

Slouching Towards Utopia?: An Economic History of the Long Twentieth Century, 1870-2016

XXII. Really-Existing Socialism's End

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

History shows that wherever bureaucracy gained the upper hand, as in China, 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! [S]imply that also the top management of the socialized enterprises would become bureaucratic. [T]here 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 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”.

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...

Neither saw the inefficiency. 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*.

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. 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 high-

er 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.

Now the Soviet Union did have successes. 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. The Soviet Union had successes—at enormous cost—during World War II. Nobody but Stalin would have built a heavy industrial complex at Magnitogorsk, far, far from Germany. Alexei Kosygin and his team's massive move of Soviet industry to the east out of the way of onrushing panzers is a remarkable story. But a Red Army whose competent tank officer cadres had not been killed by Stalin would have done much better, as would a régime whose bloody trajectory had near-completely alienated Ukrainians and Poles.

Plus there was Sputnik, and the development of the hydrogen bomb.

By 1960 the Soviet Union had by and large attained a global north level of health, education, and life expectancy. It was still poor in consumer goods. It appeared to have a military as strong as the United States—but it did so by devoting 30% of national income rather than 8% of national income to it, and questions of quality of machinery and organizations remain unanswered to this day. And its income distribution was relatively equal. Or was it?

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

There were more failures of the USSR.

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 Soviet growth rate was not impressively high when seen in a world context. Even before 1917, the Russian economy had taken off. Allen rejects pre-World War I growth as “a one-off resource boom with a veneer of some tariff-induced industrialization,” and sees Russia as headed for a Latin American or South Asian destiny. I think this is wrong.

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. Rapid industrialization driven by resource mobilization.

The growth slowdown after 1970 showed the ultimate weakness of socialism: while it could function in a mediocre way to build... smokestack industries... it was incapable of the sustained technological advance required for the postindustrial age...

A post-Stalin slowdown was due to (a) the requirements of military spending and (b) "hare-brained schemes".

Robert Allen's Case: “[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.... 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...”

Resource mobilization is not productivity-frontier post-industrial market capitalist development. But it is resource mobilization
Market Organization Matters a Lot
We have covered this enormously...

The lesson I draw from this tale is that—in contrast to, say, Soviet Georgia and Kazakhstan—Ukraine and Russia (and much more so Lithuania, Latvia, Estonia, and Leningrad Oblast.

Rick Ericson:

“Prices... used for measurement, accounting, and control purposes”: i.e., not for incentives.

“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...”

“Peaceful Competition”

N.S. Khrushchev (1958):

“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...”

Mikhail Gorbachev to Boris Yeltsin

Reform the system...

“Glasnost” and “perestroika”—“openness” and “reformation”

The coup

The nomenklatura

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

Vladimir Putin: 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: +25%

The principal reason that Marx feared market economies turned out to be false: they did not have a powerful inner dynamic leading to a polarization of the distribution of wealth. This had become clear by 1883, or at least by 1900, even though it had not been clear in 1848. The appropriate reaction to the fact that growing material wealth was trickling down should have been enthusiasm. Markets are powerful instrumentalities for controlling and guiding persons and organizations. They generate a rapid pace of innovation, provide for efficient recombinations of factors of production into new enterprises, and pressure large organizations toward effective fulfillment of their productive missions. To the extent that markets can be harnessed for the purpose of building Utopia, scarce public administrative capacities and competencies can be redirected to other uses. A society that can harness markets uses a form of sociological judo, applying small amounts of pressure at key points to make inertia push results in desired directions.

But the response of those who had positioned themselves left of social democracy was not enthusiasm that it would be easier to approach utopia than Marx had expected. Instead, the response was the continued denigration of systems that as-

signed a prominent role to either private production or market exchange, and a worship of hierarchical administration and bureaucracy-under the name of "conscious social control and administration of production for use"-as the answer to all problems. Whatever utopia is, it does not consist of one big corrupt bureaucracy. And so the left has had little constructive to offer social democrats and others trying to manage and reform the "mixed economies" of the twentieth century.

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>

Thoughtcrime

Paul Sweezy, *The Present as History* (New York: Monthly Review Press, 1953).
p. 50-1: "Burnham alleges that[for] a society [to be] socialist it must be. fully democratic. Without entering into a discussion of the precise meaning of the term 'democracy', we may agree that socialism has been historically thought of as 'fully democratic in all spheres'. We may also agree that this does not apply to the Soviet Union in the political sphere, where there is a single-party system and certain restrictions on civil liberty. At the same time there is more genuine democracy in the economic and social spheres in the Soviet Union than anywhere else in the world."

p. 62: "From the standpoint of economic science, the political leadership in the Soviet Union is acting as the agent of the working class. No relation of exploitation exists between controllers and workers. The real issue is one of general interests and objectives, which are prescribed by the structure and form of social relations as a whole. In this sense the objective of those who direct the Soviet economy can only be production of use values which corresponds in every way to the interests of the working class. We might, therefore, say that the working class is the ruling class in the Soviet Union."

p. 76: "those who understand that in essence Marxism is a method of analysis and a guide to action will be in little doubt that Schwartz has mistaken the enrichment of Marxism by the two great twentieth-century revolutions [of Lenin and Mao] for its decomposition."

p. 286: "[Hayek] even goes so far as to compare Nazi anti-semitism with the liquidation of the kulak in the USSR. The two things, of course, have absolutely nothing in common. The Jew remains a Jew; the kulak could, and most of them did, become a collective farmer on exactly the same terms as his fellows."

p. 352: "The publication in 1952 of Stalin's Economic Problems of Socialism in the USSR would make possible today a more satisfactory reply. In the light of [Stalin's] explanation I would like to amend the statement which Mr. Kazahaya criticizes. [The amended statement] conveys my meaning more accurately than the original wording and is, I think entirely in accord with Stalin's view."

Perhaps we should turn our historical-memory attention here a little bit away from the Cuban Missile Crisis at 50...

[Our Debt to Stalingrad by J. Bradford DeLong - Project Syndicate:](#)

BERKELEY – We are not newly created, innocent, rational, and reasonable beings. We are not created fresh in an unmarked Eden under a new sun. We are, instead, the products of hundreds of millions of years of myopic evolution, and thousands of years of unwritten and then recorded history. Our past has built up layer upon layer of instincts, propensities, habits of thought, patterns of interaction, and material resources.

On top of this historical foundation, we build our civilization. Were it not for our history, our labor would not just be in vain; it would be impossible.

And there are the crimes of human history. The horrible crimes. The unbelievable crimes. Our history grips us like a nightmare, for the crimes of the past scar the present and induce yet more crimes in the future.

And there are also the efforts to stop and undo the effects of past crimes.

So it is appropriate this month to write not about economics, but about something else. Seventy-nine years ago, Germany went mad. There was delinquency.

There was also history and bad luck. The criminals are almost all dead now.

Their descendants and successors in Germany have done – and are doing – better than anyone could have expected at grappling with and attempting to master their nation’s unmasterable past.

Seventy years ago, 200,000 Soviet soldiers – overwhelmingly male and predominantly Russian – crossed the Volga River to the city of Stalingrad. As members of Vasily Chuikov’s 62nd Army, they grabbed hold of the nose of the Nazi army and did not let go. For five months, they fought. And perhaps 80% of them died in the ruins of the city.

On October 15 – a typical day – Chuikov’s battle diary records that a radio message was received from the 416th Regiment at 12:20 PM:

Have been encircled, ammunition and water available, death before surrender!

At 4:35 PM, Lieutenant Colonel Ustinov called down the artillery on his own encircled command post.

But they held on.

And so, 70 years ago this November – on November 19 to be precise – the million-soldier reserve of the Red Army was transferred to General Nikolai Vatutin’s Southwestern Front, Marshal Konstantin Rokossovsky’s Don Front, and Marshal Andrei Yeremenko’s Stalingrad Front. They went on to spring the trap of Operation Uranus, the code name for the planned encirclement and annihilation of the

German Sixth Army and Fourth Panzer Army. They would fight, die, win, and thus destroy the Nazi hope of dominating Eurasia for even one more year – let alone of establishing Hitler's 1,000-year Reich.

Together, these 1.2 million Red Army soldiers, the workers who armed them, and the peasants who fed them turned the Battle of Stalingrad into the fight that, of any battle in human history, has made the greatest positive difference for humanity.

The Allies probably would have eventually won World War II even had the Nazis conquered Stalingrad, redistributed their spearhead forces as mobile reserves, repelled the Red Army's subsequent winter 1942 offensive, and seized the Caucasus oil fields, thus depriving the Red Army of 90% of its motor fuel. But any Allied victory would have required the large-scale use of nuclear weapons, and a death toll in Europe that would most likely have been twice the actual World War II [European theater] death toll of perhaps 40 million.

May there never be another such battle. May we never need another one.

The soldiers of the Red Army, and the workers and peasants of the Soviet Union who armed and fed them, allowed their dictatorial masters to commit crimes – and committed crimes themselves. But these crimes fall short by an order of magnitude of the great service to humanity – and especially to western European humanity – that they gave in the rubble along the Volga River 70 years ago this fall.

We are the heirs to their accomplishments. We are their debtors. And we cannot repay what we owe to them. We can only remember it.

But how many NATO leaders or European Union presidents and prime ministers have ever taken the time to visit the battle site, and perhaps lay a wreath to those whose sacrifice saved their civilization?