


Coronavirus!

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



THE WHITE HOUSE
WASHINGTON

ABC News

Trump warns coronavirus crisis could stretch into summer

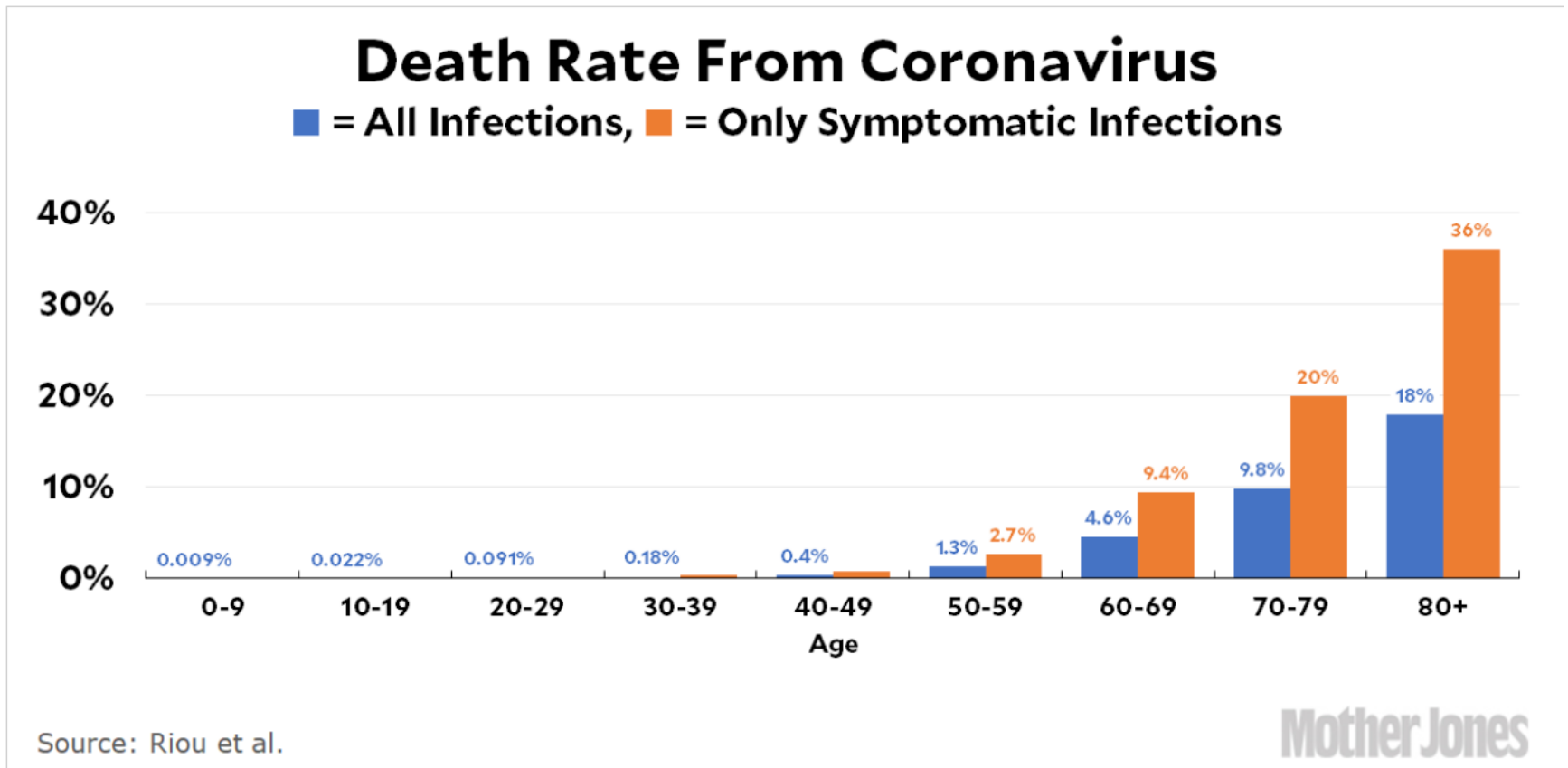
Watch

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.

MOAR Coronavirus!

It's a Thing for Geezers!

- Mortality for the Youngs very low...
- It's the flu for them...



MOAR Coronavirus! III

When Is It Appropriate to Move on This?

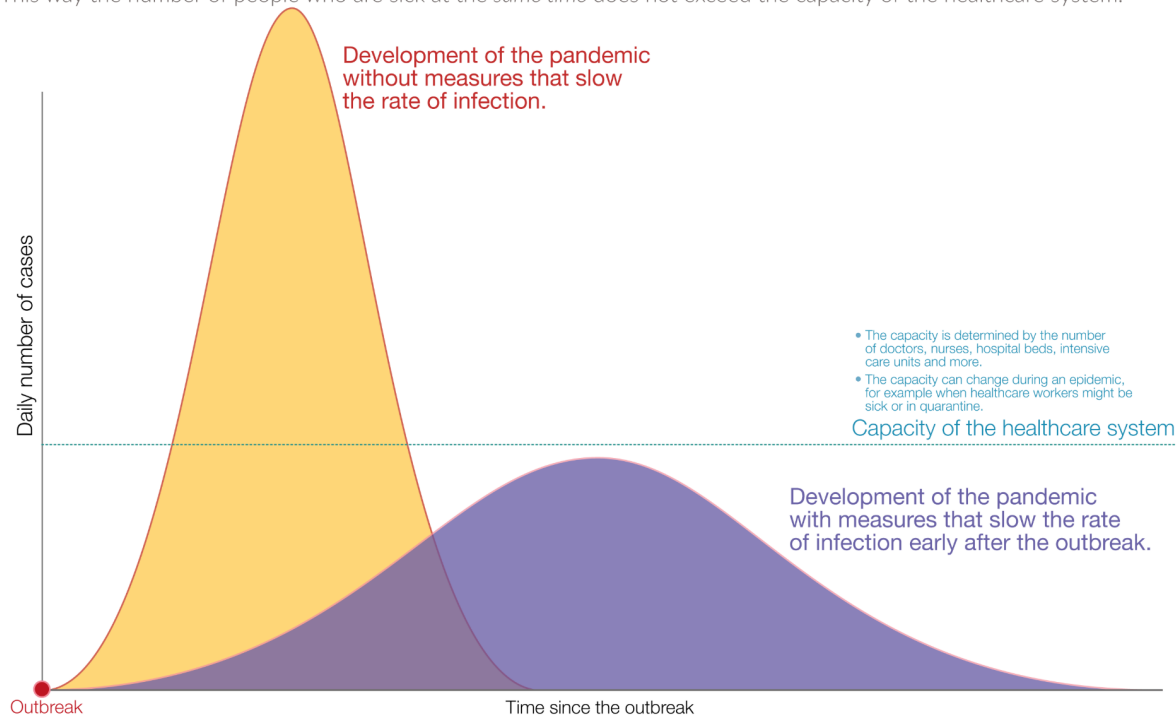
- Immediate social distancing...
- Self-isolate if you have a cough and a fever...
- Hope that warmer temperatures will do to this what they did to SARS...
- Otherwise, when do you want to start spreading out transmission. It seems that early is as good as later...

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

Our World
in Data

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.



About the Course

The long 20th century will in all likelihood be seen in the future as *the watershed in human experience*:

- Nine aspects:
 1. History was *primarily* economic—and that was true for the first time...
 2. Explosion of wealth: 2%+ per year...
 3. Cornucopia of technology...
 4. Demographic transition...
 5. Feminist revolution...
 6. Empowered tyrannies...
 7. Wealth gulfs...
 8. Inclusion and hierarchy attenuation...
 9. Mismanagement and insecurity...
 10. The global public health system and global epidemic transmission
- Humanity is unlikely to see as *transformative*—for good and ill, but mostly for good, so far at least, I think—a century again...

U.C. Berkeley: Economics 115: Spring 2020

20th Century Economic History: Lecture

14: Really Existing Socialism Ends

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<<https://bcourses.berkeley.edu/courses/1487684>>

<<https://github.com/braddelong/public-files/blob/master/econ-115-lecture-14.pptx>>

Takeaways from Last Time

From: Social Democracy's High Tide and Ebb

1. Come up with your own five takeaways from our look at the “Social Democracy’s High Tide and Ebb”...

Preview

Really Existing Socialism's Ebb

- Takeaways from Last Time
- Preview
- Administration
- Lecture
- Review: ??
- Takeaways from this Lecture

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?

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?

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".

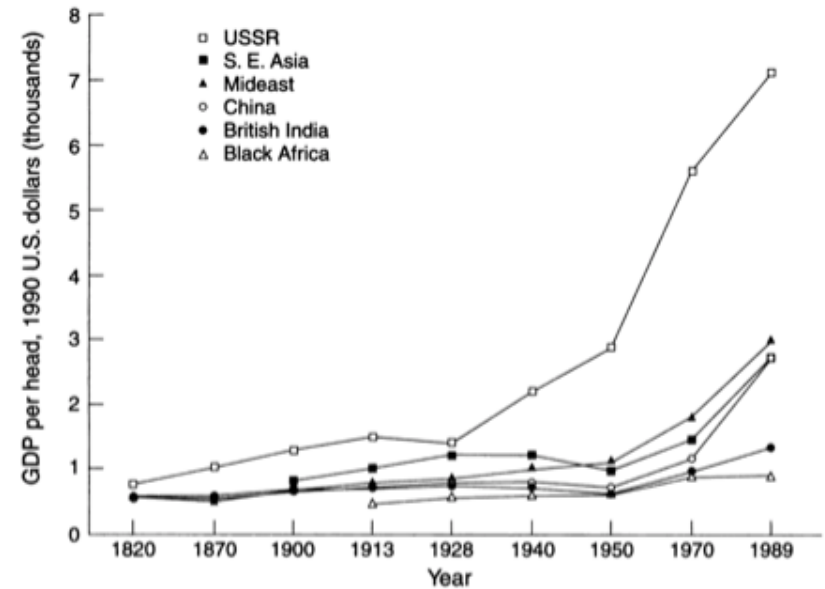


Fig. 1.5. USSR versus the Rest of the World. Source: Table 1.1.

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...”

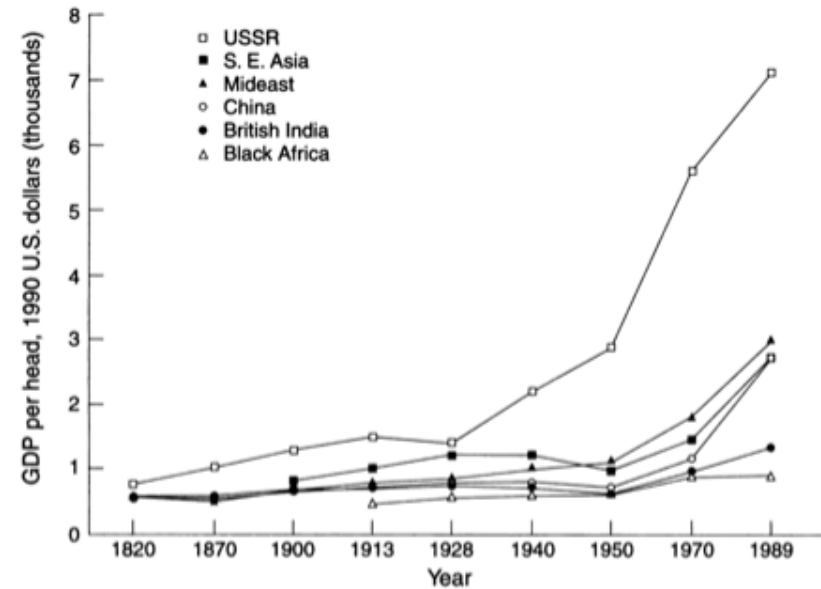


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Resource Mobilization Is Resource Mobilization II

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...”

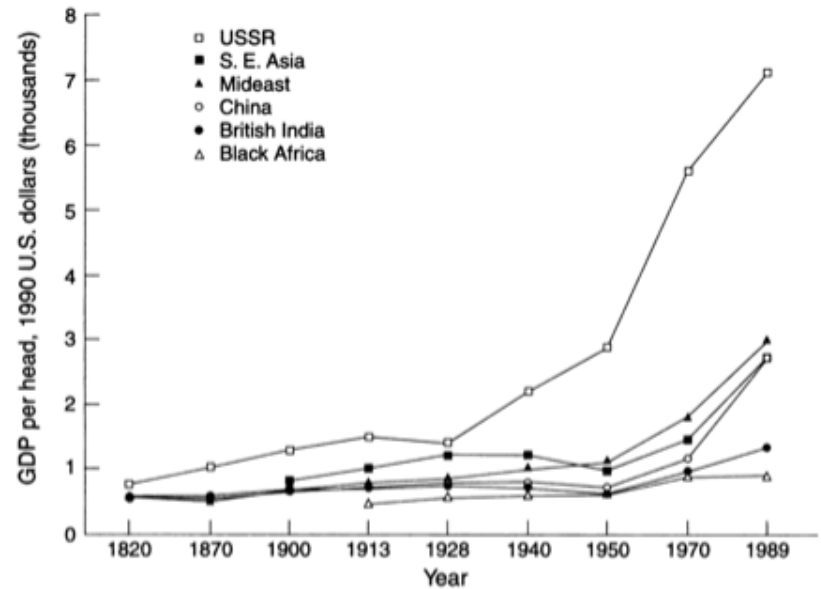


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Did the Soviet Union Have to Follow the Stalinist Road

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’...

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...

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...”

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“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...”

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>

Review: Broad Sweep

What was the growth rate of *ideas* in the industrial core of the world economy over 1870-2020?

- A.About 2.3%/year
- B.About 0.9%/year
- C.About 0.23%/year
- D.About 4%/year
- E.None of the above

Review: Broad Sweep

What was the growth rate of *ideas* in the industrial core of the world economy over 1770-1870?

- A. About 2.1%/year
- B. About 0.45%/year
- C. About 0.15%/year
- D. About 0.04%/year
- E. None of the above

Takeaways from This Time

Really Existing Socialism's End

1. Give me five takeaways...

Notes: What Was Unconvincing Today?

**Mistakes and unclarities:
typos, wordos, and
mindos...**

- In the DRAFT textbook?
- In the lecture?



Catch Our Breath...

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

