - The asymptomatic rate could be estimated accurately and quickly by testing a random sample
- The optimal policy response and its economic consequences hinge critically on the asymptomatic rate



Financial Times Graphs Blown Up...

Italy has turned the corner, with numbers of new cases now in decline, following in China's footsteps

Italy's daily death toll is plateauing, but in Spain, the UK and US every day brings more new deaths than the last

New deaths with coronavirus in the past week, by number of days since 20 deaths in one week



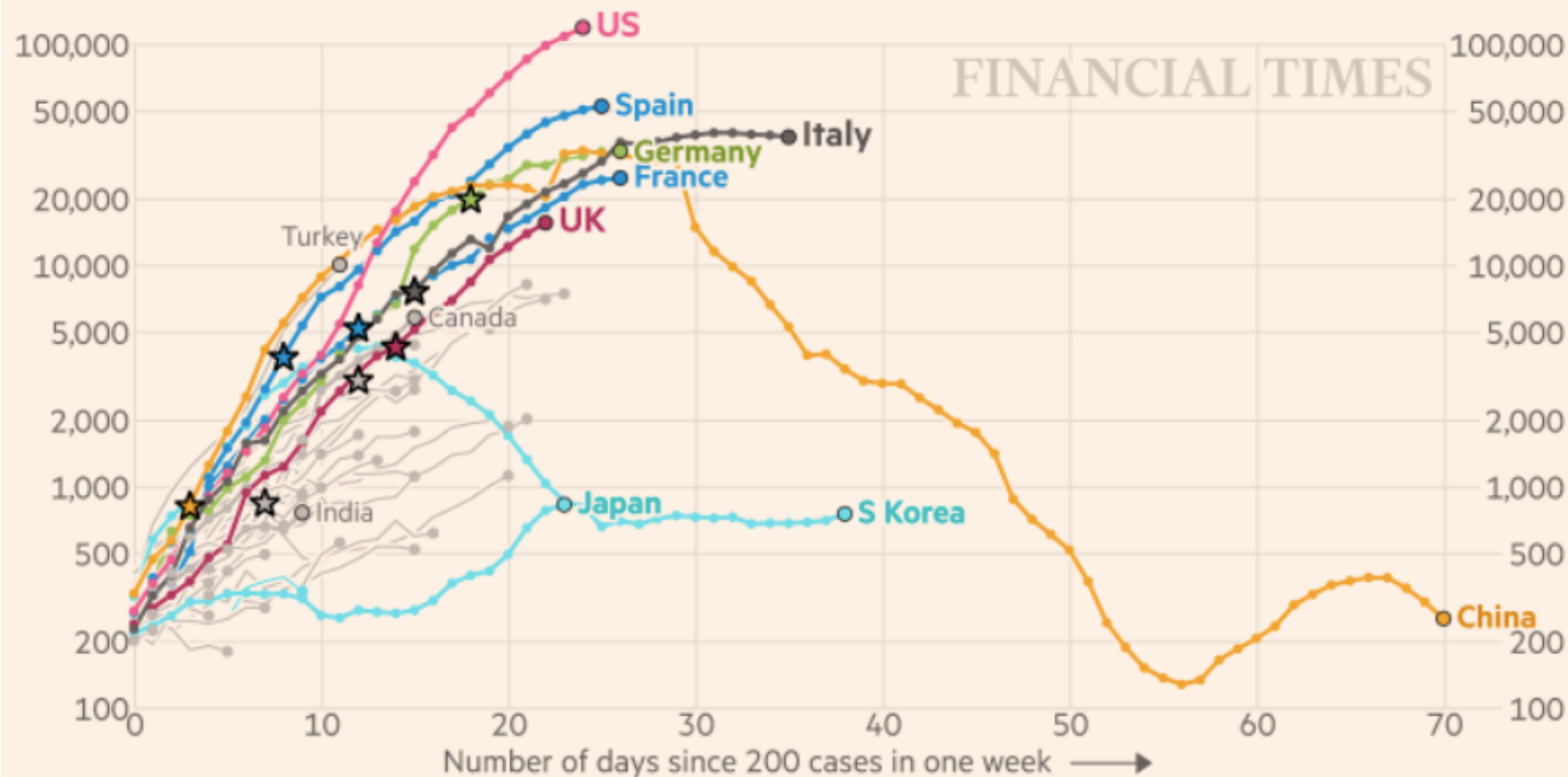
FT graphic: John Burn-Murdoch / @jburnmurdoch

Source: FT analysis of Johns Hopkins University, CSSE; Worldometers; FT research. Data updated March 31, 19:00 GMT

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Italy has turned the corner, with numbers of new cases now in decline, following in China's footsteps

New confirmed cases of coronavirus in the past week, by number of days since 200 new cases in one week



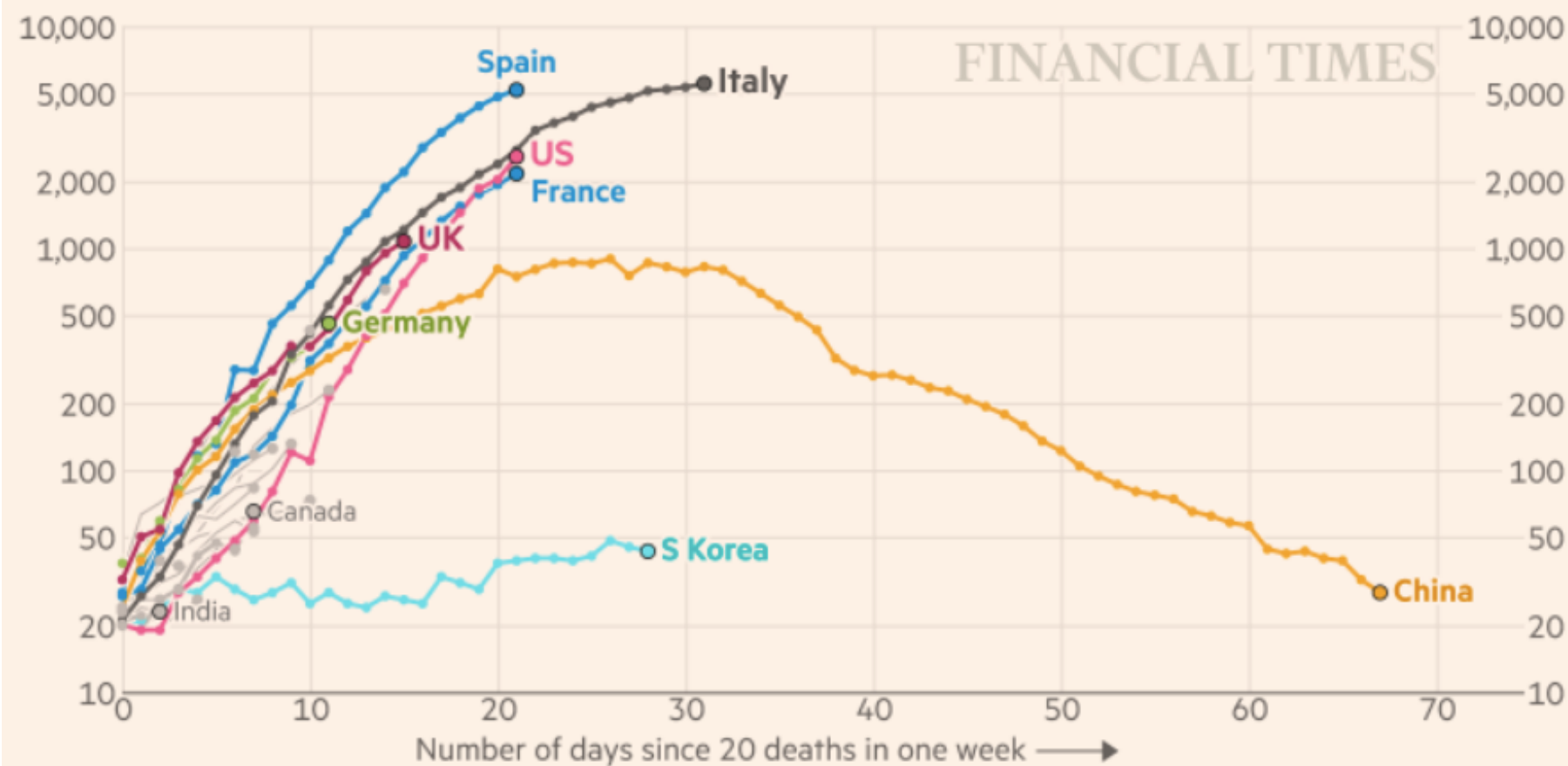
FT graphic: John Burn-Murdoch / @jburnmurdoch

Source: FT analysis of Johns Hopkins University, CSSE; Worldometers; FT research. Data updated March 31, 19:00 GMT

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FT graphic: John Burn-Murdoch / @jburnmurdoch

Source: FT analysis of Johns Hopkins University, CSSE; Worldometers; FT research. Data updated March 31, 19:00 GMT

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James Stock (2020)

Standard SIR model: <<https://drive.google.com/file/d/12MV466ZZy5xHir4xdPhoTrL1oO8CbZU-/view>>:

- Susceptible, Infected, Recovered (& immune), transmission rate β , recovery rate γ , reproduction number R_0 , asymptomatic hence non-tested rate π_0
- Calibration: half-life of infection one week: $\gamma = 0.5$, $s_0 = 0.02$, 50 cases on Jan 24
- For March 21, 2020, the positive test rate in the United States is approximately 10%...

$$\Delta S_t = -\beta I_{t-1} \frac{S_{t-1}}{N}$$

$$\Delta R_t = \gamma I_{t-1},$$

$$\Delta I_t = \beta I_{t-1} \frac{S_{t-1}}{N} - \gamma I_{t-1}$$

Figure 3. Low asymptomatic rate, short-duration policy

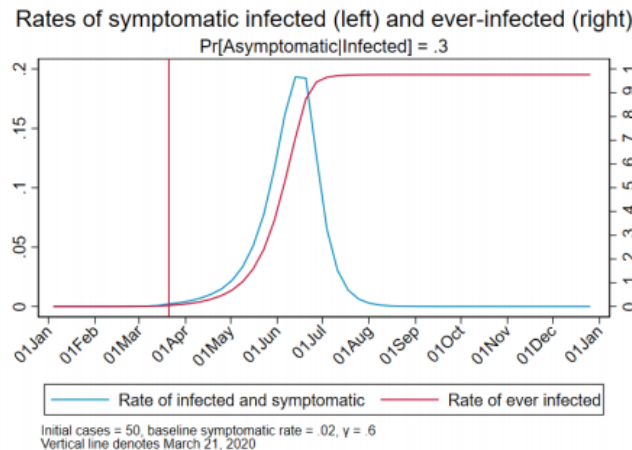


Figure 2. High asymptomatic rate, short-duration policy

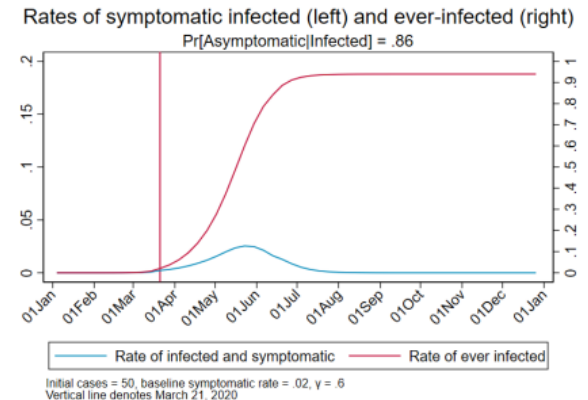
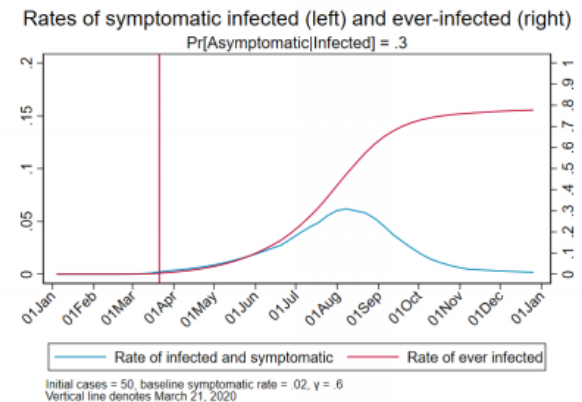


Figure 4. Low asymptomatic rate, severe long-duration policy

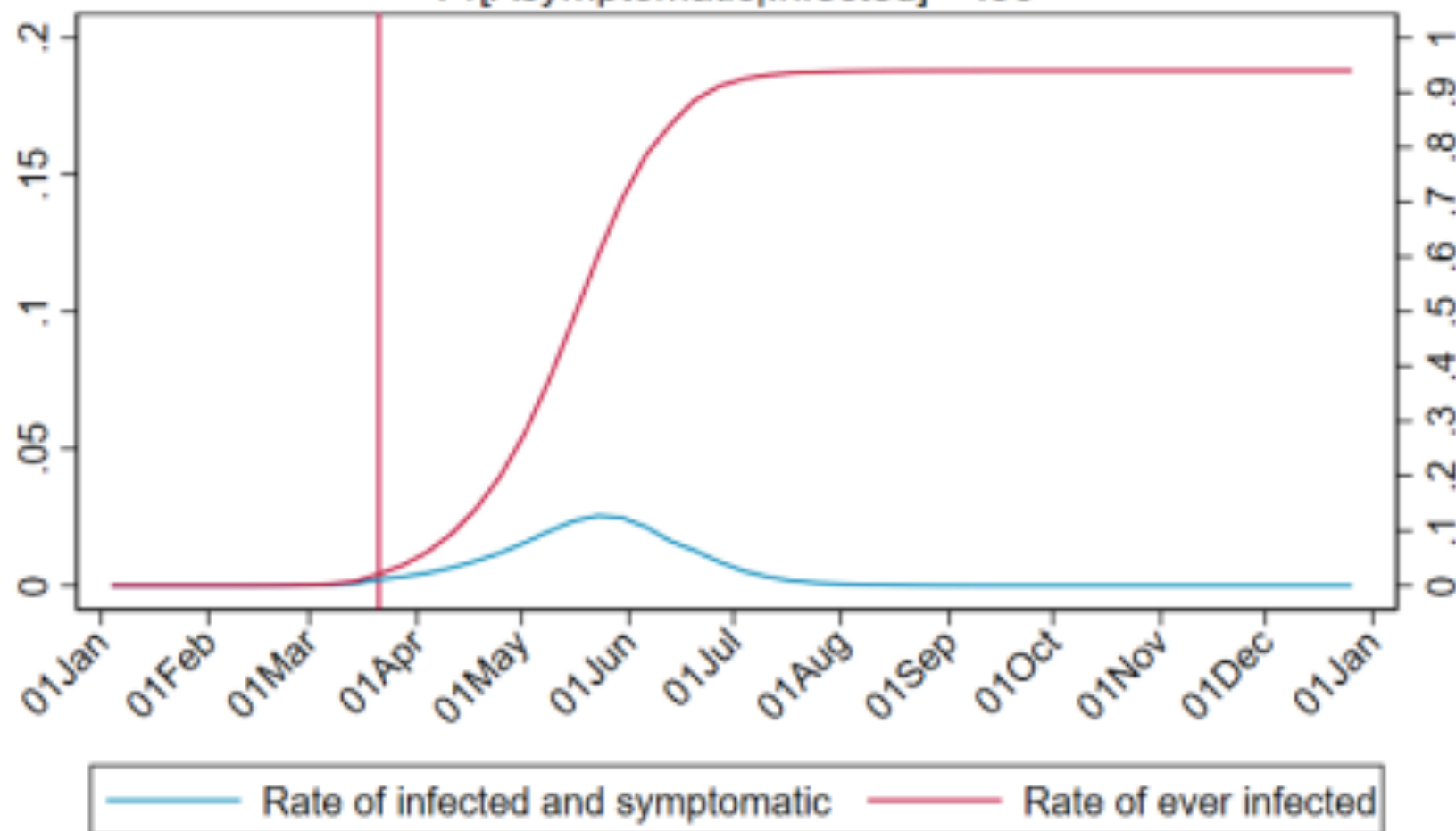


<<https://drive.google.com/file/d/12MV466ZZy5xHir4xdPhoTrL1oO8CbZU-/view>>

Figure 2. High asymptomatic rate, short-duration policy

Rates of symptomatic infected (left) and ever-infected (right)

$$\Pr[\text{Asymptomatic}|\text{Infected}] = .86$$

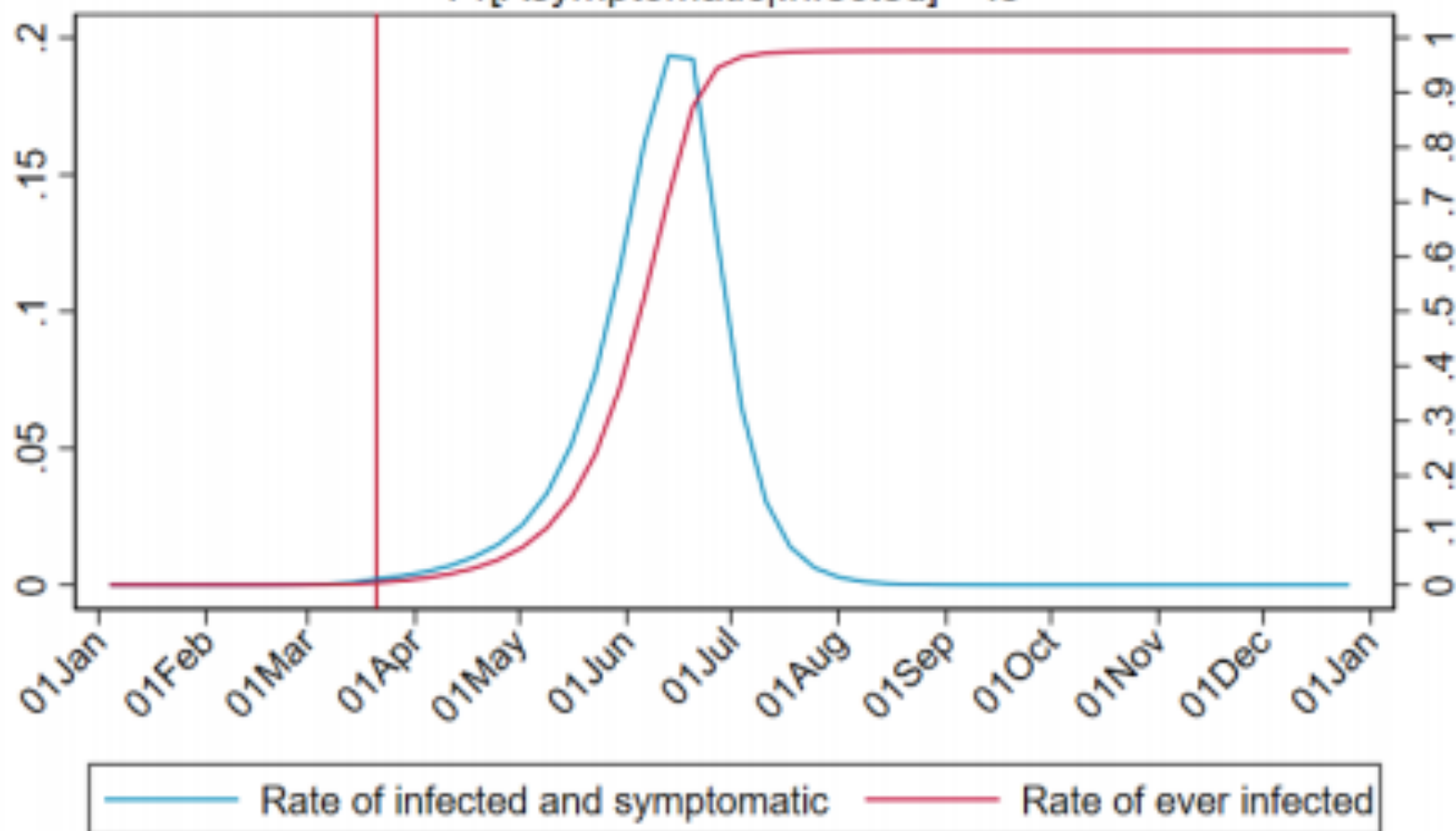


Initial cases = 50, baseline symptomatic rate = .02, $\gamma = .6$
Vertical line denotes March 21, 2020

Figure 3. Low asymptomatic rate, short-duration policy

Rates of symptomatic infected (left) and ever-infected (right)

$$\Pr[\text{Asymptomatic}|\text{Infected}] = .3$$



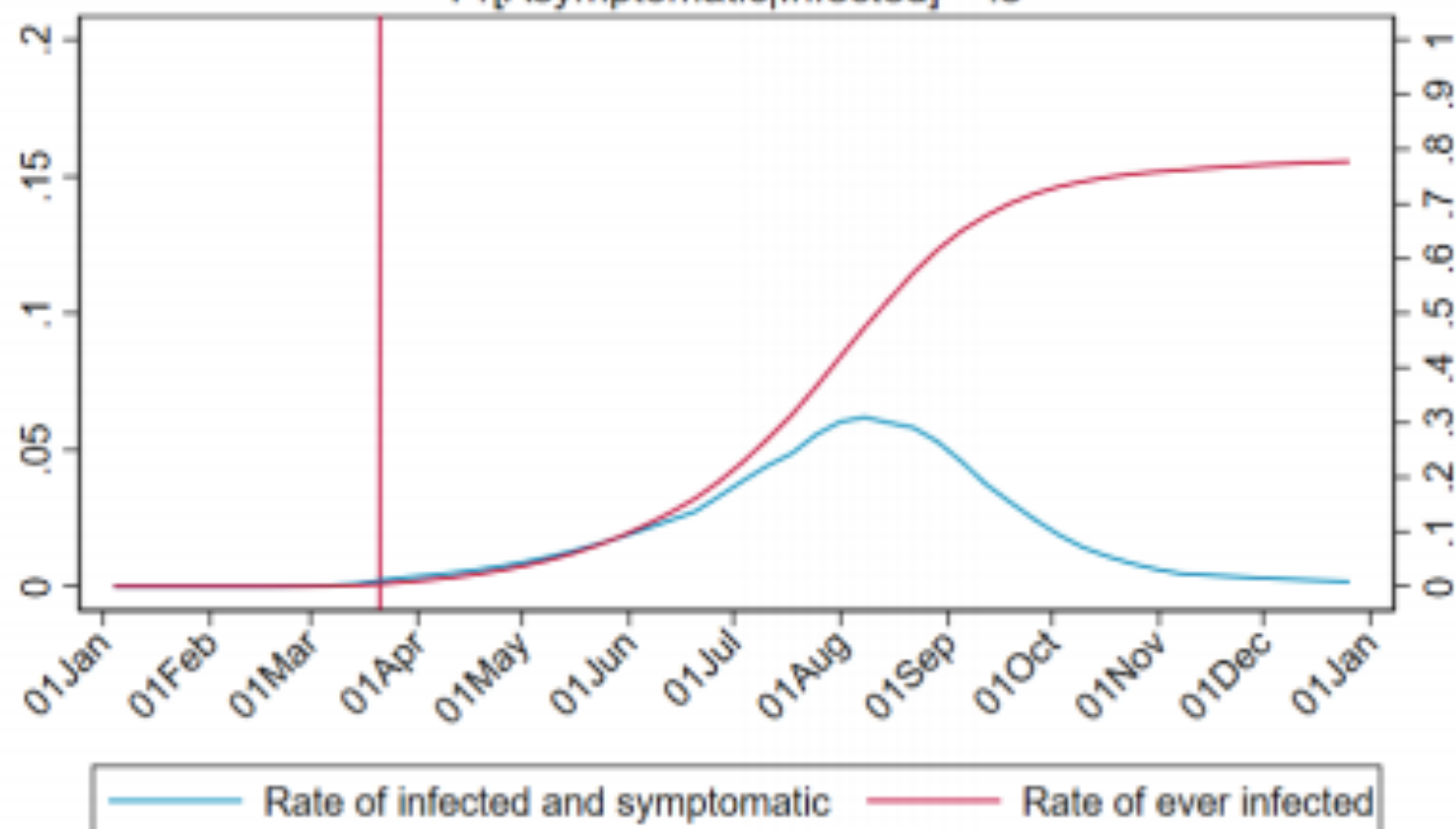
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Rates of symptomatic infected (left) and ever-infected (right)

$$\Pr[\text{Asymptomatic}|\text{Infected}] = .3$$



Initial cases = 50, baseline symptomatic rate = .02, $\gamma = .6$
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$$\Delta S_t = -\beta I_{t-1} \frac{S_{t-1}}{N}$$

$$\Delta R_t = \gamma I_{t-1},$$

$$\Delta I_t = \beta I_{t-1} \frac{S_{t-1}}{N} - \gamma I_{t-1}$$

Bringing the Economy Back Up from Anæsthesia

Major issues:

- Certificates of immunity:
 - Which requires test, test, test:
 - And not just disease virus tests
 - Presence-of-antibodies tests
- How quickly can we match the immune with public-contact jobs?
- What jobs can be done with minimal infection risk?
- What minimal-infection substitutes can we find for previous jobs?
- How quickly can restrictions be relaxed without the virus coming roaring back?
- How do we avoid having the market give a “shutdown” signal to enterprises we in fact want restarted?
 - Which is pretty much all of them
- How much of the potential caseload do we want to push out beyond the vaccine-arrival date?

ALL THESE QUESTIONS ARE ANSWERABLE IF WE LEARN THE ASYMPTOMATIC HENCE NON-TESTED RATE!!

Keeping the Economy from Crashing During the Lockdown

Nick Rowe: We have a 50% output cut in 100% of the sectors:

- A temporary 100% output cut in 50% of the sectors (what the Coronavirus does) is very different from a 50% output cut in 100% of the sectors
- Nick's thought experiment:
 - In three months we are going to invent unobtainium:
 - Substantial intertemporal substitutibility
 - Plus lower cross-good contemporaneous substitutibility
 - Hence high desired savings rate now
 - Flex-price market thus produces a nominal rate at the zero lower bound and a high inflation rate over the next three to six months
 - Plus liquidity-constrained workers in affected sectors see their demand go to zero immediately
 - Can we get there? Should we get there? What should we do instead?
 - We need a good RBC economist: are there any?...

Keeping the Economy from Crashing During the Lockdown II

Nick Rowe <https://worthwhile.typepad.com/worthwhile_canadian_initi/2020/03/relative-supply-shocks-unobtainium-walras-law-and-the-coronavirus.html>:

- Plus: to extend the thought experiment:
 - We just lost the ability to make “unobtainium”
 - So we *should* be substituting leisure for work, and moving workers into relatively unproductive labor, making the commodities we can still produce right now
 - How should relative prices move as a result? How should we make them move?

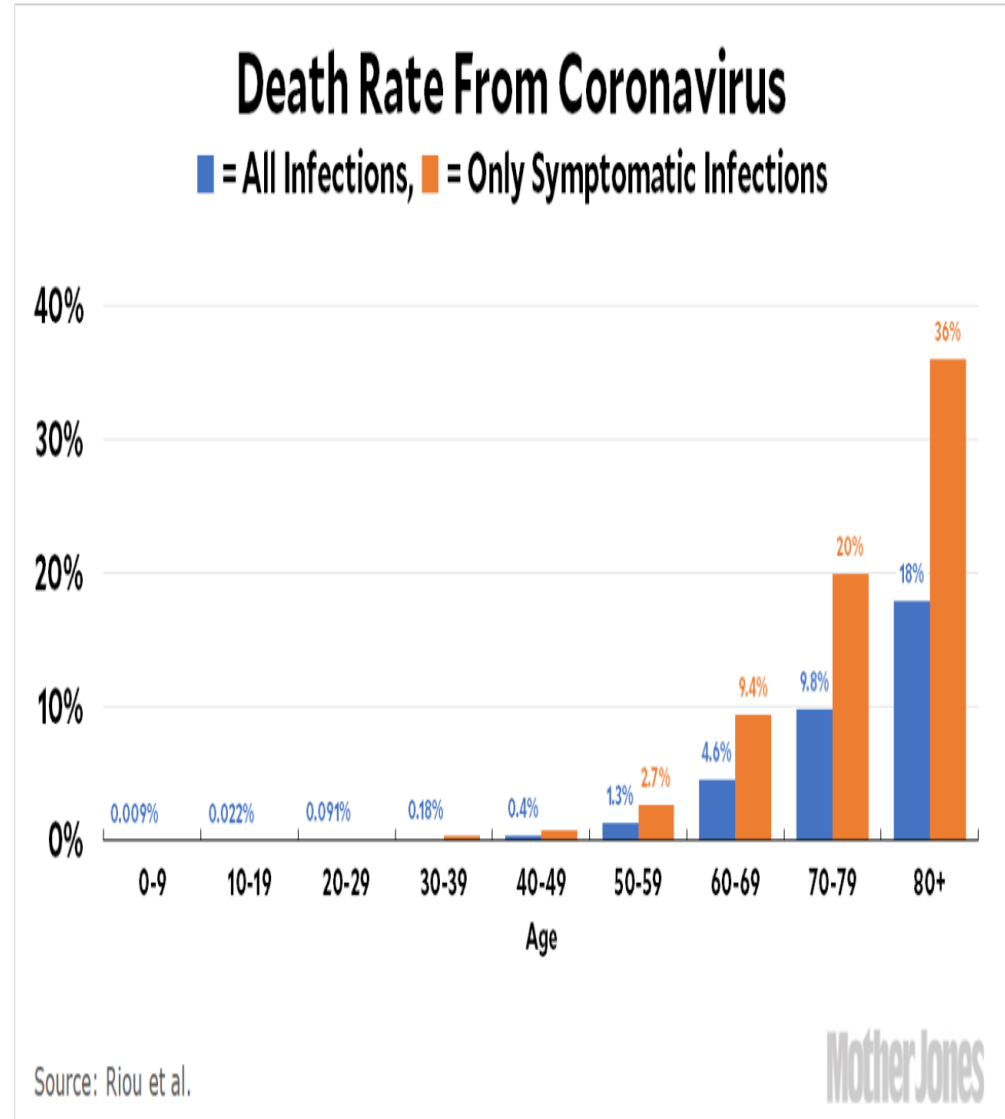
Plus: distributional issues

Plus: bankruptcy and credit chain issues

MOAR Coronavirus!

Death for Geezers!

- Mortality for the Youngs very low...
- It's the flu for them—for you...
- And an extra doubling—or is it 5%?—mortality for the asthmatic
- And an extra doubling—or is it 5%?—mortality for the overweight

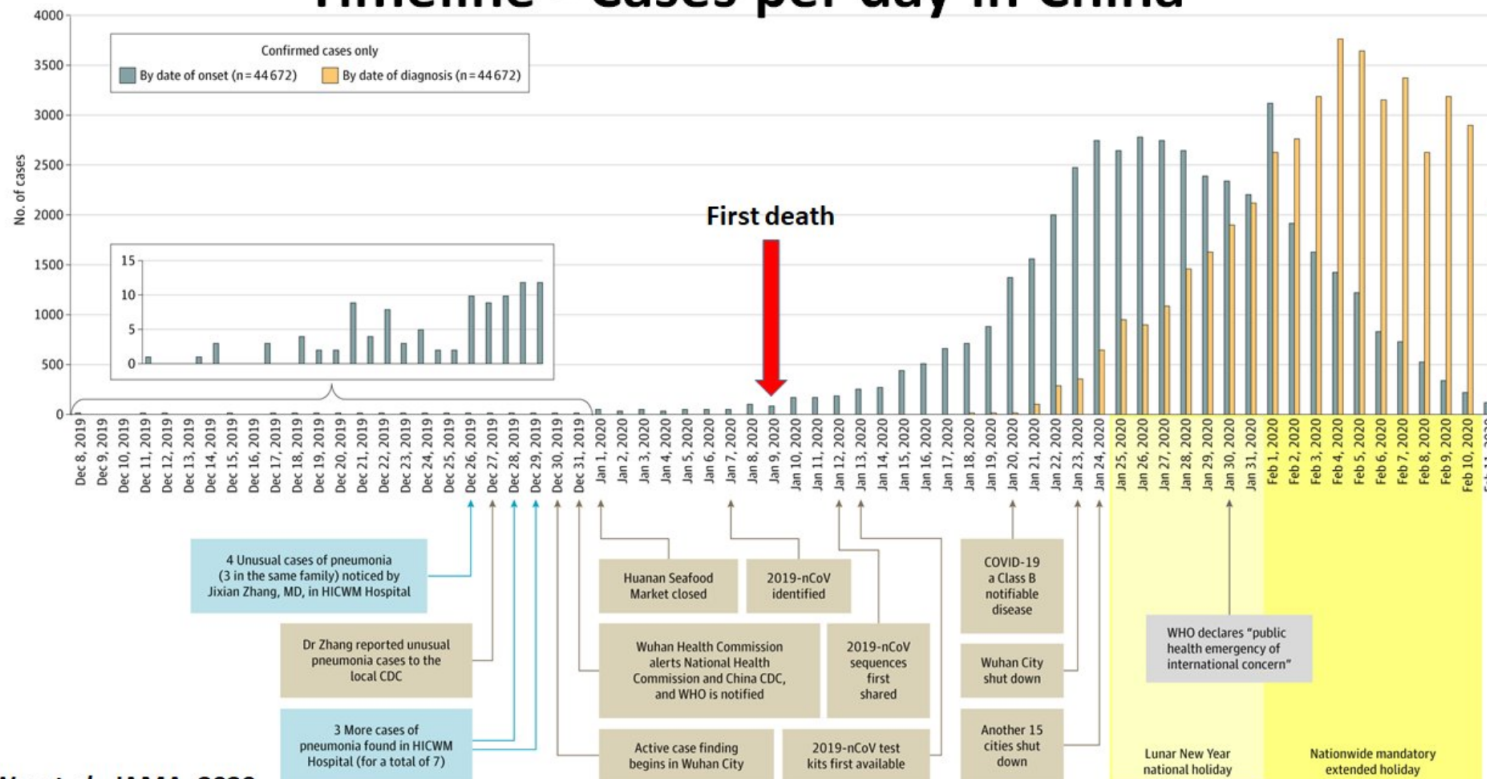


What We Think Happened in Wuhan

China beat it quickly & relatively easily!

- We think
- Shut down Wuhan when 200 cases per day
- That seems to have been a good decision

Timeline - Cases per day in China



The Goal

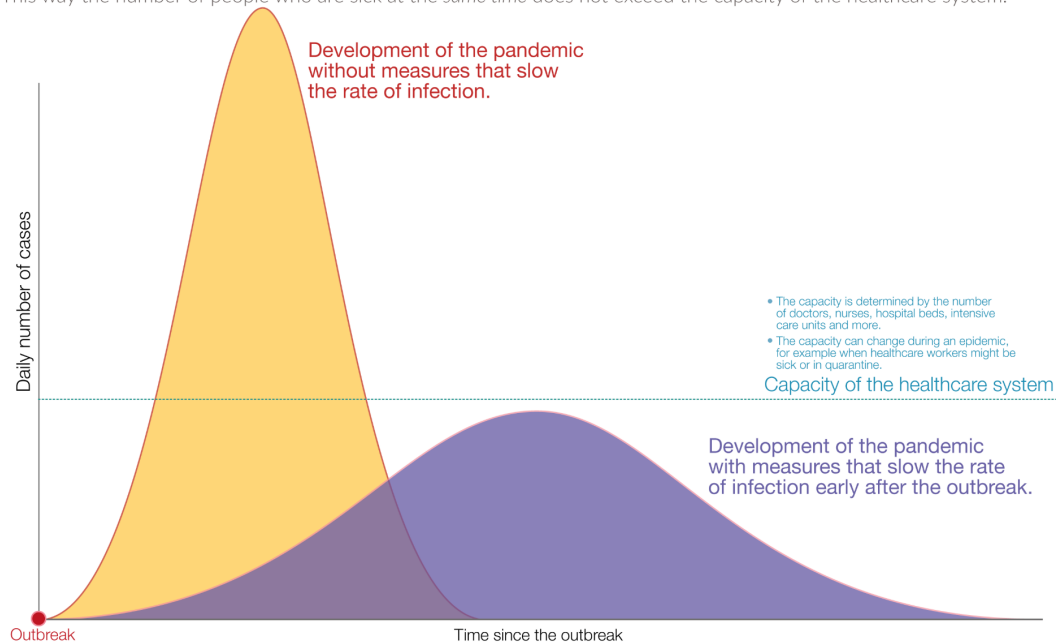
When Is It Appropriate to Move on This?

- Immediate social distancing...
- Self-isolate if you have a cough and a fever...
- Hope that warmer temperatures will do this what they did to SARS...
- Otherwise, when do you want to start spreading out transmission. It seems that early is as good as later, so do it early...
 - I have no good intuition on why you want to move early
 - Plus your moving early will be wasted if you get reinfected
 - Plus the sparks you throw off making others' lives more difficult

In the outbreak of an epidemic *early* counter measures are important

Their intention is to 'flatten the curve': to lower the rate of infection to spread out the epidemic. This way the number of people who are sick at the *same* time does not exceed the capacity of the healthcare system.

Our World
in Data



References

- **Financial Times** (2020): Coronavirus Tracked: The Latest Figures as the Pandemic Spreads <<https://www.ft.com/coronavirus-latest>>
- **Nick Rowe** (2020): *Relative Supply Shocks, Unobtainium, Walras' Law, and the Coronavirus* <https://worthwhile.typepad.com/worthwhile_canadian_initi/2020/03/relative-supply-shocks-unobtainium-walras-law-and-the-coronavirus.html>
- **Jim Stock** (2020): *Coronavirus Data Gaps and the Policy Response* <<https://drive.google.com/file/d/12MV466ZZy5xHir4xdPhoTrL1oO8CbZU-/view>>

MOAR Coronavirus!

What I am watching:

- **Max Roser & Hannah Ritchie:** *Coronavirus Disease (COVID-19)* <<https://ourworldindata.org/coronavirus>>...
- **Worldometer:** *Coronavirus Update (Live)* <<https://www.worldometers.info/coronavirus/>>: '125,599 Cases and 4,605 Deaths from COVID-19 Virus Outbreak...
- **FT Coronavirus Tracker** <<https://www.ft.com/content/a26fbf7e-48f8-11ea-aeb3-955839e06441>>
- **Josh Marshall's COVID Twitter List** <<https://twitter.com/i/lists/1233998285779632128>>
- **NEJM Group:** Updates on the Covid-19 Pandemic <http://m.n.nejm.org/nl/jsp/m.jsp?c=%40kxNtXckRDOq8oG0jJvAXsIzN4mPECIPhltxoTSdTU9k%3D&cid=DM89089_NEJM_COVID-19_Newsletter&bid=173498255>: 'From the New England Journal of Medicine, NEJM Journal Watch, NEJM Catalyst, and other trusted sources...

Catch Our Breath...

- Ask a couple of questions?
 - Make a couple of comments?
 - Any more readings to recommend?
-
- <<https://www.icloud.com/keynote/0YKEi7HeOrVGvKYtt9FEqH7nA>>



Roadmap for the Next Two Weeks...

5. Touring the Continents

19. Tu Apr 7: 5.2. Behind the Iron Curtain: The Rise & Fall of Really Existing Socialism

- **Read Before:** Richard Ericson (1991): The Classical Soviet-Type Economy: Nature of the System and Implications for Reform <<https://delong.typepad.com/files/ericson-soviet.pdf>>
- **Slides:** <<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>>

20. Th Apr 9: 5.3. East Asian Miracles

- **Read Before:** Peter Evans (1995): Embedded Autonomy: States and Industrial Transformation, chapter 1 <<https://delong.typepad.com/files/evans-embedded-i.pdf>>
- **Read Before:** Yingyi Qian (2001): How Reform Worked in China <<https://delong.typepad.com/files/qian-reform.pdf>>
- **Slides:** <<https://github.com/braddelong/public-files/blob/master/econ-135-lecture-20.pptx>>

21. Tu Apr 14: 5.4. Asia and Africa

- **Read Before:** Nathan Nunn (2008): The Long Term Effects of Africa's Slave Trades <https://dash.harvard.edu/bitstream/handle/1/3710252/Nunn_Long-TermEffects.pdf>
- **Read Before:** Sevket Pamuk (2014): Institutional Change and Economic Development in the Middle East, 700-1800 <<https://delong.typepad.com/files/pamuk.pdf>>
- **Slides:** <<https://github.com/braddelong/public-files/blob/master/econ-135-lecture-21.pptx>>

6. Policy Issues

22. Th Apr 16: 6.1. "Deep Roots" vs. Path Dependence

- **Read Before:** Nathan Nunn (2012): Culture and the Historical Process <<https://delong.typepad.com/files/nunn-culture.pdf>>
- **Read Before:** Melissa Dell (2015): Path Dependence in Development: Evidence from the Mexican Revolution <<https://scholar.harvard.edu/files/dell/files/revolutiondraft.pdf>>
- **Slides:** <<https://github.com/braddelong/public-files/blob/master/econ-135-lecture-22.pptx>>

23. Tu Apr 21: 6.2. Growth and Fluctuations; Trade and Development, Foreign Aid

- **Read Before:** Barry Eichengreen (2015): Hall of Mirrors: The Great Depression, The Great Recession, and the Uses-and Misuses-of History, selections <<https://delong.typepad.com/files/eichengreen-mirrors.pdf>>
- **Read Before:** David Atkin (2014): Endogenous Skill Acquisition and Export Manufacturing in Mexico <<https://delong.typepad.com/files/atkin-skill.pdf>>
- **Slides:** <<https://github.com/braddelong/public-files/blob/master/econ-135-lecture-23.pptx>>

Roadmap Following: 6. Policy Issues...

Th Apr 23: 6.3. Populism, Plutocracy, Kleptocracy, & Neo-Fascism

- **Read Before:** Ernest Gellner (1973): *Nations & Nationalism*, selections <<https://delong.typepad.com/files/gellner-nations.pdf>>
- **Read Before:** Barry Eichengreen (2018): *The Populist Temptation Economic Grievance & Political Reaction in the Modern Era*, selections <<https://delong.typepad.com/files/eichengreen-populist.pdf>>

Tu Apr 28: 6.4. Global Warming

- **Read Before:** Melissa Dell *et al.* (2012): Temperature Shocks & Economic Growth: Evidence from the Last Half Century <https://scholar.harvard.edu/files/dell/files/aej_temperature.pdf>
- **Read Before:** Melissa Dell *et al.* (2014). What Do We Learn from the Weather? The New Climate-Economy Literature, selections <<https://economics.mit.edu/files/9138>>

Th Apr 30: 6.5. The Pace and Meaning of Economic Growth

- **Read Before:** William Nordhaus: Do Real-Output and Real-Wage Measures Capture Reality? <<https://www.nber.org/chapters/c6064.pdf>>
- **Read Before:** John Maynard Keynes: Economic Possibilities for Our Grandchildren<<<https://delong.typepad.com/files/keynes-persuasion.pdf>>
- **Read Before:** Edward Bellamy (1887): *Looking Backward 2000-1887*, selections <<https://delong.typepad.com/files/bellamy-backward.pdf>>

7. Conclusion

Tu May 5: 7. Conclusion: The Future?

- **Read After:** Robert Allen (2011): *Global Economic History: A Very Short Introduction*, selections <<https://delong.typepad.com/files/allen-geh.pdf>>

W May 13 11:30-14:30: FINAL PAPER/PROJECT DUE

Discussion

Touring the Continents: Behind the Iron Curtain

- What strikes you as important here?

Really Existing Socialism's End

Russia Sits Down:

- Pick up the story after World War II and after the death of Josef Stalin, when Russia sits down...
- By 1960, a roughly First World level of health, education, and other social indicators:
 - However, followed by a relative decline.
 - And never attained a first-world material standard of living
- Why did Russia sit down?

11:45 minutes of audio

Bureaucracy and Central Planning

The most fundamental cause was nailed at the very birth of the Soviet Union:

- German sociologist 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 back in 1917
- Weber was right

Bureaucratic Centralization, Terror, and Inefficiency

But Weber had no inkling of the bloody hands that really existing socialist regimes would turn out to have:

- For that we need to turn to Red Rosa—Rosa Luxemburg:
 - “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...
- Plus *inefficiency*:
 - Without the “where should resources move?” signals of prices
 - Without the “this organization needs to shut down” signals of bankruptcy

Outside Images of the U.S.S.R.

In the 1920s and 1930s, focusing on accomplishments and explaining away deficiencies:

- Outsiders focused on:
 - Elimination of unemployment
 - Rapid expansion of industrial production
 - Blaming deficiencies on bad historical starting point
 - Continuation of trends found in the rest of the world—monopoly capital
 - Insiders focused on: U.S.S.R. as natural development of global trends as well
- Lincoln Steffens: “I have seen the future, and it works.”
- John Maynard Keynes: “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!... Eyes were turned towards, and no longer away from, the possibilities of things...”

Images in the 1940s and 1950s

Economies of scale and the productivity of investment:

- The USSR as the end stage of “monopoly capitalism”: convergence of the systems
- The USSR as more efficient because able to avoid depressions and compensate for externalities
- The USSR as more productive because able to mobilize investment
- This belief—that the USSR might be a bad society for political and civil rights reasons, but it was going to be more productive in the end—lingered well into the 1960s
 - Had not the USSR won World War II through its enormous productive effort starting from a small base?

Accomplishments of the U.S.S.R.

A substantial amount that is very impressive—especially if you take a non-North Atlantic benchmark:

- Outstripped by Japan, but not otherwise...
- By 1960, a roughly First World level of health, education, and other social indicators. However, *followed by a relative decline*.
 - And never attained a First World standard of living
- 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.
 - But Tukhachevsky would have done a lot better than Zhukov.
 - And if the Ukrainians had not had to learn to be anti-Nazi things would have gone much better.
- Its relatively equal income distribution. Or was it a relatively equal income distribution?
- 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?

5:15 minutes of audio

Successes Only from a Particular Point of View

If the USSR was “non-European”, it did rather well, did it not?:

• Robert Allen’s view:

- Pre-October growth "a one-off resource boom with a veneer of some tariff-induced industrialization." Russia was headed for a Latin American or South Asian destiny.
- You needed a Big Push, and heavy industry was the Turnpike.
- Planning could coordinate a Big Push to replicate the industrial structure you know you want to have.
- Russia was saved from India's fate by a rapid demographic transition fueled primarily by the large scale emancipation of women.
- Rapid industrialization driven by resource mobilization.
- A post-Stalin slowdown was due to (a) the requirements of military spending and (b) "hare-brained schemes".

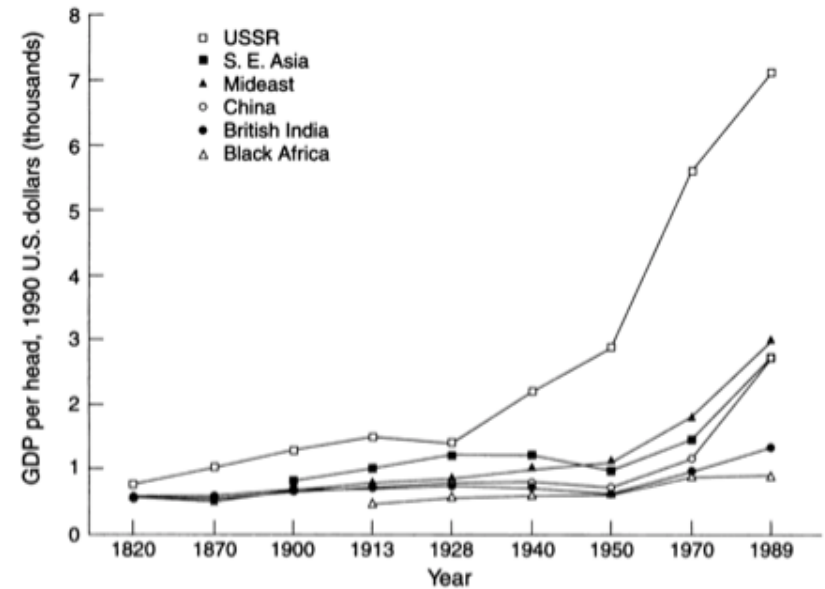


Fig. 1.5. USSR versus the Rest of the World. Source: Table 1.1.

Resource Mobilization Is Resource Mobilization

And outside the North Atlantic, only Japan achieved even resource mobilization:

- (But Japan also achieved much more)
- Allen's case again:
 - “[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...”

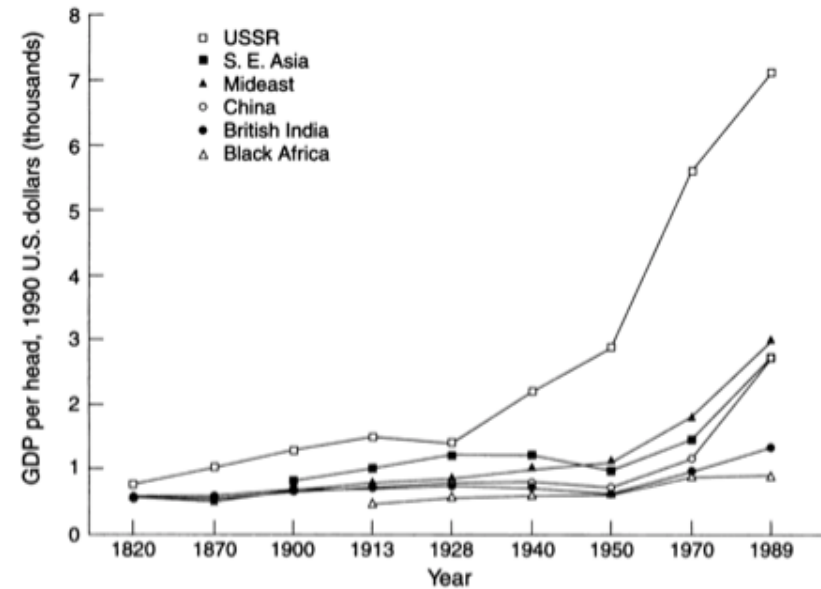


Fig. 1.5. USSR versus the Rest of the World. Source: Table 1.1.

Resource Mobilization Is Resource Mobilization II

And outside the North Atlantic, only Japan achieved even resource mobilization:

- (But Japan also achieved much more)
- Allen's case again:
 - “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...”

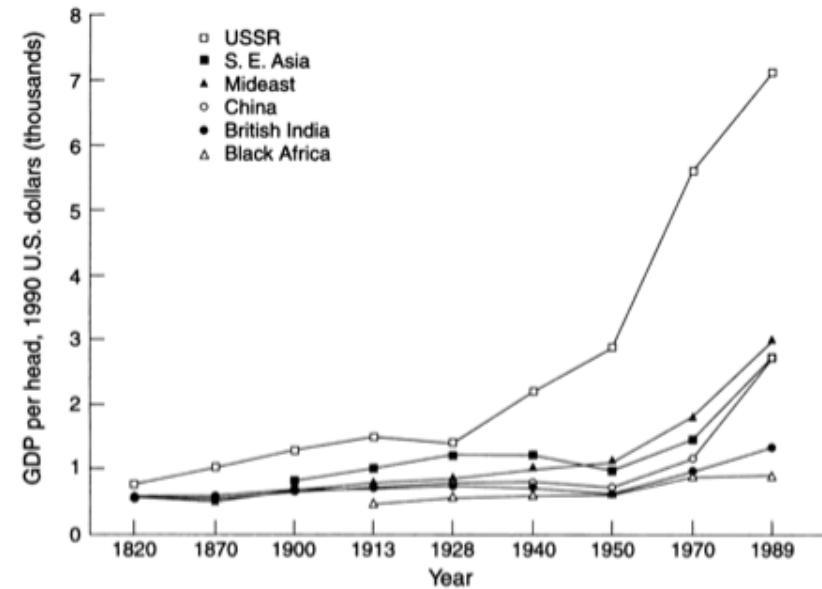


Fig. 1.5. USSR versus the Rest of the World. Source: Table 1.1.

Failures of the USSR

Especially if you take a North Atlantic benchmark:

- The Soviet growth rate was not impressively high...
- Even before 1917, the Russian economy had “taken off”...
- The increased output achieved under the Communists was limited to steel, machinery, and military equipment.... The welfare of the working class... would have been better served by... capitalism....
- The collectivization of agriculture... is a particularly vicious example....
- Soviet socialism was economically irrational... driven by ideology, bureaucratic infighting, and despotic caprice... massive misallocation....
- The growth slowdown after 1970 showed the ultimate weakness of really existing socialism:
 - It could function in a mediocre way to build... smokestack industries...
 - It was incapable of the sustained technological advance required for the postindustrial age...

5:00 minutes of audio

Did the Soviet Union Have to Follow the Stalinist Road?

Tony Judt says “yes”, and I think he is right:

- Baked in the cake from Lenin’s coup
- Reform not possible
- Judt:
 - “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’...

Market Organization Matters a Lot

We covered this before:

- The lesson I draw from this tale is that Ukraine and Russia seriously underperformed
- And much more so Lithuania, Latvia, Estonia, and Leningrad Oblast
- In contrast to, say, Soviet Georgia and Kazakhstan, where a “non-European” benchmark might be (or might not be) appropriate

How Much Does Market Organization Matter?

East-Block Country	GDP per Capita	Matched West-Block Country	GDP per Capita	Percentage Gap
N. Korea	\$700	S. Korea	\$7,660	91%
China	\$490	Taiwan	\$9,500	95%
Vietnam	\$170	Philippines	\$850	80%
Cambodia	\$150	Thailand	\$2,110	93%
Georgia	\$580	Turkey	\$2,970	80%
Russia	\$2,340	Finland	\$19,300	88%
Bulgaria	\$1,140	Greece	\$7,390	85%
Yugoslavia	\$3,240	Italy	\$19,840	84%
Hungary	\$3,350	Austria	\$23,510	86%
Czech Republic	\$2,710	Germany	\$23,560	88%
Poland	\$2,260	Sweden	\$24,740	91%
Cuba	\$460	Mexico	\$3,610	88%
Geometric Mean:	\$930		\$8,030	88%

Market Organization Matters a Lot II

Rick Ericson:

- “[Soviet] Prices... [were] used for measurement, accounting, and control purposes”: i.e., not for incentives.
- “[Soviet] Prices provide irrelevant or incorrect information about relative values and scarcities”.
- “The traditional Soviet economic system is very good at mobilizing scarce resources and concentrating on a few clear, well-defined objectives that can be expressed in measurable, quantitative, and communicable terms, and that yield large observable changes as outcomes...”

How Much Does Market Organization Matter?

East-Block Country	GDP per Capita	Matched West-Block Country	GDP per Capita	Percentage Gap
N. Korea	\$700	S. Korea	\$7,660	91%
China	\$490	Taiwan	\$9,500	95%
Vietnam	\$170	Philippines	\$850	80%
Cambodia	\$150	Thailand	\$2,110	93%
Georgia	\$580	Turkey	\$2,970	80%
Russia	\$2,340	Finland	\$19,300	88%
Bulgaria	\$1,140	Greece	\$7,390	85%
Yugoslavia	\$3,240	Italy	\$19,840	84%
Hungary	\$3,350	Austria	\$23,510	86%
Czech Republic	\$2,710	Germany	\$23,560	88%
Poland	\$2,260	Sweden	\$24,740	91%
Cuba	\$460	Mexico	\$3,610	88%
Geometric Mean:	\$930		\$8,030	88%

“Peaceful Coexistence”

And peaceful competition: N.S. Khrushchev:

- “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...”

33:00 minutes of audio

Kosygin: Economic Reform

N.S. Khrushchev the last true believer; Kosygin the last worker-bee:

- After Kosygin, time-serving bureaucrats going through the motions
 - Until Gorbachev, and his attempted reforms in the 1980s
- Kosygin as the logistical architect of victory in World War II
- Kosygin as first among three after 1964
- Kosygin's recognition of the need for reform
- How do you introduce more rational decision making into a planning bureaucracy?
- If all that matters is that Maginitogorsk produce as many tanks that will start up and fire at least one round, you can do that:
 - Tanks last for only 14 hours in combat, anyway—and for six months max during wartime
 - Command the big flows of raw material
 - Require that the managers buy, beg, borrow, steal, and trade for the rest of what they need—threatening to tell the higher-ups who is uncooperative
 - Show the final output
- Not a way you can run a complex, modern economy
 - Even Cuba's 10 million ton sugar harvest
 - But can you be a little bit market?
 - The China Road, or nothing

The Course of 1960s and 1970s Soviet Reform

Evsei Lieberman's proposals:

- Five elements
 - Rewarding profitability
 - Rational price-setting
 - Enterprise decision-making
 - Light hand from the ministry
- Largely reversed in 1969-1971
 - The Prague Spring and Kosygin's relative eclipse
- Military requirements
- Backward agriculture

And in the Late 1980s It Came Tumbling Down

Yegor Gaidar's view: wheat and rye, and oil, in the 1970s and 1980s:

- First, back up to 1928-9: the “scissors crisis” and its consequences
 - The enserfment of the peasantry in collective farms
 - Low productivity
 - Stagnant grain harvest
- Khrushchev tried to throw investment resources at the problem
- The striking contrast between the grain-exporting Russian Empire and the grain-importing USSR
- What could the USSR sell?
 - Not manufactures
 - Oil and natural gas

Subject to the Whims of OPEC

Global oil prices tripled in the 1970s:

- 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?
- Was a “Chinese reform” of the collective farms possible?
- Saudi’s decision to cut world oil prices in three in late 1985 caused a crisis
 - Soviet solution? Borrow

The Money Ran Out

Too late for a Chinese-style agricultural reform—even if it would have worked:

- Deutsche Bank's warning: western banks were too nervous to lend more
- The requirement that they turn to western governments for “politically motivated credits”
- Put the loaves of bread on the shelves reliably only by bargaining away political concessions in return for wheat subsidies
- Revelation of the underlying rigidity and poverty of the system
- Abandonment of Eastern European hardline communists in order to keep bread on the shelves
- But how would the Soviet Union then reform itself?

Mikhail Gorbachev to Boris Yeltsin

Gorbachev to Yeltsin:

- The perceived need to reform the system...
- Mobilize the people against the party to make the party knuckle under
- “Glasnost” and “perestroika”—“openness” and “reformation”
 - Not the China model
 - Deng Xiaoping’s long march—agriculture-TVEs-state capitalism with Chinese characteristics and utopian socialist aspirations
 - But no alternative set forward for perestroika—reformation
- The coup
- The collapse of the Soviet Union

Boris Yeltsin in Power

The nomenklatura still in control shaped everything:

- The necessity for decontrol
 - Or send the Red Army into the countryside to collect the harvest
- Dismantling the really existing socialist division of labor
 - Russian national income \$21,000 per capita in 1989
 - Russian national income \$14,000 per capita 1994-1999
- State enterprises—given freedom
 - Nomenklatura given freedom to start up their own enterprises
 - “Tunneling”
 - Voucher privatization
- But: high unemployment gives workers with their vouchers little bargaining power
- Loans-for-shares
- Yeltsin’s choice of Putin
 - Oil price boom: from \$20 to \$50 to \$90 and back to \$50/barrel

Vladimir Putin

Weimar Russia

- From Crony Capitalism to State Capitalism:
- State ownership increasing in the “commanding heights”: energy, media (propaganda), finance
- Construction, transportation, high-tech in hands of partners
- Strategic energy exports as instruments of foreign policy
- Deliver higher living standards by redistributing wealth from the energy boom
- The concentration of wealth has increased
- An “assertive” foreign policy—a Monroe Doctrine for the Near Abroad
- Nevertheless: Muscovy, not the East Bloc or even the Russian Empire of Tsar Aleksandr in 1815
- Lack of structural reform
- Net Russian real GDP growth since 1990: \$26,000 today as opposed to \$21,000
 - But, for consumers, \$16,000

Readings

Three key readings:

- Robert Allen (2011): The Rise and Decline of the Soviet Economy <http://tinyurl.com/dl20161210v>
- Richard Ericson: The Classical Soviet-Type Economy: Nature of the System and Implications for Reform <http://tinyurl.com/dl20161210ab>
- Simeon Djankov (2015): Russia's Economy under Putin: From Crony Capitalism to State Capitalism <http://tinyurl.com/dl20161210ad>

Big Ideas: Lecture 19: Behind the Iron Curtain

Takeaways from this class:

Catch Our Breath...

- Ask a couple of questions?
- Make a couple of comments?
- Any more readings to recommend?



Notes, etc....

