

# **The Need for Planning: The Restoration of Capitalism in the Soviet Union in the 1950s and the Decline of the Soviet Economy**

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For the last twenty years, the Left has appeared to lack any alternative to the existing social and economic order. In recent years, communist movements have only existed as serious forces in a few countries, for example India and Nepal, where once they were worldwide phenomena. Even the financial crash and world recession of the last two years have done little to revive the fortunes of the Left.

There seems to be no coherent force to oppose the existing “free” market world order. Twenty years after the fall of the Berlin Wall, what remains of the Left is bogged down in ideological confusion. The collapse of the state-owned economies of the Eastern Bloc appears to have destroyed the practical basis for any alternative to capitalism.

In the immediate post-war era, things looked rather different. To begin with, the socialist nations were apparently successful, at least in economic terms. However, their economies subsequently stagnated and eventually made a transition to economies organised on a “free” market basis.

This article will examine the claim that this reversal happened because of some underlying flaw in the socialist economic system. In this article we will analyse what actually happened, mainly using the example of the Soviet economy. It will be shown that the basis of this economy changed radically after the death of Stalin in 1953. In short, within the span of a few years, a dynamic, socialist system was replaced with a stagnant capitalist system. It was this capitalist system that suffered slow-down and final dissolution in 1991.

According to a major tendency in Marxism, the leaders who came after Stalin were revisionists. This tendency holds that these leaders wished to revise Marxism by mixing it with capitalist ideology. The economic analysis given below provides evidence to support the anti-revisionist line.

To put it another way, the form of the Soviet system may have remained socialist, after 1953, in the sense that there was state-ownership and the semblance of central allocation of the means of production. However, changes introduced

following Stalin's death meant that the means of production became commodities. After 1953, what was being "planned" was in fact capitalist commodity production. Therefore in essence the system after 1953 was capitalist, not socialist.

We will find that, after 1953, the means of production in the Soviet Union were sold at their prices of production, like capitalist commodities. This was in opposition to Stalin's line. Stalin was clear that the means of production should not be regarded as capitalist commodities. Stalin stated that the means of production should be distributed according to decisions made in the course of economic planning and they should be sold at subsidised prices to facilitate this. Consumer goods, unlike means of production, were sold as commodities in the Soviet Union, prior to 1953, but Stalin understood the importance of this practice being brought to an end as socialism developed. Soviet leaders after Stalin, however, changed this system as they favoured the distribution of the means of production among the various branches of the economy by means of semi-spontaneous market forces. In effect, capitalist profit criteria rather than central planning decisions were to determine the way in which the Soviet economy developed. Rather than struggling to restrict commodity production, the new leaders of the Soviet Union deliberately expanded it to the entire economy. These leaders wanted to create a market socialist system where state owned enterprises would behave just like capitalist enterprises. However, what emerged was a dysfunctional hybrid system, neither effectively planned from the center nor regulated by economic competition. Subsidies for purchasing new means of production had been used to facilitate the planned introduction of innovation up to 1953. Once this system of planning and subsidies was swept away, the incentive to innovate was largely eliminated, as economic competition did not exist to provide an alternative system of incentives. Progressive economic stagnation set in and there was the rapid growth of rent-seeking behaviour (seeking rewards unrelated to effort or quality of work) by enterprise managers and industrial ministries.

I believe the evidence presented here shows that the post-war fate of the Soviet economy does not undermine the case for socialism. As capitalism goes through its latest global crisis, it is incumbent on the Left to once more make the case for the socialist, planned economy. Unlike capitalist production, socialist planning can not only guarantee full employment but it can also provide the key to the liberation of the worker from alienation and exploitation. It remains a key means by

which the proletariat can exercise power and freedom in a future socialist society and thus remains a necessary component of the advance to communism.

### The Failure of Soviet Growth

It must be said at the outset that any discussion of Soviet growth is bedevilled by statistical uncertainty. For example, Mark Harrison gives a table showing alternative growth statistics for the Soviet Union,<sup>1</sup> figures from which are quoted below. It provides alternative series for annual growth of GNP provided by the Soviet authorities, the CIA and the dissident Russian economist Gregory Khanin. The alternative series diverge very significantly.

Year	Soviet Estimate	CIA (R.Moorsten and R.P. Powell)	Khanin
1928-40	13.9	6.1	3.2
1950-60	10.2	5.2	7.2
1960-65	6.5	4.8	4.4
1965-70	7.7	4.9	4.1
1970-75	5.7	3.0	3.2
1975-80	4.2	1.9	1.0
1980-85	3.5	1.8	0.6

The Soviet figures show a significant, progressive, growth slow-down in all periods after the 1928-40 era. Khanin's figures show a higher growth figure for the 1950s, than the Stalin era. However, Mark Harrison indicates there is some lack of certainty about Khanin's analysis of the Stalin period. It is not clear why Khanin assigns the weights that he does to various sectors of the economy to come up with such a low pre-war figure.<sup>2</sup> I will therefore assume that growth in 1928-40 was higher, in some degree, than growth in 1950-60. This seems to be the view of most

<sup>1</sup> Harrison, M. (1993) "Soviet Economic Growth Since 1928: The Alternative Statistics of G.I. Khanin," *Europe-Asia Studies* 45:1, p. 146.

<sup>2</sup> *Ibid.*, p. 155.

other analysts of Soviet growth figures; for example, Ofer's figures show higher growth rates for the 1928-40 period.<sup>3</sup>

Whatever agreement there might be, it is certainly the case that there is a great variability in Soviet growth statistics. The figures reproduced here illustrate a general theme that will recur in this article. Although, different authors and agencies, using different methodologies, aim for statistical certainty, real certainty about the *precise* course of Soviet growth is likely to be elusive. There probably is not a correct figure out there waiting to be discovered that will settle the matter once and for all. Complete certainty about any economic growth figure is not possible. This is especially the case with the Soviet Union, where modern commentators have rejected the official Soviet figures and have tried to piece together what happened many decades ago from a variety of different sources.

However, this article will make the twin assumptions, based on the available figures, that Soviet growth did slow down after 1960 (or possibly from the late 1950s) and that this slow-down became more marked in the 1970s and 1980s, when the economy went through a long period of economic stagnation. It might be asked why I am not talking in terms of a post-war slow-down, rather than a slow-down only from 1960. The reason for this is that there is direct evidence that changes to the economy that started to take effect in the 1950s created a progressive slow-down in growth in subsequent periods. The difference between growth rates in 1928-40 and 1950-60 could be accounted for by a natural slow-down from the very fast rate of growth in the period of forced industrialisation in the 1930s.

For the most part, this article will concentrate on the direct evidence about what was happening in the Soviet economy, rather than on the various econometric interpretations of the growth figures that are available.

The established view of why the Soviet economy slowed down tends to be some variant on the "extensive growth theory." This is the argument that the Soviet economy grew up until 1960 purely because of rapid growth in the sheer quantity of capital and labor. Once the growth in the labor force slowed down, growth in capital expenditure alone was not enough to stimulate growth in economic output. The failure of technological progress meant that the capital stock did not

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<sup>3</sup> Ofer's estimate gives an annual GNP growth figure of 5.8% for 1928-1940, 5.7% for 1950-1960, 5.2% for 1960-1970 and 3.7% for 1970-1975. See Ofer, G. (1987) "Soviet Economic Growth: 1928-1985," *Journal of Economic Literature* 25:4, p. 1778.

embody enough new technique, according to this view. It is argued that increases in investment expenditure did not lead to the production of new, technically advanced products, to the same extent that they were being produced in the advanced capitalist economies. Therefore capital expenditure grew but output increasingly slowed down. Growth was extensive and not intensive. This problem, it is argued, was not so obvious in the Stalin era because at that time a large number of workers were transferring from low productivity agricultural work into higher productivity industrial work. Once this one-off productivity gain was exhausted, it is claimed that stagnation set in.<sup>4</sup>

It is held that enterprises in centrally planned economies always lack a strong incentive to innovate. Devoting resources to innovation, according to this view, disrupts the socialist enterprise's effort to meet its plan target, without any corresponding reward. Whereas a capitalist firm that successfully innovates can make higher profits and stay ahead of the competition, the rewards for the manager of a socialist firm that innovates tend to be meagre or non-existent, or so it is claimed. It is this factor that is usually held to be the core reason for the stagnation of economic growth in the USSR.

However, what is not fully considered by this dominant view is the direct evidence that a mechanism existed within the Soviet Union for the successful diffusion of technology in the period up to 1953, but that as the economy moved away from the socialist model, after 1953, this mechanism disappeared. Reputable bourgeois authors on the subject such as Joseph Berliner and David Granick do actually present evidence to this effect. However, their own ideological framework means that they tend not to follow up or fully consider the evidence they present for this line of explanation.

It also must be said that there has been a massive effort to tarnish Stalin's reputation from very many sources, especially since Khrushchev's "Secret Speech" of 1956. This has made it easy to blame all the Soviet Union's economic woes on Stalin and left few with the courage to highlight the positive achievements of the Soviet people during the period up to 1953.

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<sup>4</sup> There are numerous accounts of this "Extensive Growth" theory. Paul Krugman gives a popular account of it in "The Myth of Asia's Miracle," *Foreign Affairs*, November/December 1994. Also see Allen R. (2001) "The Rise and Decline of the Soviet Economy," *The Canadian Journal of Economics* 34:4, pp. 859-81 and Allen R. *From Farm to Factory: A Reinterpretation of the Soviet Industrial Revolution* (Princeton University Press, 2003).

A “total view of Stalin” has emerged in which everything that happened in the Stalin era was evil. Much of this relies on unscientific nonsense, for example the often quoted figure that Stalin “murdered 20 million people.” There just is no basis for such a statement; it exists purely as propaganda, though journalists and others tend to repeat it as fact whenever Stalin’s name is mentioned.

Our main purpose here is to consider questions concerning the efficiency of socialist, industrial planning. Many, including this author, would criticise Stalin for having people executed, although it is far from clear that the very high figures usually given for the number of executions are sufficiently corroborated. However this criticism gives no objective reason for damning everything that happened in the Stalin era. The argument here is that the system of socialist planning was successful in Soviet industry and that a system of central planning, in a modernised form, could and should be the model that future socialist societies adopt. There is no objective reason why someone who criticises Stalin on other grounds cannot accept this.

Anti-communist writers tend to argue in a very non-objective way that socialist planning will “inevitably” lead to the “horrors of Stalinism.” The argument is usually some variant on the one put forward in F.A. Hayek’s book *The Road To Serfdom*. Hayek claimed that the inefficiency of socialist planning leads to dictatorship. People start to complain about the problems the socialist economy is causing them in their everyday lives. A dictator then takes over, promising to take firm action to sort out these problems. However, the dictator just ends up suppressing the people to quiet their protests.

The argument for Hayek’s scenario tends to beg the question. It relies on the idea that socialism inevitably leads to economic stagnation and poverty. The argument here, to the contrary, is that socialist planning can in fact lead to economic progress. The problems that took place in Stalin’s USSR have many and complex causes – the primary reason being the threat of national annihilation posed by the Nazis. A socialist society that did not live under such a threat would not experience the same traumas that Soviet society did in the 1930s.

## **Stalin's Economic Theory and the Role of Commodity Production in a Socialist Economy**

A socialist economy that is orientated to economic growth achieves this through conscious economic planning. Planning is the means by which new technology is introduced and the economy develops. In a genuine socialist society, capitalist commodity production is limited and restricted. Moreover, as time goes on, economic planning progressively replaces whatever elements of commodity production that still exist within the socialist economy.

Stalin in his work *Economic Problems of Socialism in the USSR*, published in 1952, explained that commodity production in the Soviet Union was confined mainly to the production of items of personal consumption.<sup>5</sup> Stalin explained that

the sphere of operation of the law of value in our country is strictly limited, and . . . the law of value cannot under our system function as the regulator of production.<sup>6</sup>

However, the leaders who took over the Soviet Union after 1953 chose to expand capitalist commodity production to all sectors of the economy. As well as consumer goods, the means of production became capitalist commodities. The hybrid, state capitalist system that these policies created led directly to the economic stagnation of the Soviet Union.

It is probably in order here to explain precisely what is meant by a commodity, in this context, and what is meant by the law of value. In Marxist economics, a commodity is an object with both use-value and exchange-value. The magnitude of exchange value is determined by the labor-time socially necessary for its production.

In order to calculate the exchange value, we first calculate the cost price. This is the total capital laid out by the capitalist. It is made up of one sum of money laid out on means of production (constant capital) and one sum of money laid out on purchasing the labor-power of the workforce (variable capital).

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<sup>5</sup> Stalin, J. *Economic Problems of Socialism in the USSR* (Foreign Languages Press Peking, 1972), p. 16.

<sup>6</sup> *Ibid.*, p. 21.

We must then add surplus value, which is produced in the part of the working day for which the worker is not paid. Thus the total exchange value of the commodity is the sum of the values of constant capital, plus variable capital, plus surplus value.

This is not the end of the story as the rate of surplus value is not the same thing as the rate of profit. Let us take an example of a world where the rate of surplus value in industry as a whole is 100%. This means that for every hour of labor the worker is paid for, one hour is unpaid and the value produced by the worker in this other hour accrues to the capitalist as surplus value. This would not mean there would be equal rates of profit in all industries in this world. Profit is the money the capitalist makes after they have paid for both constant capital and variable capital. Let's say initially in this world the amount of profit each enterprise made was exactly the same in quantity as the surplus value extracted from its workers during production. This would mean the absolute amount of profit every enterprise made would be exactly the same as amount of money it spent on labor, or its variable capital. But, if the amount of constant capital per worker in one industry were different from the amount in another industry, then the rates of profit would be different too. The industries that employed more constant capital per worker would inevitably have higher costs and therefore lower profits, even though the level of surplus value each worker produced for their capitalist was equal in all industries.

However, in free market, competitive capitalism, the rate of profit tends to equalise. Capitalists redirect investment from industries with low rates of profit to industries with high rates of profit. This process leads to changes in the relative prices of commodities. As investment decreases in industries with a lower profit rate, the price of their products increase as the supply of these products lessens. These higher prices then have the effect of raising the profit rate. Higher investment in industries with a higher profit rate increases the supply of their products and tends to lower their prices. These lower prices then tend to lower the profit rate in these industries. These changes in the prices of products continue until the rate of profit equalises across industries. Thus the final profit each enterprise makes will usually differ from the amount of surplus value its workers produce. (We are assuming in this account of the equalisation of profit that all other things remain equal as the process we have described occurs.)

In the final analysis, the price of production of a commodity is equivalent to its cost of production plus the profit (calculated at the average rate for the whole economy).

The price of production is not necessarily the actual price charged for the product in the real world, however. Rather it is a sort of medium-term “center of gravity,” around which the market price oscillates according to shorter-term fluctuations in supply and demand.

The law of value is the law that determines the level of prices and hence the nature of production decisions taken in a capitalist economy. The production decisions of capitalists are based on the profit they expect to make and this expectation depends on the price of the means of production they require, the price of the labor they employ and the price they expect their product to command. In the aggregate, the law of value determines what is produced in the economy in general and the overall development path of the economy.

Stalin argued that in the Soviet Union consumer goods, as opposed to the means of production, were produced and exchanged as commodities in a way regulated, within limits, by the law of value. The reason for this distinction between consumer goods and means of production is that there were two basic forms of production in the Soviet Union. One form took place in the collective farm sector and the other in the state industrial enterprise sector. The product of the state-owned industrial enterprise was allocated by the state – i.e., the state told the enterprise how much to produce and who to deliver the product to. The industrial enterprise was not meant to freely sell any surplus over this planned amount, though they would get a bonus for over-fulfilling their plan target. In the case of the collective farm, the collective had to deliver a fixed quota to the state. Everything they produced above this quota was essentially a profit. The collectives could sell this surplus product and the proceeds would be distributed among the collective’s workers.<sup>7</sup>

The law of value remained, primarily, because a class of peasants still existed in the Soviet Union. Stalin pointed out that in the Soviet Union of the 1950s peasants still wanted to sell their products as commodities and still expected to be able to buy manufactured goods as commodities in return. The peasants were essentially petty-commodity producers and their outright expropriation was not politically possible.

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<sup>7</sup> Ibid, pp.13-16, pp. 18 and pp. 97-98.

Stalin clearly believed that this state of affairs should not continue forever. He advocated the phasing out of commodity production by the collectives, when the time was ripe, stating that this would facilitate the transition from socialism to communism. Therefore, the need to retain commodity production when it came to consumer goods was a result of the relatively temporary compromise that the collective farm system represented.<sup>8</sup>

However, the same certainly was not true of the means of production. These were not commodities in the Soviet Union up to 1953. As Stalin said:

Can means of production be regarded as commodities in our socialist system?  
In my opinion they certainly cannot.<sup>9</sup>

Stalin then gave a variety of reasons why they were not commodities, such as the fact the state allocated them to enterprises rather than selling them to whoever wanted to buy them and the fact that they always remained state property. He also clarified why the “value” of the means of production was referred to in the Soviet Union, despite the fact that they were not sold as commodities (except in foreign trade). It was because prices and cost information was necessary to monitor the performance of enterprises producing means of production, just as it was necessary for the monitoring of performance in other areas of the economy. Although this meant that the law of value did, strictly speaking, apply to the means of production, this was only in a very limited form. This price information was used to monitor how well an enterprise was meeting its plan target. The plan target was not determined by the nature of the price information. The law of planning was therefore definitely dominant when it came to producing the means of production.

From the point of view of future developments, the following passage is key to understanding why the means of production were not commodities in the pre-1953 era, but became so later on.

Totally incorrect, too, is the assertion that under our present economic system, in the first phase of development of communist society, the law of value regulates the “proportions” of labor distributed among the various

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<sup>8</sup> Ibid., pp. 97-98.

<sup>9</sup> Ibid., p. 53

branches of production. If this were true, it would be incomprehensible why our light industries, which are the most profitable, are not being developed to the utmost, and why preference is given to our heavy industries, which are often less profitable, and some times altogether unprofitable.<sup>10</sup>

Now, of course heavy industry does not only produce means of production, but heavy industry did produce a large quantity of means of production in the Soviet Union such as steel, industrial machinery and so on. As we shall see below, subsidies to heavy industry were certainly intended to make the means of production cheaper for industry. Stalin is saying clearly here that in the Soviet economy decisions about production were not determined by profit indicators – they did not simply follow the law of value. Rather it was the planners that decided where priorities lay. If this meant that some enterprises and industries could not therefore make a profit, then subsidies were used to cover the difference.

To further illustrate this point we need to put this passage together with another passage about agricultural raw materials. Stalin argued against the view of Notkin that the law of value regulated the prices of the means of production produced by agriculture. Stalin argued that the production of agricultural raw materials was regulated by the plan not the law of value. He wrote:

. . . is the influence of the law of value on the price of raw materials produced by agriculture a *regulating* influence, as you, Comrade Notkin, claim? It would be a regulating one, if prices of agricultural raw materials had “free” play in our country, if the laws of competition and anarchy of production prevailed, if we did not have a planned economy, and if the production of raw materials were not regulated by plan. But since all these “ifs” are missing in our economic system, the influence of the law of value on the price of agricultural raw materials cannot be a regulating one.<sup>11</sup>

Again, Stalin is arguing that in the Soviet economy the center decides what will be produced and where resources will be directed; these matters are not essentially determined by profit criteria.

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<sup>10</sup> Ibid., p. 22.

<sup>11</sup> Ibid., p. 56

However, as was indicated above, profit had some role throughout the Soviet economic system. In a limited form the law of value would still have had some influence over the Soviet economy, even if commodity production had ended in the sphere of the means of consumption. Stalin writes:

[The law of value] trains our business executives to conduct production on rational lines and disciplines them. . . . It is not a bad thing because it teaches our executives systematically to improve methods of production, to lower production costs, to practise cost accounting, and to make their enterprises pay.<sup>12</sup>

Thus, although production decisions were not dictated by profitability criteria, the level of profits or losses an enterprise was making was still monitored – primarily as a way of ensuring its cost of production was not too high. It was a way of comparing the success of different enterprises in fulfilling their plan obligations. However, with priority products losses were subsidised in order to stimulate production.

Basically, enterprises were given plan targets that specified how much they were expected to produce. This was a quantitative target specifying, for example, how many tons of steel or how many roubles worth of a given commodity they were expected to produce. Enterprises were principally judged on whether they met this output target. But they were also monitored on how much revenue they earned in relation to their cost of production – effectively how profitable they were. This was a fairly important, if secondary, concern for the enterprise. The first priority, therefore, was for an enterprise to meet its quantitative plan target. Once it had done this however, enterprises would then be judged on their profitability (alongside other secondary success criteria). Enterprise managers also wanted to make a profit because profits were an important source of capital. Making profits helped managers buy the means of production they needed to reach their output targets.<sup>13</sup> The relative importance of output targets and the profit incentive did not seem to change fundamentally until the late 1980s, despite other very important changes in the Soviet

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<sup>12</sup> Ibid., p. 19.

<sup>13</sup> Berliner, J. (1981) "Technological Progress and the Evolution of Soviet Pricing Policy," pp. 228-29, in Berliner, J. *Soviet Industry From Stalin to Gorbachev. Essays in Management and Innovation* (Edward Elgar, 1988).

economic system and despite reforms intended to make profitability a more important success criteria.

It must be admitted that the co-existence of plan and profit did create a certain degree of contradiction in the system. Asking enterprises to make a profit while also using subsidies did sometimes make it seem that different aspects of the system were working at variance to each other.

Such contradictions are probably impossible to avoid. Not all capitalist practices can be overcome straight away under socialism. As Mao Zedong's work would later show, the development of socialism advances through a wave like process. The key link in this process is class struggle against those who want to halt and reverse the advance of socialism and the transition to communism.

### **Planning and Human Consciousness**

The consequences of the expansion of capitalist commodity production to the Soviet economy can only be fully grasped when the role of consciousness in economic planning is understood. Stalin's advocacy of the dominant role of planning, as opposed to the law of value, is absolutely key to an understanding of socialism. A socialist economy must be planned by conscious human beings.

Planning is a rational activity where people's understanding of their needs is the ultimate criteria for decision making. Planners use statistics and figures as the tools they need to work in the objective world. But once the numbers are put in charge and the needs of humanity become subordinate to price information, then socialism is lost. Where this takes place, the socialist economic system becomes blocked in its development and returns to capitalism. This is precisely what happened to the Soviet economy.

Socialist planning is not just an economic means to an end. It is the essential motive force behind all economic activity in a socialist economy. The purpose of planning is to exert human conscious control over the economy. Socialist planning potentially liberates humanity from the impersonal forces that dominate economic life in a market economy, over which any kind of overall control seems impossible. The creation of the planned economy thus represents a leap forward in human progress. It is analogous to humanity's progressive taming of nature. It can be compared to humanity's development from primitive hunter-gatherers, at the mercy of the power of nature, to dwellers in settled communities sustained by agriculture and then by

industry. The next step forward is for humanity to liberate itself from the destructive power of the market.

At the heart of Marx's analysis of capitalism is the concept of the alienation of labor. All capitalist commodities are produced by the workers; however, the workers have no ownership or control over the product of their labor. It is controlled by an "alien" structure. In capitalism, the product of labor is transformed into capital. The laborers have no capital and must work for the capitalists. The capitalists then use their ownership of capital to exploit the worker and to oppress them, in order ensure the worker produces the maximum possible surplus value. If the capitalist does not exploit the worker to the maximum, they face the danger of going out of business due to competition from more ruthless capitalists. Ultimately, control over economic decision-making lies in the hands of impersonal market forces. Thus, in capitalism, an economy that is actually the product of human activity escapes conscious, collective human control and becomes something analogous to a "force of nature" controlling human activity as an external force. This can be contrasted to a non-alienated system where the people directly control the production and distribution of products in a planned, socialist economy.

It is not that the market really is a "force of nature." Bourgeois economists and politicians often talk as if it is such a thing in order to spread mystification and convince the working class there is no alternative to their oppression. In fact alienation is a social relation between the workers and the capitalists that expropriate their product. Once the working class understands that this is the case it creates the possibility that they will unite together to overthrow capitalism and achieve their liberation.

Socialist planning is the means by which the alienation of labor is overcome. Socialism, in this sense, is not intended just as a means of raising wages by expropriating the unearned income of the capitalist and putting it in the pocket of the worker but as a much more radical transitional phase. Socialism is intended as the first stage of communism. Communism is a society where all alienation ends.

Human beings are distinguished from animals in that they can consciously choose the object of their labor, rather than labor being dictated by instinct or necessity. Humans can labor universally. Human beings are able to perform all sorts

of job tasks; they need not be confined to some narrow job role.<sup>14</sup> In capitalism, however, workers cannot realise this human potential as their lives are controlled by the alienated structure that is imposed on them. Rather than living up to their full potential most working-class people have to spend their lives performing a narrow range of repetitive tasks. Thus the working lives of free human beings are determined by necessity in capitalist society.

Human beings have always had the biological potential to labor freely and universally. However, the backwardness of the productive forces and the nature of the relations of production, up to now, have prevented this potential being realised. It can only be fully realised in communism.

Marx envisages that in a communist society workers will consciously choose what to do and will not be confined to a narrow job role, nor will they work only because they must do so to survive. The purpose of the laborer's work will be the creation of his/her own product for the rest of society. Laborers will no longer simply work in order to get paid so they can consume the products of others.

How would this be possible? Ending the division between mental and manual labor is a key goal of communists and a key aspect of the revolutionary transformative function of socialism. It is also necessary for workers to achieve the education necessary to perform a variety of different types of tasks before communism can begin to be truly achieved. However, it does seem fairly utopian to argue that everyone will ever truly be able to just work at whatever they feel like, even in a communist society – although it is the case that as a young man Marx did rather imply this. For example, it might be possible in a person's life to acquire the skills necessary to become a carpenter, to tend an orchard and to become a competent literary critic. But it is hardly the case that this person could also perform a vast range of other activities from flying an airliner to performing heart surgery. Human beings are mortal and there is an obvious limit to the number of years they can spend acquiring advanced work skills. Socialist planning is the means by which the alienation of labor is overcome. I think the key to developing Marx's somewhat romantic early notions should lie in the third adjective Marx tends to use to describe labor in a communist society, namely, that it should be "social." This is in

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<sup>14</sup> Marx, K. *Economic and Philosophical Manuscripts*, pp. 328-29, in Marx, K. *Early Writings*. Introduced by Lucio Colletti. Translated by Rodney Livingstone and Gregor Benton (Penguin, 1975).

accordance with Marx's belief that humanity can only realise its potential within society. Marx says:

... it is only when man's object becomes a *human* object or objective man that man does not lose himself in that object. This is only possible when it becomes a *social* object for him and when he himself becomes a social being for himself, just as society becomes a being for him in this object.<sup>15</sup>

So in communism, the object a worker produces is no longer just an individual commodity. It is no longer just something workers manufacture so they can afford to buy the commodities they need to sustain themselves. In communism, it becomes part of an overall human, social product and is identified by the worker as such. The people develop an awareness of their collective identity. They come to identify with each other's needs, they do not place their own individual interests before the interests of others. Therefore when they work to meet the needs of others, they identify with their work and their product.

This is where the key role of planning comes in. In both socialism and communism the people consciously direct the economic life of society. They collectively decide who will do what and how. Thus, as a collective entity, the people in a socialist society begin to enjoy actual economic freedom. As a collective entity, the people start to act freely, albeit with the constraints imposed by nature and inherited from the history of capitalism. This means that when the people make collective decisions, the people themselves are potentially free. Their consciousness and activity are also potentially universal. When they participate in planning, the people will be developing a need and interest to concern themselves with all forms of economic activity, not just their narrow job role. The object of their work will begin to be the total global product, not just their small part within it.

However, we can see how the liberation of the worker can only be fully realised in communism. In socialism, workers are rewarded for the quality and quantity of their work, which leads to some inequality. This system implies that some workers, at least, are partially motivated by self-interest and are not fully identifying with society as a whole when they are working.

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<sup>15</sup> Ibid., p. 352.

Many people might feel that the idea of the people forming a collective entity is somewhat frightening. But if Marx's work is examined closely, it can be seen he is trying to find a way of reconciling the individual with the collective. It is not a matter of simply subordinating each individual to the collective or general will of the planners. Marx is concerned with finding a way that the different potentialities of individuals can be realised in a collective framework. He is not saying that every individual must become part of a brain-washed, undifferentiated multitude with no capacity for individual thought. Marx tries to use dialectics to overcome the contradiction between the individual and society. Marx does not believe the individual should be completely subordinated by external forces. The fact is that human beings are social animals and they must live and work together in order to survive and prosper. There really should be no problem with people being encouraged to develop a collective identity and a concern for others. Of course, in capitalist society people are encouraged to put themselves first and only think of others afterwards. This is something that must be struggled against in socialism but not at the cost of crushing all forms of difference or choice. People will be encouraged to see their own needs as equal to the needs of others, not superior. This struggle will create the conditions for the transition to communism where the enjoyment of collective freedom can reach its highest level.

Capitalist society celebrates "individual freedom" but ignores the fact that in vast areas of our lives, the concept is redundant or starkly contradicted in practice. When we go to work, we generally work in a team with others. In the whole economic sphere, we are quite unable to exercise the individual freedom, to do as we please. We cannot simply arrive at work when we feel like and then do whatever we want. Even in a socialist society, we would have to subordinate our individual inclinations to the achievement of the common goal of the work-team. Ideologists of individual freedom ignore the possibility of the kind of collective freedom that socialist planning could create. In so doing they condemn the worker to outright despotism. After all, the alienation of labor is not only a problem in the hours that we are at work. Our whole life is dominated by the system of capitalist commodity production and consumption and it is a system we have no control over. Of course the same is true of other aspects of life in capitalist society. For instance, those who are made responsible for domestic labor are subordinate to patriarchy in capitalism. In a

socialist society domestic labor could be collectivised and planned in a way that would not lead to the slavery of women.

A socialist system is a system where human beings control production in a conscious manner. The people's labor is no longer controlled by market forces. The edifice that labor has created no longer exists as an impersonal, alienated, external force controlling, exploiting and oppressing the worker. Rather the people themselves consciously and directly control global economic life.

Although many of Marx's early writings would not have been available to Stalin at the start of the First Five-Year Plan, Marx's thinking on alienation was fairly implicit in later published works, which Stalin would have read, for example, the section on commodity fetishism in Volume 1 of *Capital*.

An analysis of the debate of the early 1950s shows that Stalin was on the side of those who wanted to prevent the alienation of labor re-emerging. If one argues, as the economists Stalin was opposing did, that every enterprise should make a profit, then one is advocating a system where the people are no longer consciously and collectively deciding what to produce. Instead impersonal market forces make the decision for them in advance, even if the enterprises they work for remain state-owned. In such a state-capitalist economy investment and production decisions are intended to depend on endogenous factors. Supply and demand are intended to determine prices. Prices determine profits and production and investment decisions are guided by profits – the law of value is restored.

The leaders who took over after Stalin's death undermined the role of conscious planning in the economy. They created an economy where the profit motive, not human consciousness, was the principal force behind economic development. However, in the society they created, the pressure exerted by competition did not yet exist, due to the partial nature of the economic transition to capitalism in this still nominally socialist society. If a society is to progress economically people must be either motivated by a dynamic system of planning or the pressure of economic competition. The system the post-Stalin leadership created possessed neither of these characteristics. Thus they created a perfect recipe for the economic stagnation that followed.

### **The Soviet Union and the Question of Democracy**

A number of objections might be made to the above argument. Firstly, it might be objected that top party leaders controlled the planned economy under Stalin, not the people.

The following points can be made in response to this. Firstly, it is not realistic to assume that all the people can deliberate over every small production decision that is made in some sort of ultra-democratic structure. In one national economy millions of economic decisions must be made every year. Clearly most of the minor day-to-day decisions must be delegated and cannot be decided in vast mass meetings. But certainly those people delegated to make these decisions should be accountable and represent the interests of the masses. In addition there is still an important role for regular mass meetings. The role of these meetings is to discuss the major, important questions. Their existence ensures that the masses do participate directly in economic decision-making in a real and practical manner.

Secondly, it must be stressed that there was a system of economic administration in place in the Soviet Union that did involve millions of people in decision-making. Robert Thurston does much to contradict the popular image of the Soviet Union in the period up to 1953. He describes how a ferment of criticism and debate took place in Soviet factories in this period. Workers criticised local officials over working conditions and poor production practices. They actively participated in debates about how production could be improved on a mass scale. Thurston's evidence is based on a vast range of contemporary sources, such as minutes of meetings and articles in the press detailing workers' criticisms and complaints. It shows that a vigorous, albeit limited, workers' democracy was developing in the Soviet Union in the 1930s.<sup>16</sup> Thurston's work contradicts the view that no-one dared make any complaint in the USSR in the 1930s, which is certainly the dominant view about this period today. It is interesting that his own research tends to confirm the views of those such as Pat Sloan and Sidney and Beatrice Webb, who travelled to the Soviet Union in the 1930s and observed the system of proletarian democracy that existed there.<sup>17</sup> These accounts have been almost universally dismissed as dishonest

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<sup>16</sup> See Thurston, R. *Life and Terror in Stalin's Russia 1934-1941* (Yale University Press, 1996), Chapter 6.

<sup>17</sup> See Sloan, P. *Soviet Democracy* (Victor Gollancz, 1937) and Webb S. and Webb, B. *Soviet Communism: A New Civilisation*, 3<sup>rd</sup> Ed. (Longmans, Green & Co., 1944).

or naïve by bourgeois historians. Yet, Thurston's archival research corroborates them.

Thurston, Sloan and the Webbs all seem to agree on the nature and boundaries of Soviet proletarian democracy. The Soviet people were free to complain about their physical, working and living conditions and were free to make suggestions about how to improve them. Multiple candidates stood in elections to Soviets and factory committees. The electors were free to discuss their merits and choose which candidate they wished to see elected. Many of those elected were members of the Communist Party but a significant number were not. The Webbs and Sloan stress how candidates were given mandates by their electors indicating how they were expected to vote on specific policies and that these candidates could be recalled if they did not keep to their mandates.<sup>18</sup>

However, all these sources agree that a fundamental challenge to the system was not possible within this system of proletarian democracy. Local officials could be bitterly denounced but not Stalin (usually) or the socialist system itself. Non-party members could be elected to positions of authority but citizens could not form parties that competed with the Communist Party.<sup>19</sup> Perhaps such facts might completely undermine the legitimacy of the system in the eyes of many but there is a danger of making unfair comparisons here. As Pat Sloan pointed out there is less need to choose between competing parties with competing programs when electors were actually able to determine themselves the nature of the policies they expected their representatives to implement. The ability of the electors to mandate their delegates and recall them might be seen as counter-balancing the lack of freedom to establish new parties. In addition, Marxists argue that parties in capitalist countries represent different, competing factions of the ruling class. This effectively just gives the working class a choice between exploiters, an illusory rather than a real freedom.

One must acknowledge that proletarian democracy was not perfectly developed in the Soviet Union. Its full development would have required more time to increase the educational level of the workers and a process of trial and error, as different forms of proletarian democracy were experimented with. Just as bourgeois democracy struggled over a great period of time to establish itself fully, so will

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<sup>18</sup> See, for example, Thurston, R. (1996), pp. 191-92, Sloan, P. (1937), pp. 171-74, and Webb, S. and Webb, B. (1944), pp. 30-35.

<sup>19</sup> See Thurston, R. (1996), p. 192, Sloan, P. (1937), chapter 17, and Webb, S. and Webb, B. (1944), p. 31.

proletarian democracy. The Cultural Revolution in China developed both proletarian democracy and the dictatorship of the proletariat over the bourgeoisie to a new, higher level. In the Soviet Union and China these efforts were curtailed by the restoration of capitalism. In the future, we must hope new experiments in proletarian democracy will take place, using the experiences and lessons of the Soviet Union and China as their starting point, rather than as an unchangeable blueprint.

We have seen that up to 1953, the means of production were not commodities in the USSR and how vital this principle was for socialism. We will now look at what this meant in practice and how the undermining of this principle retarded innovation in the post-war Soviet economy.

We will then look at the actual underlying cause of the post-1953 revisionism. Other than plain personal corruption, there is reason to believe the principle cause was the desire of the Soviet leaders to catch up with the western economies. The idea that the economic strength of the western economies was underwritten by the imperialist and neo-colonialist exploitation of the Third World was not assimilated into the leadership's official post-1953 Soviet ideology. They did not analyse imperialism properly, and did not discount its spoils from their appraisal of the West's economic progress. The post-Stalin leadership may well have been influenced by the idea that the West had been historically successful in economic terms because these countries had market economies. This failure of understanding probably lay behind the endless market "reforms" in the East European economies and the USSR after 1953.

### **Incentives to Innovate and the Restoration of Capitalism**

Soviet growth was not undermined by some inevitable inefficiency in central planning, as its critics allege. Rather, the decline in economic growth was due to the fact that the Soviet economy failed to develop and modernise sufficiently after the 1950s. Amann and Cooper provide some very useful direct evidence for the technological lag between the Soviet Union and the West. Their general conclusion in 1977 was that Soviet technological performance was inferior to the West and showed no signs of catching up over the 15-20 years prior to 1977.<sup>20</sup> The various studies by Amann and Cooper show that the Soviet Union introduced new technologies into production at more or less the same time as in other developed

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<sup>20</sup> Amann, R. and Cooper, J. and Davies R.W. (eds.) *The Technological Level of Soviet Industry* (Yale University Press, 1977), p. 66.

countries. The problem was that they then diffused these technologies throughout the economy at a slower pace than in the West, Japan or indeed in the newly industrialising countries of Asia. Examples given include the slow rate of diffusion of continuously cast steel, synthetic fibres, polymerized plastics<sup>21</sup> and computers.<sup>22</sup>

Non-communist writers on the Soviet economy tend to imply that whatever mechanisms state planners put in place to encourage innovation, they will always be inferior to the incentives that exist in a competitive, profit-orientated system.<sup>23</sup> It tends to be assumed that profit is the best available incentive for enterprises to go through the disruption and uncertainty that innovation entails. The implicit assumption is that socialism can come up with no comparable mechanism for stimulating innovation. As we have seen, it is assumed that socialist enterprises will avoid innovation, to prevent disruption to their efforts to meet their output targets.

However, this is a one-sided view of capitalism, let alone socialism. In capitalism, major periods of innovation have historically led to speculative economic bubbles, followed by serious depressions. This phenomenon is partly disguised by the tendency of booms in investment in the real economy to be followed by bubbles in the finance and real estate sectors. When investment booms in the real economy are about to collapse, governments use economic policy to stimulate the economy, leading to a boom in the financial and real estate sector. The collapse of the post-war boom in consumer goods production was partly postponed in the UK by the inflationary “Barber Boom” of the early 1970s. The collapse of the dot-com bubble at the start of this decade was followed by a long period of asset-price inflation. The bursting of this asset-price bubble has led us into the current period of economic crisis.

The anarchic way in which capitalism develops tends to be blamed on economic blunders by the government or on “the banks.” The underlying cause of the cycle of boom and bust, however, is the unplanned nature of innovation and investment in the capitalist system. The anarchy of production in capitalism leads to terrible human consequences. To take one example, high interest rates for international loans and the collapse in commodity prices in the late 1970s and 1980s created horrific poverty across the Third World, following the collapse of the post-

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<sup>21</sup> Amann R. and Cooper J. (eds.) *Technological Progress and Soviet Economic Development* (Blackwell 1986), pp. 12-13.

<sup>22</sup> Amann, R. and Cooper J., (1986), p. 11.

<sup>23</sup> Nove, A. *The Soviet Economic System*, 3<sup>rd</sup> Edition (Allen & Unwin, 1986), p. 161.

war boom. The full effects of the crisis that began in 2008 are yet to become clear, although the increase in world hunger in 2009 appears to be partially linked to the effects of the crisis.

While capitalism does indeed lead to innovation, it does so at an awful cost. Faith in human progress would make us want to find some sort of planned way in which innovation could be introduced and diffused throughout the economy without the boom and bust cycle.

The Soviet people in the period up to 1953 were feeling their way towards just such a system. According to David Granick, writing on the key metal-fabricating industries in the Soviet Union:

The period of the first Five Year Plan was one of highly successful introduction of Western product designs into production in Soviet plants. Resistance of managements [*sic*] to such introduction is not reported in the literature and, in view of the accomplishments of the metal-fabricating industry during these years, it is difficult to believe it was widespread.<sup>24</sup>

The development of industry was led by the state. In a system without the market, it was crucial for the planners to identify priorities and then provide appropriate incentives for these priorities to be met.

Subsidies were important precisely because prices in the Soviet economy were not set in the free market and would not reward the innovator without state intervention. In a capitalist economy, initial start-up costs for new products are usually high but these come down as the producer of the new product starts to enjoy the benefits of economies of scale, learning by doing, etc. A successful new product can attract a price that will cover all the costs of research and development and high initial costs of production. As the costs of production decrease, the price of the product tends to decrease too.

High initial costs for new products exist in a socialist economy as well and it was their existence that led to the need for subsidies.<sup>25</sup> Berliner writes how, the prices for coal, metals and machinery were kept low from 1930 to 1936. The cost of

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<sup>24</sup> Granick, D. *Soviet Metal-Fabricating and Economic Development. Practice and Policy* (University of Wisconsin Press, 1967), p. 236.

<sup>25</sup> Berliner, J. *The Innovation Decision in Soviet Industry* (Massachusetts Institute Of Technology, 1976), pp. 269-70.

machinery was held down to encourage the replacement of old machinery with new. Low prices for coal and metal obviously helped keep the price of new machinery low too.<sup>26</sup>

However, subsidies were not uniformly extended to all machinery products but were concentrated in industries that had been assigned high priority in the development plan.<sup>27</sup> The priority at the time was heavy industry and this is where the subsidies for innovation were made. This does not mean that central planning in every country and every era must follow the same path. Planners in modern times might prioritise information technology or pharmaceuticals. They might prioritise agriculture or light industry, rather than heavy industry – or try to develop priority industries in different sectors at the same time, as the Chinese people tried to do in the Maoist era. The point is that the record of the Soviet economy up to 1953 shows that socialist planning can be successfully sustained over time. It is not an argument that socialist planners in the future must rigidly follow the path of the Soviet Union between 1928 and 1953 whatever the circumstances.

It is important to understand that subsidies for innovation up to 1953 were not a kind of optional extra. They did not serve the same function as subsidies in a capitalist system, where the government might wish to provide additional incentives for companies to innovate. Rather, a socialist planned economy that retains the profit indicator *has* to subsidise innovation. The reasons for this are slightly complicated but they are essential for grasping the progressive slow-down in Soviet growth from the late 1950s.

### **The Importance of Subsidies for the Soviet System**

The first point we need to understand is that in the Soviet economy, a great many plan targets were given in roubles; i.e., an enterprise was directed to produce  $x$  roubles worth of goods in the next plan period. This is opposed to being given a pure quantitative target – e.g., produce  $x$  thousand tables (though such targets were set for some products). The accounting prices used for the setting of these rouble prices

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<sup>26</sup> Berliner, J. (1981), p. 228.

<sup>27</sup> Berliner, J. (1976), p. 269.

were fixed by the Central Administration for National Economic Accounts and Gosplan, the state planning commission.<sup>28</sup>

Potential difficulties arose in the 1930s because many new products were introduced and had to be given prices.

As we have seen, the cost price of new products was high due to the high initial costs of start-up. Up to 1953 subsidies kept the prices of these products low. But let us imagine if this had not been the case. If the prices of new products had actually reflected these higher costs, there would have been a “perverse incentive.” Let us say a large number of new products came into production and were given high prices. Over the next few years, the price of these products would remain high. This was because they had been fixed by the state and revisions of these prices by the center tended to be infrequent. Enterprises would have tended not to actively seek revisions downwards in their prices for self-interested reasons. However, the cost of producing these new products would decrease as the level of production expanded. This is the same process that occurs in a capitalist enterprise, as costs go down over time due to economies of scale, etc. In the Soviet Union, this meant that, over time, the profit to be made producing these products would increase but for no rational economic reason.

Let us say an enterprise wanted to produce a genuinely new product in this scenario. It's true they would be able to get a high price for producing a new product. However, they would have to incur all the start-up costs that the producers of the “new” products of longer standing no longer had to worry about. Therefore, without subsidies, the most profitable products to make would be the so-called new products that had actually been around for a few years. The profit rate of a genuinely new product would be lower than the profit rates of many products that were actually old products but which still had the high prices that they were given when they were new. Indeed if an unsubsidised enterprise was making a product that had retained its high

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<sup>28</sup> See Harrison, M. (1998) “Prices, Planners and Producers: An Agency Problem in Soviet Industry, 1928-1950,” *The Journal Of Economic History* 58:4, pp. 1032-33 and p. 1039. The accounting prices we are referring to here are the “unchanged prices” for goods which were used to set rouble plan targets and to assess how well the enterprise had met them. The “unchanged price” of a product remained stable for many years to allow year on year comparisons of an enterprise's performance. The actual prices paid for products, their “prevailing prices,” were subject to inflationary pressures and could diverge from “unchanged prices” in the Stalin-era. The state regulated prevailing prices, although some were set according to supply and demand; for example, some food was sold at market prices. Our concern in this article is with the incentives that existed for meeting plan targets. Therefore our concern is with “unchanged prices” rather than “prevailing prices.”

price for longer than it should have done, then it would do badly to change to producing a genuinely new product. The profit rate of the enterprise would slump.<sup>29</sup> This created a clear disincentive for innovation.

This is why the prices of new products in priority sectors were subsidised and the center did not automatically allocate cost prices to all means of production in the period up to 1953. Rather than giving the producer of a new product a price that reflected high start-up costs, a price below the initial cost of production was fixed. As Berliner writes, new products were subsidised to make up for higher initial costs but this subsidy would reduce over time:

As long as machinery prices were subsidised, the fortunes of innovators were not greatly affected by the declining costs of their products. The permanent price was set below cost, and the producer recouped the difference in the form of a subsidy from the state budget.<sup>30</sup>

Berliner then states that, because the subsidy was reduced as the cost went down over time, the profit rate on old products was not much higher than the profit rates on new products:

As cost declined, the size of the subsidy diminished, so that the older product did not yield a significantly higher return to the producer than the new product. The variable subsidy served as an instrument for offsetting the effect of the declining cost.<sup>31</sup>

Subsidies therefore removed a possible disincentive to innovation. The positive incentive for innovation came from the conscious promotion of innovation by economic planners, with the active participation of the workers at shop-floor level. Contrary to the views of bourgeois critics of the Soviet economic system, the fact that there is no endogenous incentive to innovate in any given economic system does not mean there is no incentive at all to innovate.

Bourgeois writers on innovation in the Stalin period have difficulty accepting this. For example, David Granick seems to rather struggle against this concept when

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<sup>29</sup> See Berliner (1976), p. 270.

<sup>30</sup> Berliner (1976), p. 277-8.

<sup>31</sup> Ibid.

he tries to explain the innovation that occurred during the First Five-Year Plan (1928-1932) in the key metal-fabricating industries. It is true he seems to accept the importance of socialist, planned innovation to the system to begin with. He states that in the First Five-Year plan the conflict between the planners desire for innovation and maintaining short-term output was not present in the metal fabricating industries. He writes:

Central authorities placed great emphasis on the independent success criterion of mastery of new products.<sup>32</sup>

He points out that this was not only true in branches of production where factories were only producing new products, like cars and tractors. It was also true in those parts of the industry where old and new products were both being produced in the same factories. In these factories there was a clear potential for conflict between concentrating on raising the output of the old product and introducing the new product. He adds:

Nevertheless, central authorities seem to have faced up to this conflict by placing, if anything, greater stress on introduction of new products than on total output.<sup>33</sup>

As we have seen, the usual criticism of central planning is that enterprises will resist innovation, to avoid disruption in the production of existing products. Granick here indicates that in the First Five Year Plan, this was not a problem due to the conscious effort of the planners to promote innovation.

However, Granick then devises a rather speculative “endogenous” explanation of innovation during the First Five Year Plan, presumably because this is what bourgeois economics demands. Granick argues that the innovation in the metal-fabricating industries “one would guess”<sup>34</sup> was made feasible by the fact that the new machinery had a higher value of output per ton of metal than old machinery. Granick argues that the supply of metal was the main limitation on production in this period, so new machinery was attractive for enterprise managers. He then says that in later

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<sup>32</sup> Granick (1967), p. 236.

<sup>33</sup> Granick (1967), p. 237.

<sup>34</sup> Granick (1967), p. 237.

years there were other supply constraints in addition to the metal constraint so managers would have seen less point in introducing new machinery. As the phrase “one might guess” suggests Granick is unable to point to any very strong proof for this theory.

There is another more plausible account of the progress of technology in the Stalin era. Moorsten made an exhaustive study of the prices and production of machinery in the Soviet Union between 1928 and 1958. It is true he found that in this period changes of models of machinery by enterprises were relatively infrequent, typically two or three times over the whole period.<sup>35</sup> However, Moorsten finds that the first part of the period consisted of very rapid economic development, followed by a period of preparation for war after 1937.<sup>36</sup> A sensible account of innovation in this period is that from the late 1930s military production trumped innovation (in the civilian sphere at least) as the planners’ main priority. Then came the war years and the years of post-war reconstruction, where again innovation in the production of civilian goods was not the main priority.

By 1950, the Soviet economy had recovered its pre-war output levels.<sup>37</sup> Innovation in the civilian sphere began again. Moorsten finds that Soviet accounts of the Fifth Five-Year Plan (1950-1955) indicate a rapid expansion in the number of new models of machinery produced. There was some conservatism when it came to discontinuing the production of old models, although this problem seemed to be improving.<sup>38</sup>

The contradiction between the planning system and the continued use of profit incentives had been asserting itself throughout the planning period. From 1936 an attempt had been made to eliminate subsidies to industry by raising wholesale prices to “cost-plus” (i.e., to their price of production – the cost of production plus a percentage for profit).<sup>39</sup> This might seem paradoxical given that Stalin was defending the idea of subsidies so strongly in 1952 in *Economic Problems Of Socialism in the USSR*. However, there seems to have been a fairly intense political debate over this issue, with different factions gaining the ascendancy within the Party at different

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<sup>35</sup> Moorsten, R. *Prices and Production of Machinery in the Soviet Union 1928-1958* (Harvard University Press, 1962), pp. 51-52.

<sup>36</sup> *Ibid.*, pp. 6-7.

<sup>37</sup> See Bergson, A. (1983) “Technological Progress,” p. 63, in Bergson, A., and Levine, H. (eds.) *The Soviet Economy: Toward the Year 2000* (Allen & Unwin, 1983).

<sup>38</sup> Moorsten, R. (1962), p. 52.

<sup>39</sup> Harrison, M. (1998), p. 1050.

times. Underlying this was a genuine contradiction between the use of profit as a way of keeping down costs and the use of subsidies. The use of subsidies obviously does undermine the use of profit incentives.

The effort to eliminate subsidies after 1936 was soon overtaken by events. The war led to inflation in the cost of labor and the means of production. However, costs in heavy industry were deliberately held down, as costs in other sectors rose. Thus subsidies reappeared.<sup>40</sup>

### **The End of Subsidies for Innovation**

According to Berliner's account the situation changed between 1949 and 1955 and subsidies were again eliminated.<sup>41</sup> Berliner does not really consider in this part of his work what Stalin was saying in 1952 about the need to maintain subsidies in heavy industry, creating what looks like an unresolved paradox. Why did Stalin apparently oversee the elimination of subsidies while arguing furiously with Soviet economists that they should be maintained in the debates recorded in *Economic Problems of Socialism in the USSR*? However, Harrison's archive-based account sheds a bit more light on what actually happened in this period. After the war, the Chairman of the State Planning Committee, Voznesenskii, did push for a price reform that would eliminate subsidies for heavy industry. This policy was implemented in 1949. This seemed to be part of a much wider push for "market socialism" by Voznesenskii, who appeared to advocating the use of indirect economic levers such as prices and profits on a larger scale. However, these policies were reversed after a bitter political struggle and the execution of Voznesenskii on charges of espionage. By 1952 wholesale prices for heavy industry were only 7% higher on average than in 1948, when the price reform started.<sup>42</sup> It should be said here that Moorsten quotes a 1956 Soviet source who states that the sudden price cuts in 1952 were entirely due to improved productivity.<sup>43</sup> This is rather against the implication of Harrison's archive-

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<sup>40</sup> Harrison, M. (1998), p. 1058. As Harrison points out throughout his article, inflation did have the effect of partially blurring the distinction between "unchanged prices" and prevailing prices. The unchanged prices of new products tended to reflect inflationary pressures, in a way that obviously was not intended by planners seeking a year on year stable unit of value. It should not be inferred that a perfect mechanism for setting plan targets had been found in the Stalin era, only that it was significantly more successful than the system that replaced it.

<sup>41</sup> Berliner (1976), p. 278.

<sup>42</sup> Harrison, M. (1998), pp. 1058-1060.

<sup>43</sup> Moorsten, R. (1962), pp. 9-10.

based account, that the reversal in price increases was due to the defeat of what was essentially a pro-market faction. Even, if the Soviet source was correct, it is clear from Stalin's writings that he intended for the means of production to be subsidised in the future. So when Berliner says that subsidies were eliminated between 1949 and 1955, we need to understand that this only became established policy after Stalin's death in 1953 with subsidies only decisively abolished in 1955.

Once we realise that Stalin actually wanted to maintain the subsidy system we can see how market-orientated economic reforms, implemented after 1953, derailed the economic progress of the Soviet economy.

Berliner writes that when subsidies were ended, start-up costs became included in the cost of new products. New products became less profitable to produce than old products. He writes:

With the elimination of subsidies, the high start-up costs of new products strained the finances of product innovators and militated against the decision to innovate.<sup>44</sup>

As we saw, subsidies are essential for innovation in a socialist system where profit is retained as a secondary economic objective. Berliner gives many examples of how genuinely new products in the 1960s now commanded lower profit rates than old products.<sup>45</sup> The high cost of producing a new product made it unprofitable to innovate.

The reason for this was the failure of the new system of "temporary prices." The idea was that when an enterprise introduced an innovation, they would only be able to charge a higher price for a limited period of time. As the cost of producing the new product declined, the temporary price was meant to be lowered. If this system had been successfully implemented, the Soviet system would have worked like the capitalist system. As we saw, a capitalist firm tends to charge a higher price for new products, then tends to decrease the price as production expands and costs come down.

The problem was that planners did not have time to keep going back and lowering temporary prices. Thus temporary prices remained for considerable periods

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<sup>44</sup> Berliner (1976), p. 271.

<sup>45</sup> Berliner (1976), pp. 251-54.

of time, so that a significant percentage of products were being sold at “temporary prices” by the mid-1960s. By 1964 32% of all machinery was being sold at “temporary prices.” The Soviet Union now had the problem that the costs of producing new products went down over time but the price remained high. Old products that had been given “temporary prices” had the double advantage of a higher price and a low cost of production. Producers of new products could charge a high price but also had to incur high start up costs. Older products that had been given high prices when they were new became more profitable to produce than genuinely new ones.<sup>46</sup>

Berliner does go on to analyse the economic consequences of this new policy in some depth. However, we cannot fully understand the reasons and the full consequences of what was happening at this time without an analysis of what was happening in relation to the USSR’s status as a socialist country. Berliner does not undertake this ideological analysis, which prevents him from fully drawing out the implications of the policies he describes. We can see clearly, though, that the rejection of Stalin’s line on subsidies and the efforts to stimulate innovation through pseudo-market solutions led directly to the progressive technological stagnation the Soviet economy endured from the late 1950s.

What was actually happening was that a socialist system that brought in innovations through conscious planning, assisted by subsidies was being replaced by a system that was trying to copy the capitalist economies. The leaders of the USSR after 1953 were clearly hoping that temporary prices would provide enterprises with an endogenous incentive to innovate, like a capitalist firm incentivised by the profit motive. Unlike the subsidy system, the system of temporary prices does not seem to have fit into the Soviet economic framework. Soviet leaders after 1953 were trying to transplant a capitalist model into what had been a socialist system. When the planning system was established, it was never intended that the prices of means of production would need to be endlessly moved up and down by central planners in an attempt to mimic the frequent changes of market prices. Stalin envisaged prices of means of production as an accounting tool, to help with the task of planning in terms of quantitative output. He also believed their existence helped with the task of monitoring the efficiency of enterprises using means of production to make the same

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<sup>46</sup> Berliner (1976), pp. 278-280

kind of product. He never envisaged any kind of “market” or pseudo-market in means of production. After Stalin’s death the new leaders of the Soviet Union kept trying to transplant aspects of the market economy into the planned economy. The new parts did not fit into the old framework and all they succeeded in doing was undermining the coherence and efficiency of the planned system. In this – the most significant instance – they removed the socialist incentive to innovate. However, the system was still not a genuinely competitive free market with prices set by supply and demand so the incentive to innovate that exists in a free market, capitalist system did not exist either in the Soviet Union after 1953.

Despite their intentions, the planners did carry on having to lay down plan targets for innovations to be introduced, after 1955, precisely because the new system made genuine innovation unprofitable. As the “temporary price” system penalised innovation, the state was forced to step in. However, the planners were constantly working against the effects of the mess they had made through ending the subsidy system and their efforts were ineffective.

A great many managers simply met the demands for introducing innovation by means of simulation. Simulated innovation was basically an abuse of the system of “temporary prices.” This system encouraged enterprise managers to pretend they had come up with a new product in order to attract a higher price, when in reality there was little new about the product at all.

Nina Andreyeva of the All Union Communist Party of Bolsheviks put the issue fairly succinctly in a 1992 speech:

For example, a factory produces a glass and prices it at a rouble. If a flower is drawn on the glass, it fetches four times the original price.

Drawing a flower is not difficult for the factory. No new technology is involved and it is not necessary to increase productivity. In other words, profits can be generated without using the results of scientific progress.

In the Soviet Union, during the Krushchev and Brezhnev reforms, fewer consumer goods were produced to satisfy the workers’ needs but the quest for profits was on. This orientation led to a slowdown in economic development and to a devaluation of the rouble.<sup>47</sup>

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<sup>47</sup> Andreyeva, N. “The Struggle Against Opportunism.” <<http://www.newworker.org/ncpcentral/nina.htm>>, accessed 25/08/2010. The quotation here from Andreyeva’s speech should not be taken as my endorsement of any policy or statement made by her party.

It is only fair to say that such simulation was not unheard of during the time of Stalin, as a response to pressures and incentives to innovate. However, Berliner states that

It does appear, however, that the extent of the practice expanded greatly following the introduction of temporary pricing in 1955. . . .<sup>48</sup>

We can easily understand why this was the case. Up to 1955 an enterprise that was told to innovate could do so without its profit rate plunging, as long as its start-up costs were subsidised. After 1955 this was no longer the case. If an enterprise wanted to make a profit, or if it was told to innovate by the center, then they were inevitably far more tempted to simulate innovation than they had been pre-1955. The Soviet leadership, themselves, recognized that the failed system of temporary pricing had led to this result and attempts were made to deal with this problem in 1966 and 1967, with reform of the pricing system. These efforts did not meet with success. Writing in 1976 Berliner found that the problem of temporary pricing still continued. The reform of temporary pricing never seems to have really got off the ground. In 1967 some of the new restrictions on the type of products that could attract temporary prices were eased. In 1971 it was found that many engineering enterprises maintained profit rates of 25-30% due to temporary prices.<sup>49</sup> Nove quotes a 1983 Central Committee statement to the effect that the producers of new equipment were still losing out while those avoiding innovation were not. He also cites a 1986 article in a Soviet economics periodical that found the problem of the simulation of innovation for the sake of higher profits was still widespread.<sup>50</sup>

After 1960, enterprises that wanted to innovate could apply to the New Product Fund for help but the subsidy was only partial and the process applying for it cumbersome. It was ineffective at stimulating innovation.<sup>51</sup>

### **Econometric and Direct Evidence**

It needs to be pointed out here that not every economist agrees that the rate of technological growth did slow down in the post-war period. Without going into too

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<sup>48</sup> Berliner (1976), p. 377.

<sup>49</sup> Berliner (1976), pp. 288-89.

<sup>50</sup> Nove (1986), p. 192.

<sup>51</sup> See Berliner (1976), pp. 200-01, Berliner (1976), p. 273 and Nove (1986), pp. 191-92.

much technical detail, there are basically two econometric approaches to the Soviet growth slow-down. The difference between them is not due to disagreements over which set of Soviet growth figures are “correct” but due to disagreements over how they should be interpreted. Both approaches try to look at the sources of growth in terms of growth of capital and labor inputs. One approach interprets the growth figures to find that the “residual,” i.e. the sources of economic growth other than growth in labor and capital were declining during the post-war period. Bergson was one of the leading advocates of this approach.<sup>52</sup> (Bergson calculates total factor productivity growth using a Cobb-Douglas production function with unit elasticity of substitution between capital and labor.) In this interpretation, the most important reason for this decline in “total factor productivity” (TFP) is found to be declines in the rate of technological progress. According to this account, capital expenditure kept on increasing throughout the postwar period. However, the decline of technological progress to a very low rate meant that it could not sustain much of a growth rate on its own, especially when the labor force stopped growing too.

The author of the other approach was Martin Weitzman. He argued that one could interpret the post-war growth figures to show that the rate of technological progress was constant (albeit not very high) over this period. It is then argued that high, sustained year-on-year growth in capital expenditures led to progressively diminishing returns to capital, once growth in the labor force slowed down in the Soviet Union in the 1960s. (Weitzman uses a Constant Elasticity Substitution-CES-production function with an elasticity of substitution less than one.) Weitzman’s model therefore tries to explain the slow-down as diminishing returns to growth in a single factor of production. These diminishing returns had a particularly marked effect on output, he argued, because the share of capital in national income and the rate of growth of capital expenditure were so high. The relatively low rate of technological change was not enough to effectively offset the large effect of these diminishing returns, Weitzman argued.<sup>53</sup>

Of course Weitzman’s approach might be seen to contradict what is said here about technological progress slowing down after 1955. However, it must be stressed that Bergson and Weitzman are just coming up with different ways of interpreting

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<sup>52</sup> See Bergson, A. (1983).

<sup>53</sup> Weitzman, M. (1970) “Soviet Post-War Economic Growth and Capital-Labor Substitution” *American Economic Review* 60:4, pp. 676-92.

growth figures, using different types of production functions. They are not appealing to direct evidence to settle the question.

I believe the direct evidence does show that the rate of technological diffusion varied over time. This article has quoted evidence from Granick, Berliner and Moorsten, who all made extensive empirical studies of the innovation and the introduction of new products into the Soviet economy. The evidence they found indicates a high rate of introduction of new products in the first half of the 1930s. This seems to have slowed down due to the cycle of preparation for war, war itself and the process of reconstruction. Moorsten then finds many new products being produced during 1950-1955. Berliner finds big disincentives to innovation and a proliferation of phony innovations after 1955.

In addition, Khanin notes that in the field of electronic calculating technology, Soviet technology did not lag behind electronic calculators produced in the USA in the 1950s.<sup>54</sup> Amman and Cooper, however, note that by 1970 the USSR was far behind the USA in computer technology,<sup>55</sup> (although efforts to catch up seem to have been made after this). Amman and Cooper also found that the rate of diffusion of technology in industrial processes did vary between different periods in the period 1971-1983.<sup>56</sup>

The direct evidence, I would argue, supports the view that the rate of technological change varied throughout the history of the Soviet Union, which is Bergson's view. Bergson calculates what he describes as the contribution of Technological Progress Proper (TPP) to Soviet post-war industrial growth rates. He does this by taking the TFP figure and stripping out causes of growth such as improvements in education and improvements in productivity due to transfers of labor from lower productivity farming to higher productivity industry.

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<sup>54</sup> Khanin, G. (2003) "The 1950s – The Triumph of the Soviet Economy," *Europe-Asia Studies* 55:8, p. 1194. Khanin also quotes figures showing a very high level of new types of machinery and equipment brought into production in 1960 compared to 1950. It is not clear from Khanin's article how far the 1960 figure might reflect the rise of the simulated innovation. Also it must be remembered that 1950 was probably something of a low point in terms of innovation. Prior to this reconstruction had probably been the priority. The post-war efforts at innovation planned for in the 1950-55 Plan probably only started bearing much fruit later on in the five-year period or indeed after the Plan had ended, as new machinery planned in this period may have only entered production later on.

<sup>55</sup> Amann, R. et al. (1977), p. 393

<sup>56</sup> Amman, R. and Cooper, J. (1986), p. 10 and p. 28.

Bergson then provides the following TPP annual average growth figures:

<u>Year</u>	<u>TPP</u>
1950-60	2.88
1960-70	0.98
1970-75	0.16 <sup>57</sup>

Interestingly, stripping out the positive effect of farm to industry labor transfers on productivity only reduces growth rates by between 0.30 and 0.39% over the period.<sup>58</sup>

The figures here show a coincidence of a decline in TPP after 1960, with the slow down in growth rates we have already noted.

I am not aware of a TPP comparison for 1950-55 and 1956-60. There is a question about when the removal of subsidies started to have an effect on the USSR's economic growth. Khanin believes<sup>59</sup> that the slow down in economic growth began in the late 1950s (though for different reasons than the ones given here, see below). As we have seen, the figures show that, in the period after 1960, there was slower annual average growth than in previous periods.

Obviously, disincentives to innovate would not have hit growth straight away. Plans for to introduce new machinery and products already in progress in 1955 would have needed to be completed. The introduction of new means of production in 1950-55 would have still been making its effect on productivity felt in the next five-year period. In addition many of the disincentive effects of the new system would take a while before their full effect was felt. The phenomena of genuinely new products having lower profit rates than products with higher "temporary prices" long after the temporary price should have been removed would not have made itself felt at first. Though as it did make itself felt, it would have had a cumulative negative effect on growth.

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<sup>57</sup> Bergson, A. (1983), p. 49.

<sup>58</sup> Bergson A. (1983), p. 45.

<sup>59</sup> Khanin (2003), p. 1209.

### **How Capitalist Was the USSR after 1953?**

It must be stressed that the transformation of means of production into commodities after 1955 was meant to be the “first instalment” of a plan to reintroduce a fully market system into the USSR. Under Khrushchev, the planning organs continued to do their work of allocating means of production to different enterprises and prices remained fixed by the state, even if these prices were meant to reflect prices of production. However, it was certainly never the intention of Khrushchev or his successors to turn the means of production into commodities and to go no further. As Khrushchev himself said in his address to the 1961 22<sup>nd</sup> Party Congress:

In the course of communist construction, it is our task to make still greater use of, and to improve, the financial and credit levers, financial control, prices and profits. We must elevate the importance of price and profitability. In order that enterprises fulfil their plans better, they should be given more opportunities to handle their profits and use them more extensively to encourage the good work of their personnel and to extend production.<sup>60</sup>

The post-Khrushchev 1965 economic reforms were meant to introduce a fully market orientated approach to the economy. However, this was not what happened in practice. For example, the principal author of the reform, Kosygin, proposed that there would be a switch from administrative allocation to wholesale trade in the means of production.<sup>61</sup> This would certainly have meant the collapse of the central planning system. If enterprises could have bought means of production from wherever they wanted, then central planning would have lost all meaning. Let us say you have an enterprise producing industrial machinery. If there is complete free trade in means of production, what sense would a plan target make? The amount the enterprise produced would depend on the demand for its product at the prevailing market price. An output target from a central planner would have been redundant, which is the situation Kosygin no doubt hoped would evolve.

However, free market wholesale trade did not develop. In 1973, 97% of producers' goods were still being allocated by the planning authorities.<sup>62</sup>

More reforms followed in 1979 and from 1982 but after 1955 no significant

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<sup>60</sup> Khrushchev, N. *Documents of 22<sup>nd</sup> Congress of the CPSU, Volume II. The Report on the Programme of the Communist Party of the Soviet Union* (Crosscurrents Press, 1961), p. 99.

<sup>61</sup> Nove, A. (1986), p. 29.

<sup>62</sup> *Ibid.*, p. 29.

change happened until the end of the 1980s. Targets for the quantity of goods produced or sold seemed to remain the most important consideration for enterprises, with profitability remaining an important but secondary goal set for the enterprise manager. Even after the Kosygin reforms, the primary task of the enterprise manager was to follow instructions from the center about where to obtain means of production from and what to produce. The subsequent attempts at reform seem to have done little to change this situation.<sup>63</sup> Despite some emphasis on rewarding enterprises for goods sold, rather than simply for the goods they produced, a free market system did not come into being. There was no freedom for enterprises to buy and sell to whom they pleased and they could not set prices without central authorisation.

Whatever the intentions of some of those involved in the reform process the switch over to a fully market economy did not occur until the very end of the Soviet Union. With the benefit of hindsight it is likely that the so-called “conservatives” who held back reform did so because they could sense the chaos it would cause, though there is no evidence that any of these people actually wanted to return to socialism. They seemed to just want the Soviet Union to stick with stagnant state capitalism out of the fear of what was likely to come afterwards.

So why call the Soviet system after 1953 “capitalism” and not “socialism,” it might be asked? A quick comparison illustrates the differences. Up to 1953, the prices of means of production diverged from values as part of a consciously determined economic plan. After 1953, the planners generally intended the means of production to be commodities and began to set prices accordingly. After 1953 the prices of means of production, were not intended to diverge from value. Of course, they often did diverge due to inefficiencies in matching official prices to prices of production. The crucial point is, though, that when it came to the means of production, what was now being “planned” was commodity production. Once the means of production became commodities it undermined the whole organisation of industry. The Soviet Union’s entire industrial sector disintegrated into an ineffective hybrid of planning and commodity production with commodity production being the dominant factor.

What causes the confusion over this issue is the fact that bourgeois writers on the Soviet economy such as Alec Nove tend to discount Marxist economics. As they

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<sup>63</sup> Ibid., pp. 80-85.

do not accept Marx's theory of value, the fact that the Soviet economy after 1953 was governed by the law of value does not really register with them to any great extent. They tend just to look at the fact that the economy remained under state ownership and the fact that prices were fixed by the state and assume that there was little fundamental change in the nature of the system. However, this article has analysed the Soviet economy from a Marxist perspective – an analysis that states that the overcoming of the alienation of labor and conscious planning is principal in a truly socialist economy. After 1953, the purpose of price fixing and the central allocation of means of production was to try to imitate the workings of the market and to follow the law of value. The fact that the authorities were not always successful in doing this – prices unintentionally diverged from values, and profits were not always equalised and so on – does not change the intention or essence of the system.

Finally, it must be mentioned here that movement in the direction of capitalism was not confined to the Soviet Union, although there is no space here for an analysis of the fate of the other socialist countries. All of the Eastern bloc economies implemented various versions of economic “reform” after the death of Stalin. With the exception of Albania, Eastern Europe followed the Soviet Union down the capitalist road, with similar results.

### **Socialism and Imperialism**

The main question then must be: why was it that Soviet leaders after 1953 abandoned socialism and started trying to copy capitalism? This is a hugely complex subject and only a brief attempt at an explanation for it can be given here. Probably one of the most significant reasons was the desire of the post-Stalin Soviet leadership to catch up with western living standards. Khrushchev once famously said that the USSR would “bury” the USA in terms of living standards. After this statement, the world judged the success of “socialism” on the basis of whether it could match the living standards of the western world. This would have very far-reaching consequences for the fate of socialism.

It seems likely that the desire to catch up with Western living standards led the Soviet leaders to attempt to copy the Western capitalist economic model, as they may well have been influenced by the idea that market economics, rather than the West's dominant position in the world imperial order, was the source of western prosperity. As no Soviet leader would have admitted to such a thing publicly, it must be

acknowledged that what follows here is speculative when it comes to analysing the subjective intentions of Soviet leaders.

The objective facts do back up this argument, however. It is true that the West did enjoy an imperial economic advantage that the USSR lacked. It also cannot be disputed that the Soviet leadership carried over a somewhat outmoded view of the world into the post-war era. They still talked as if the center of world proletarian struggle was in the West and that world socialism depended on the establishment of socialist governments in the West. The continuing affluence of the West and the consequent absence of revolutionary class struggle (as opposed to trade union struggle), for most of the period is likely to have undermined this view, as time went on. We can imagine how it led to demoralisation among the Soviet leadership and an unspoken questioning of the socialist project. It could well have been that these factors encouraged the Soviet leadership to forget about class struggle and embrace market “reforms.”

No one can doubt that the continuing affluence of the West did exert a great pressure on all the Eastern Bloc leaders, in terms of problems with emigration and the way it undermined the legitimacy of their regimes. At the same time these leaders made no real effort to explain to the peoples of the Eastern Bloc that this affluence had been underwritten by imperialism. Failure to do this created a contradiction, which consciously or not, pushed these leaders in the direction of capitulation to the capitalist world system.

It is beyond question that the leading capitalist countries have enriched themselves by exploiting the natural resources and cheap or slave labor of subjugated peoples. The origins of western capitalism are bound up with the plunder of the Americas, Africa and Asia. Colonial trade boosted what Marx describes as merchant’s capital a large portion of which was converted into industrial capital at the time of the industrial revolution. This was an important element of the process of primitive accumulation of capital – a process that began prior to the emergence of the industrial capitalist and that provided the capital necessary for the emergence of capitalism. The account of primitive accumulation here is of course based on Marx’s own account.

Let us take the example of Britain. It is true that the expropriation of British peasants and the use of their land for sheep rearing and the wool trade were vital to

the development of merchant capital. However, British merchant capital was also boosted very significantly by colonial conquest.

The two pillars of this colonial merchant capital were the seizure of land and natural resources in the colonies and slave labor. The rich and fertile lands of America and the Caribbean were seized without payment in order to grow sugar, tobacco and cotton. Without the use of force, these resources would have been available to boost merchant capital only at the cost of large rental payments. This production did not take place on “virgin land” but on land used by the indigenous population for hunting and farming. Given it was the source of the native population’s subsistence, a very large payment would have been necessary for its use without the use of coercion. A similar principle is at work today in areas of the world where indigenous populations are being displaced to make way for plantations or mining, such as parts of modern India. The displaced indigenous populations lose their life-long means of subsistence, receiving either no compensation or a level of compensation that can only sustain them for a fairly short period of time.

Slavery also boosted merchant’s capital in an appreciable way. Slaves on the plantations in America only had to be supplied with subsistence. It was very unlikely that enough of the white European settlers could have been induced to have done all the necessary work for subsistence wages by picking cotton or cutting sugar cane. (During the whole period in question at least, initially some white indentured laborers were used to perform these tasks.) Free land was available in the Americas for white settlers, who, as Marx notes,<sup>64</sup> made the driving down of wages to subsistence levels very difficult. There was no point in offering white settlers subsistence wage as they were better off farming the fertile lands that could be plundered from the native population. Using slave labor instead lowered costs for the plantation owner and boosted their profits. The circulation of this extra capital ultimately helped facilitate the emergence of Britain as an industrial power.

It is important to understand that the benefits of colonialism did not end with the initial conversion of plundered wealth from merchant capital into industrial capital. The West continued to benefit from the cheap prices paid for oil and other commodities long after formal colonialism ended. The US, like other western countries, benefited from the weakness and disorganisation of the oil producers and

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<sup>64</sup> Marx, K. (1976) *Capital*, Volume 1, see Chapter 33.

other Third World commodity producers who allowed their natural resources to be exploited by the West without an adequate payment being made. Royalties paid by the oil companies and other multinationals to Third World governments in no way reflected the value to the West of the cheap oil and other commodities that they obtained from the soil of the oppressed nations. The poor returns made by the oil producing nations and other commodity producers on their natural resources meant a large subsidy for the industries of the West in the form of cheap raw materials.

The Soviet Union did not benefit economically from imperialist plunder, even after 1953. The Soviet Union had much less involvement in world trade than the western nations so it did not, to any great extent, boost its national income by importing cheap commodities and manufactures from Third World countries, as the West was able to do.

The whole benefit the West derived from cheap fuel and raw materials before 1973 was down to its imperial history. Before the Second World War, the West European powers had carved up the non-industrial nations between themselves in order to ensure access to raw materials and markets. Naturally, they did not bother to develop manufacturing industry in their client states, as this would simply have created competition for their own industrial sectors. In countries where direct imperial rule was not exercised, for example China, the dependent states were forced to sign unequal treaties that prematurely opened up the economies to western manufacturing exports. This prevented countries like China from developing their own industry behind protective barriers – which had been the growth path of the western nations.

After the Second World War, the West retained its ascendancy, despite the movement to formal independence in most colonies. The secret of the high western living standards lay in the economic order inherited from the colonial era. The West specialised in industrial goods and the Third World nations tended to specialise in exported primary products like agricultural produce, oil, minerals, etc. In the West pressure from trade union and socialist movements meant industrial workers were paid relatively high wages, pushing up the prices of industrial goods. Thus “unequal exchange” took place between the nations of the Third world that produced cheap primary products with low-wage labor and the nations of the First World that produced expensive industrial products with high-wage labor. A transfer of value took place from the primary product producers in the Third World to the First World. This

transfer of value made it easier for western capitalists to pay their workers high wages. Cheap raw materials reduced the costs of the western capitalist, making the paying of higher wages more affordable. Cheap petrol and food imported from the Third World boosted the real wage of the western worker and reduced the pressure on the western capitalist to meet demands for higher living standards out of their own pockets.<sup>65</sup>

Although the physical productivity of Third World primary product producers was often lower than their western counterparts, their low wages more than made up for this. This is illustrated by the way the remaining production of very many primary products in the West had to be subsidised to allow for the much higher wage costs of western producers.

Resentment over this unequal exchange led to the oil price hikes of the 1970s. Since 1973, oil and commodity prices have been very volatile and the economies of the West have grown in a generally slower and far more unstable way. Since 1973 there has been constant tension between the imperialist nations and oil exporters over the price of oil. The 1979 Iranian Revolution pushed up oil prices again and gravely threatened western interests. A continual antagonism between the West and Iran began. Saddam Hussein invaded Kuwait in 1990 over the Kuwaiti reluctance to limit production to support the world oil price. As a result of the Iraqi invasion of Kuwait, US troops were stationed in Saudi Arabia, which provoked Bin Laden to carry out the callous 9/11 attacks. The 2003 invasion of Iraq was on the one hand a somewhat eccentric response to 9/11 by the US and on the other a resolution of the unfinished business left from the 1990 Gulf War. US antagonism towards Chavez is partly caused by his agitation for higher oil prices in OPEC.

We can see therefore that the contradiction between the imperialist nations and the oppressed nations has been the principal contradiction in the world up to now. Though there were efforts by Third World producers of non-oil primary products to increase their price, they lacked the strength of the oil producers. The price of oil has therefore been the main battleground in the fight between First World and Third World and the conflict over the price of oil has often been very antagonistic. Sadly, effective solidarity between non-oil producing Third World countries and the OPEC

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<sup>65</sup> I am indebted to Arghiri Emmanuel's book, *Unequal Exchange. A Study of the Imperialism of Trade* (Monthly Review Press, 1972), for this section, despite my many theoretical and political disagreements with Emmanuel's work.

nations has been lacking, primarily because OPEC nations have been governed by reactionary regimes, that have put their own narrow interests above the struggle for a better future for all the Third World.

The crisis of 1973 did little to dent the prevalent image of a rather poor and stagnant Eastern bloc and a relatively successful, resilient capitalist West. Even after 1973, unequal exchange has continued as the more labor-intensive, less high-tech manufacturing has been progressively outsourced to the Third World, where the work can be done by a much lower-paid workforce. Western consumers have therefore benefited from cheap imported manufactured goods, produced by super-exploited labor in the Third World. This has had the effect of maintaining Western living standards, while curtailing the inflationary tendencies that emerged in the West in the 1970s due to the Oil Crisis. The Eastern Bloc had no such mechanism for boosting growth from the end of the 1970s.

Critics of the hypothesis of unequal exchange claim that international wage differences between the manufacturing workforces of different countries are accounted for by differences in labor productivity. On one measure this might be true. It is correct that the “value added” by Third World workers in export industries is lower, in monetary terms. But this is because the price of their product is lower due to the afore-mentioned lower wages.

The only really sensible measure of productivity in such circumstances is physical productivity, not monetary measures of value added. A variety of studies have given many examples of manufacturing processes that were outsourced by the West, where physical productivity (that is the quantity and quality of the physical product each worker produces) has remained largely unchanged, although the workers are paid far less than their western equivalents.<sup>66</sup> Where these studies show a lower productivity, this is generally in no way proportional to the much greater difference in wages. The idea that international wage differences are everywhere proportional to

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<sup>66</sup> See, for example, United States Tariff Commission (1970) *Economic Factors Affecting the Use of Items 807.00 And 806.30 of the Tariff Schedules of the United States*, Tariff Commission Publication 339; see also Baerresen, D. *The Border Industrialisation Program of Mexico* (Heath Lexington Books, 1971), pp. 24 and 33-4; see also Frobel, F., Heinrichs J. and Kreye O. *The New International Division of Labor* (Cambridge University Press, 1980), pp. 34-5 and 140; see also Moxon, R. “Offshore Production in the Less-Developed Countries – A Case Study of Multinationality in the Electronics Industry” in *The Bulletin/New York University Graduate School of Business Administration, Institute of Finance*, July 1974 issue, pp. 26 and 61. I am indebted to Raffer Kunibert’s book, *Unequal Exchange and the Evolution of the World System* (Macmillan 1987), for drawing my attention to these studies.

differences in physical productivity is a simple dogma. Moreover, it is a dogma that flies in the face of common sense. For example, the *average* urban wage in China is under a dollar an hour, while the minimum wage in the USA is \$7.50 an hour. It would seem obvious that wages for unskilled or semi-skilled labor in the US are higher than in China because of the higher minimum wage. In addition skilled wages are higher in the US than in China because the skilled wage will usually be a multiple of the unskilled wage due to the higher bargaining power of the skilled worker.

It is fairly obvious that low wages in the Third World, in general, exist for institutional reasons and are not directly proportional to differences in the physical productivity of labor between the workforces of First and Third World countries.

Sometimes people try to explain lower wages in the Third World in terms of lower prices for consumer goods in the Third World. It is true that, for example, Chinese workers do pay less for food but this is only because of the low price the peasants receive for their produce and the consequent miserable income the peasants receive. The poverty of the peasants creates a subsidy for industry in China which enables capitalists employing Chinese workers to pay lower wages.

The outsourcing of manufacturing is a clear reversal of the imperialism of a previous age. Pre-war imperialism prevented industrial development in the oppressed nations. Even after the end of formal colonialism, in the post-war era, very high tariffs on Third World goods tended to retard the development of these countries. However, some reductions in tariffs and western tolerance for aggressive export promotion by the countries of East Asia have led to a change in the global economic order. Third World countries are no longer almost exclusively exporters of primary products; many of them are substantial exporters of manufactured goods.

What the long-term effects of this new form of international exploitation will be is as yet unclear. Currently, ownership of the advanced means of production tends to be concentrated in the First World. The core of the world's proletariat tends to be concentrated in the Third World. The workers of the First World form a kind of aristocracy of labor. Certainly, globalisation is a rather double-edged sword from the point of view of the western working class. The import of cheap manufactured goods has led to undoubted economic benefits for western consumers. Without this factor inflationary pressures would have been much higher in recent decades, leading to much harsher deflationary policies by western governments and declining real wages. Instead, western economies recovered from the economic disruption and recessions of

the 1970s and early 1980s. They then embarked on a long period of non-inflationary growth, facilitated by these cheap imports, to a significant extent. This period of growth was only interrupted by fairly brief shallow periods of recession – until 2008. It is also true that high minimum wages in the West (and the continuing influence of collective wage agreements in some sectors) have prevented outsourcing leading to catastrophic downward pressure on western wages. However, real wages have tended to be rather stagnant in many western countries in the last two decades. The maintenance of relatively high, real wages has also occurred alongside high rates of unemployment, especially in former industrial areas.

The co-existence of relatively stagnant living standards for the working class in the West and Japan, alongside fast economic growth in many Third World countries, inevitably leads to the question of convergence. Is the old division between the First World and the Third World outmoded? Is it the case that the import of cheap manufactured goods was just a “temporary fix” for the West? The wild card that might destabilise the world order is the economic rise of China. (India is also often mentioned in this context but it is a lot further behind the West than China and its per capita economic growth rate is rather slower than China’s.) Most of the work the western working class does, in those sectors where outsourcing is physically possible, could be done more cheaply in the Third World. What is necessary is for Third World nations to have the advanced means of production available to develop their own products such as computers to build their own aircraft and so on – as opposed to just assembling components made in countries with more advanced economies. To some extent this process is already taking place in Third World countries, in China, especially. If more and more high-tech production and high-quality research and development can be done in China, convergence between the economies of the First World and China could occur. Economic development could facilitate the rise of wages in China, while competitive pressures could force western countries to reduce minimum wage levels (as Ireland has done).

However, the current pressure for China to appreciate its currency suggests that the tactics that the US used to knock Japan down as an economic competitor in the 1980s could be repeated. As the dollar is an international reserve currency, an appreciation of the yuan against the dollar could seriously damage China’s export competitiveness and retard its economic growth and prospects of catching up with the West. Even with the appreciation of the yuan, the US could still benefit from unequal

exchange as it shifted labor-intensive production to other Third World countries that did not pose a high-tech challenge to the western economies.

It has been said by some that the Soviet Union started relating to Third World countries in the same unequal way as the West, after 1953. It is true that Stalin's successors made efforts to expand Soviet international trade. However, the Soviet Union's share of trade with the Third World was very limited compared to the West. The real economic benefits of it to the Soviet Union appear to have been fairly small. The Soviet Union simply could not recover from the downturn of the 1970s in the same way that the West did by outsourcing less high-tech manufacturing processes to the Third World. To the extent that the USSR did trade machinery and arms for the primary products of Third World countries, it could have been said to benefit from unequal exchange. This trade should be put in the context of Soviet efforts to pressurise China politically and militarily after 1958 as well as the invasion of Afghanistan in 1979 – among other foreign interventions – when evaluating the question of whether the Soviet Union became imperialist in this period. Certainly, such aggressive behaviour by the Soviet Union did provide evidence of a broadly imperialist orientation, after 1953, even if the Soviet Union did not benefit economically from this orientation to the same extent as the West.

There are those who argue that the Soviet Union could have survived economically if it actually had developed a western-style trading relationship with the Third World. Allen in his work on the Soviet economy traces much of the collapse in productivity and growth from the mid-1970s to the increasing costs of extracting raw materials in the Soviet Union.<sup>67</sup> Allen argues that the Soviet Union could have survived by exporting more manufactures and buying more raw materials from cheaper suppliers abroad. However, unlike Allen, I believe there was a technological constraint preventing the Soviet Union from following this kind of Japanese export-led growth trajectory, for the reasons I have demonstrated at length above. Soviet manufactured goods simply would not have been good enough to compete with West German and Japanese goods in the late 1970s and 1980s. West Germany and Japan were able to recover from the problems of the 1970s because of their high-tech export sectors. The UK and the USA sustained their economies by continuing to develop their financial sectors and by benefiting from the export of capital. None of these

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<sup>67</sup> Allen R. (2003), see Chapter 10.

options were open to the Soviet Union in the 1970s, which had to rely on oil exports for much of its foreign exchange. Other exports, like its military exports, played a secondary role in its total trade. The subsequent fall in oil prices in the second half of the 1980s would have led to a serious economic crisis in the Soviet Union, even without Gorbachev's wrecking "reforms."

### **Did the Soviet Union Fail to Invest after 1953?**

Of course, the lack of imperial privilege did not make it completely impossible for the socialist countries to "catch up" with the West in economic terms. However, even if the USSR and its allies had retained socialism after 1953, it would have taken a very high level of investment over a long period of time, which would have necessitated rather low levels of consumption. Given consumption was booming in the West after the War, this would have led to increasing discontent among the workers of Eastern Europe.

The economist Gregory Khanin, in a fascinating article of 2003, ascribes the failure of socialism in the Soviet Union after 1958 to a failure to invest. Interestingly, Khanin was a leading critic of the Soviet economy and Soviet society in the 1980s. He favoured the dissolution of what was left of the central planning system and the introduction of the market. His alternative (lower) figures for Soviet economic growth were used as evidence to support the decision by Gorbachev to introduce his disastrous policy of Perestroika. In Khanin's 2003 article, he virtually recanted. He published an article giving a very positive account of the Soviet economy until the end of the 1950s. He talked of how central planning might be a solution to the post-Soviet economic problems of Russia and even hinted that his previously very negative view of the Stalin era had softened in some aspects.<sup>68</sup>

Khanin finds evidence that the proposals for the Sixth-Year Plan (1956-60) implied insufficient investment for the expansion proposed. According to Khanin's analysis, national income was expected to increase 60% over the course of the plan, with an increase in investment of 67%. However, Khanin finds that much of this investment was unproductive and would not directly support a growth in national income. For example, there were big increases in housing and hospital beds and an expansion of catering and the distributive trades. The facilities for all this were

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<sup>68</sup> Khanin, G. (2003).

included as part of the investment total, although they were unlikely to have played a major role in boosting the country's productive base. Overall, according to Khanin, the Sixth-Five Year Plan put forward very ambitious plans for industrial modernisation, including developing the chemical industry and automation but failed to ensure adequate supplies of the equipment necessary to reach such targets. Instead of making sacrifices to realise the plan, the workers were awarded a significantly higher level of consumption within a very short period and a shorter working week.<sup>69</sup> This is hardly the type of policy that was pursued in countries like Japan and South Korea when they were seeking economic parity with the West!

We can see the problems that even a socialist regime would have had in trying to catch up with the West. Given how affluent the West had become and how fast it was growing in the post-war years, catch up was incredibly difficult. It would have taken something like the current growth strategy of China. In China, since 1978, near double-digit growth rates have been sustained by low wages and the suppression of consumption. This policy has enabled a massive rate of investment. Whether the Soviet Union could – or should – have gone down some sort of socialist version of this high-investment path after the War is very much open to debate.

Khanin's article might lead the reader to assume that greater investment in the means of production would have enabled the Soviet Union to grow more robustly in the period after 1953. This view might be seen as paradoxical given that most writers tend to assume that investment in the means of production was very high throughout the whole post-war Soviet era. This view is borne out by the official Soviet figures. However, determining the actual level of investment in the Soviet economy is made extremely difficult by the rather unscientific way growth in capital expenditure seems to have been measured. It is believed by many that Soviet figures over-estimated the extent of real growth in capital expenditure by under-estimating the rate of inflation in the prices of capital goods.<sup>70</sup> Khanin's revised figures for growth in the stock of fixed assets indicate, if correct, that the figures for capital formation were lower overall than official figures show and that there was a deceleration in the growth rate of capital formation in all periods after 1960-1965.<sup>71</sup>

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<sup>69</sup> Khanin (2003), pp. 1194-97.

<sup>70</sup> Kontorovich, V. (1989) "Inflation in the Soviet Investment and Capital Stock." *Soviet Studies*, 61:2, pp. 318-29.

<sup>71</sup> Harrison, M. (1993).

This revision, though interesting, does not fundamentally explain the slow-down in Soviet growth. Let's assume that the Soviet authorities had decided to actually invest at a level sufficient to catch up with the West, rather than just issuing figures that purported to show that this was happening. The failure to innovate after 1953 would have undermined such efforts. The provision of massive investment funds without adequate incentives to use these funds to innovate would have led to a waste of resources.

However, the "failure to invest" thesis does help explain one of the events that has done most to discredit socialism in the popular mind: the building of the Berlin Wall in 1961. It is necessary to briefly examine this matter, despite our main topic here being the Soviet Union. The economic problems in East Germany began before 1953 and it is important to explain why.

While West Germany was benefiting from US economic aid after the war, a significant part of the East German capital stock was being dismantled and shipped to the Soviet Union for reparations. Thus, according to Sleifer, in 1950, the East German industrial capital stock was 72% of the 1936 total, whereas the West German capital stock was 122% of the 1936 total.<sup>72</sup> Moreover, it seems that until at least the mid-1960s, gross investment in the capital stock was higher in *West* Germany than East Germany, although according to Sleifer comparisons are rather difficult.<sup>73</sup> However, after this time investment by East Germany seemed to catch up. Relatively higher growth in capital investment may have been what allowed the East German overall economic growth rate to almost reach that of West Germany's from 1970 until 1980. The average rate was 2.6% in East Germany in this period as against West Germany's figure of 2.8%.<sup>74</sup>

Purely from the point of view of investment, therefore, it can be argued that the history of East Germany is a story of tragic ambivalence. Stalin probably wanted East Germany, like the other countries of the Eastern bloc, to demonstrate their superiority over the West in terms of economic growth. But the reparations he demanded fatally undermined such an outcome. After Stalin died the reparations were soon cancelled. However, the East German leaders fearing worker unrest, failed to raise investment to adequate levels, preferring to increase consumption to buy off

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<sup>72</sup> Sleifer, J. *Planning Ahead and Falling Behind*. (Akademie Verlag, 2006), p. 72.

<sup>73</sup> *Ibid.*, p. 57.

<sup>74</sup> *Ibid.*, p. 66.

the restive workforce in the short-term. The effect of this was for East Germany to fall further and further behind the West, resulting in the erection of the Berlin Wall to prevent the outflow of East Germans of working age seeking a better standard of living. By the time East German growth rates caught up, growth rates in both Eastern and Western Europe were heading for a fall due to higher oil prices, and the effects of the catch-up in growth rates for the people of Eastern Germany were hardly inspiring.

### **The Free World Vs. the Communist World?**

The main topic of this article is economics. However, it is probably not possible to address the “failure of communism” in any article without looking at the political aspect of the question. Without some examination of the controversies around such matters as the “Purges” it is likely that the positive things to be said about the Soviet economy up to 1953 will be dismissed. Condemning everything that happened in the Soviet Union in the Stalin-era due to the Purges is very unscientific, as I noted in the introduction, but it is the response that most people tend to take, given the weight of negative material about the Stalin era they are exposed to. I will therefore try to link my economic analysis of the nature of socialism and the restoration of capitalism with some political issues in this section.

The affluence of the western worker compared to the East European worker was a consistent embarrassment to the world communist movement. What made things worse was the fact that relative political liberty existed in the West. Western affluence dampened down the flames of the class struggle and it was not usually necessary for the bourgeoisie to resort to open repression against the workers to maintain their power. The class struggle was diverted primarily into purely trade union struggles with little in the way of popular revolt in most Western countries, other than the 1968 events. Of course many minority groups were and are oppressed in the West. Despite being bribed with the fruits of imperial exploitation, the western worker has remained alienated and unfree. There have also been periods like the British Miners’ Strike of 1984-85 when workers in imperialist nations have faced savage repression – but this has not been routine. Such repression only becomes general when there is a serious threat to the bourgeois order. Thus the privilege of the western worker has prevented the need for the dictatorship of the bourgeoisie to be exercised in its most vicious form in the West, especially in the post-war period. Whether the current economic crisis will radically change this situation in the West is

something that cannot be fully assessed at the time of writing. In the Soviet Union and Eastern Europe, counter-revolution was a very serious possibility in Stalin's time. According to Marxism, the exercise of the dictatorship of the proletariat is necessary to prevent counter-revolution in a socialist society. This situation enabled the bourgeoisie to draw a contrast between the "liberal" West and the "totalitarian" East.

Stalin is of course greatly reviled for his "totalitarianism" in the modern world. Stalin's regime may have been a dictatorship with respect to the bourgeoisie but, as Thurston's work shows, the proletariat did enjoy many democratic rights. The extent of the level of dictatorship is a matter of some controversy. For example, everyone agrees that there were a large number of executions in the period 1937-1938. By far the greatest number of people allegedly executed under Stalin were executed in this period. The figure for 1937-38 usually quoted by writers on the subject is 681,692 deaths from execution. However, the archival document that this figure comes from is a table prepared by Colonel Pavlov of the MVD (forerunner of the KGB) that was prepared for Malenkov and Khrushchev in 1954.<sup>75</sup>

The historian of the "Terror" J. Arch Getty, in his book *The Road To Terror*, speaks of "secret high-level government investigations" in 1962-3 and 1988, where documents allegedly from the Soviet archives were used in inner-party struggles. He writes:

On both occasions, the politburo sought the most damning figures possible for use as political capital and commanded blue-ribbon politburo commissions to comb KGB files for data.

In 1963, Khrushchov sought data condemning his current rivals Molotov and Kaganovich. In 1988, Gorbachev wanted to discredit Stalinism generally as part of his perestroika policy.

In both cases, the results [were] recently published in the official Bulletin of the Archive.<sup>76</sup>

It is clear that the ex-Soviet archives are something of a politically contested space. Khrushchev used documents about Stalin's excesses that Khrushchev claimed

<sup>75</sup> Wheatcroft, S. (1999) "Victims of Stalinism and the Soviet Secret Police: The Comparability and Reliability of the Archival Data – Not the Last Word," *Europe-Asia Studies* Vol. 51, No. 2, p. 338.

<sup>76</sup> Getty, J. and Naumov, O. *The Road to Terror. Stalin and the Self-Destruction of the Bolsheviks, 1932-1939* (Yale University Press, 1999), p. 594.

were from the archives to defeat his opponents in the party and unite it behind his anti-Stalin line. We can ask ourselves if this might have been as true in 1954 as in 1963. After all, Khrushchev presumably wanted some documentary backing for the claims he was to make in the 1956 “Secret Speech.” There is a tendency to believe that the discovery of a document in the Soviet archives gives some definitive answer to the various controversies that exist about Soviet history. However, I believe this approach is unwise. Efforts need to be made to determine that documents are what they purport to be and that there is other evidence to corroborate what they are saying.

In the case of the “Purge” of 1937-8, it is clear that there were many executions at this time, but it may be inadvisable to accept a figure as high as 681,692 on the basis of this single document.

In addition, the context of the “Purge” needs to be understood. It was obvious to everyone in the Soviet Union from the 1920s that an attack by the imperialist powers would come. With the rise of Hitler and the encroachments of Japan into Manchuria in the 1930s the situation became ever more desperate. The Soviet people were facing absolute destruction. When the attack did come at least 20 million Soviet people died. Hitler’s plan was to settle the European parts of the Soviet Union in the same genocidal way that the Europeans had settled North America. If Hitler had won, many tens of millions more would most likely have died, with the rest enslaved or forced to try to eke out a living on the least productive land. However wrongly, Stalin believed that the measures he took in 1937-38 were needed to prevent an internal Fifth Column emerging in the Soviet Union and assisting Hitler in his murderous enterprise. The executions of 1937-8 were a tragically wrong response to a terrible threat; they were not simply some random evil act perpetrated because of “totalitarianism.”

Despite the circumstances, the “Purge” is almost universally seen as discrediting everything that happened in the Soviet Union under Stalin’s leadership – including the massive achievements. Over the years it has led very many on the Left to disown this period in its entirety and to go down the paths of revisionism and reformism. This is a way of thinking that socialists must surely question, if socialism’s fortunes are ever to revive. Millions die every year because of poverty and hunger. US imperialism encourages coups and props up repressive regimes all over the world. Its recent military interventions in Iraq, Afghanistan, Pakistan and Somalia have led to the deaths or displacement of millions (either by direct US action

or through the action of US clients such as the Pakistani or Ethiopian governments). When US imperialism's crimes are exposed, the US Establishment does not simply decide it has become discredited and give up. The apologists for imperialism just make statements to the effect that mistakes have been made but it is time to "move on." Thus the US "moved on" from Vietnam to orchestrate mass killings in Central America in the 1980s. It "moved on" from there to the impoverish Iraq through sanctions and then bring it to absolute ruin following the 2003 invasion, while abusing human rights in some of the grossest ways imaginable.

In such a world, we can see that evidence clearly exists for the Marxist belief in some form of the dictatorship of the proletariat. The idea that some kind of free democratic competition can exist between classes with opposing interests is, in the author's view, the purest idealism and revisionism. Despite appearances, no capitalist regime would allow a genuine challenge to its power by a communist party without the use of repression. The fact that revolutionary communists do not face much repression in the First World, in the current day, is due to the fact that they pose no threat to the established order at the moment. The imperialist powers are certainly willing to use the most repressive measures to prevent threats to their global interests – including the internal subversion of socialist countries. Any socialist regime that simply allowed the bourgeoisie to organise politically and do as it pleased would soon find itself overthrown by an alliance of the imperialist powers and the internal bourgeoisie. Maoists argue that socialism in the USSR and China was overthrown by the new bourgeoisie in the Communist Party and not the old bourgeoisie or the imperialists. The historical record seems to bear out the Maoist line on this. But this is scarcely an argument for ignoring the potential threat posed by the old bourgeoisie.

History does teach us, though, that those who exercise the dictatorship of the proletariat must acknowledge certain limits. It should be clear that a future socialist society should not implement anything like many of the policies that Stalin implemented. The world has moved on since 1953. For example, the use of the death penalty is becoming an increasing anomaly in the modern world. In the desperate days of the 1930s, Stalin may have thought he had no choice but to use the death penalty. We cannot ignore the fact that, whatever the status of the figure of 681,692, many innocent people were executed. The questions around why this happened are a matter of historical dispute and are beyond the scope of this article. However, given this history, I believe it is perfectly correct for modern socialists to make a

commitment to reject the use of the death penalty at all future times. By doing so, socialists can “move on” in a far more sincere manner than the imperialists.

### **Stalin and Hitler**

In this context we need to examine the now very common view that Stalin was “as bad as Hitler” or “worse than Hitler,” a view usually based on allegations that Stalin killed tens of millions of people.

It is certainly true that there were two trends in Soviet politics in the period up to 1953. One was the progressive trend of extending proletarian democracy, the empowerment of the working class and the development of the world’s first socialist economy. The other trend was determined by the intensity of the threat the Soviet people faced. It involved the repression of those who the Soviet authorities thought might seek to side with the Germans once they invaded (as many collaborators in countries like France did). This trend also accounts for the very rapid collectivisation of agriculture and industrialisation.

The latter is the source of some of the very high figures given by anti-communist writers of how many people Stalin allegedly “killed.” It is certainly true that famine occurred in the Soviet Union in the 1930s. It is also true that all famines are caused by an interaction of human and natural factors. However, sober analyses of the evidence indicate that it is not at all reasonable to simply believe that Stalin “deliberately” killed those who died in this famine or that the famine was purely the result of misguided socialist policies.<sup>77</sup> Whatever role excessive grain procurements may have played in the famine, we must again remember the context. The leadership of the Soviet Union felt, correctly as it turned out, that they had to industrialise very rapidly to build up the military might it needed to defend itself from imminent fascist invasion. Large-scale grain procurement underwrote the initial industrialisation drive. Without this grain procurement, industrialisation would not have been possible. Likewise with the military defence of the Soviet Union, and the eventual defeat of the Nazi war machine. The Soviet Union fought the land war in continental Europe alone from 1941-1944, suffering huge casualties and inflicting huge casualties on the German forces-far more than the Germans were to suffer on the western front. It is

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<sup>77</sup> See Tauger, M. “Natural Disaster and Human Actions in the Soviet Famine of 1931-1933, *The Carl Beck Papers in Russia and East European Studies*, Number 1506.

impossible to believe Hitler could have been defeated in these years without the powerful and well-equipped Red Army that was built up in the Soviet Union in the 1930s. The sacrifices of the Soviet people in the period of collectivisation and forced industrialisation saved the world from Fascism.

The underlying cause of the famine however was under-development. Russia suffered from repeated famines in its history for precisely this reason. Once under-development ends famine no longer occurs, whatever the natural or human causes. Serious droughts in Australia in recent years have caused no famine but could easily have done so if Australia's national income had been the equivalent of, say, Eritrea's. By industrialising under Stalin, the Soviet Union was able to lift the spectre of famine from the Soviet people. If a "culprit" for the famine of the 1930s really needs to be found, then perhaps it should be found in the old, moribund Czarist system that prevented Russia from copying the economic success of countries like the UK and USA in the hundred and fifty years or so prior to 1917.

### **The Contradictions of Socialism**

Those who build the socialist societies of the future must learn from the mistakes made in previous socialist societies, even if they reject the anti-communist exaggerations and misrepresentations of these errors. However, we must always remember that socialism cannot be a perfect system. The basic problem is that it is intended as a system where people produce a social product via a social process but they still need some individual incentives to produce. It must be borne in mind that the contradictions between society and the individual are finally resolved by communism, not socialism. The contradiction between individual and social interests does create potential obstacles to the smooth running of the system. Basically, socialism is still a society where inequalities continue to exist and these inequalities lead to the creation of a new bourgeoisie that must be struggled against, if socialism is to survive and progress. Just as economic contradictions appear in capitalism, so they appear in socialism too, though of course they tend to be contradictions of a different kind. Those schooled on Alec Nove's market socialist-inspired critiques of the Soviet economic system will be well aware of many of them.<sup>78</sup> For example, Nove talks of how enterprise managers tried to conceal their productive potential in the hope of

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<sup>78</sup> See Nove (1986).

getting a low-plan target. This was probably a potential difficulty from 1928 but still the Soviet Union was able to grow rapidly at this time. Therefore this should not be seen as a fatal flaw in socialism.

Another example is the tendency of enterprises to waste resources due to the soft budget constraint. But as we have seen, subsidies actually assisted Soviet growth. Stalin constantly stressed that concentrating solely on profitability would retard the growth of the country. One needs only to look at the fate of Third World countries that have concentrated on their “comparative advantage” in primary products, as this is what is most profitable in the short-run, to see why Stalin made such a decision. As we have seen Stalin insisted on breaking out of the Soviet Union’s backwardness by aggressively promoting industrial development. This was despite the fact that its economy in the 1920s was orientated towards agriculture and light industry. Those seeking short-term profits would not have made the long-term investments necessary for heavy industry. This was especially true given that countries like the UK, US and Germany had such a head start in heavy industry and thus had much higher productivity. If the Soviet Union had tried to compete with these countries in the global market, it would have been swamped by cheaper industrial imports and its own manufacturing industry would have been destroyed.

In Robert Allen’s book *From Farm to Factory: A Reinterpretation of the Soviet Industrial Revolution*, Allen develops a computerised model of the Soviet economy which demonstrates how the soft budget constraint actually assisted Soviet growth. He showed that the soft budget constraint facilitated higher employment and a higher growth of output than would otherwise have been the case.

It might be complained that the soft budget constraint leads to resource waste and therefore to increased environmental damage but two points need to be raised here. Firstly, there is a real issue about whether relatively under-developed countries should be asked to scale back their industrialisation to reduce environmental pollution until they have reached a reasonable level of income. Why not ask rich countries to cut back on their energy usage instead? Secondly, central planning does not have to make increasing output the top priority for all enterprises, as it was in the Soviet Union. An affluent socialist country could make economising on natural resources the top priority rather than increases in output. Contrary to conventional thinking, socialist planning is potentially a very flexible system, precisely because what happens in the economy is the result of conscious decision-making, rather than

spontaneous market forces. Free market capitalist prices do not incorporate externalities like CO<sup>2</sup> emissions. A socialist planner can incorporate such externalities in plan and price-fixing decisions.

Nove entertained his readers with many examples of how plan targets led to distortions in economic decision-making. Thus planning in tonnes meant everything was too heavy and planning in roubles' worth of output tended to have the same effect, so sheet steel was less likely to be made than thicker steel and chandeliers brought the ceiling down, etc.<sup>79</sup> The underlying problem was that an emphasis on a quantitative target can lead to quality being ignored. Nove tends to skim rather quickly over the various measures that the Soviet planners put in place to ensure quality.<sup>80</sup> In fact from 1925 the Soviet authorities laid down quality standards for industrial output. The establishment and implementation of quality standards was one of the few things about the Soviet economy that seemed to improve towards the end of the Soviet period, as invaluable studies by Malcolm Hill show.<sup>81</sup> (Although Gorbachev's blundering efforts right at the end of the Soviet Union seem to have been a total failure.)

There is no doubt that quality remained a problem despite these efforts to reach western standards. However, Malcolm Hill suggests that some of the accounts of poor quality production in the Soviet press were part of campaigns to push for improvements and might give an overstated view of the problem, if taken out of context.<sup>82</sup> The problem was that quantitative output was the over-riding priority. If there had been a different set of priorities there could have been different results. I believe Malcolm Hill's studies show that steady efforts to increase quality could have paid off over time, as long as the urge to pursue quantity of output at all costs had been curtailed. In addition it must be acknowledged that the Soviet Union did not catch up with the West in terms of economic performance in general and Soviet quality problems need to be seen in the context of an overall technological and economic failure in the post-war period. Questions of quality and questions of general technological and economic development tend to be intertwined.

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<sup>79</sup> Ibid., pp. 87-91.

<sup>80</sup> Ibid., p. 192.

<sup>81</sup> See Hill, M. (1993) "Soviet Product Quality and Soviet State Standards," *International Journal of Quality and Reliability Management*, 2:1, pp. 49-64, and Hill, M. and McKay, R. *Soviet Product Quality* (Macmillan Press, 1988).

<sup>82</sup> Hill, M. (1993), p. 61-2.

The main point to grasp is that socialism is a class society that necessarily contains contradictions. As Marx said, socialism is a system of “to each according to their work,” not to each according to their need. Although moral incentives, not material incentives must be primary in socialism, there is still some necessity for material incentives. This generates the kind of distortions in terms of quality being sacrificed for quantity and so on that we have described. Socialists contend that whatever the contradictions that exist under socialism, they are much less onerous for the great mass of people than the exploitation and oppression they suffer under capitalism.

It is important to understand that there is no “Third Way” between socialism and capitalism which can provide some neat solution for all these difficulties. Syndicalism, or worker ownership and control of the workplace, is no alternative to capitalism. The production of any item has to be planned in the interests of those who are going to use the product and ultimately in the interests of society as a whole. It makes no sense for the workers of a factory, for example, to be allowed to declare complete autonomy from economic planning organs to run the workplace entirely in their own interests. In the real world, workers’ control without a central plan, involves the existence of producer-owned co-operatives competing with each other, with the needs of the users of their product being represented via the unequal and atomised medium of market demand.

Numerous efforts have been made to try to come up with some sort of alternative to both plan and market. This is not the place to examine them all. However, they always end up being either versions of the free market or versions of central planning. The reason for this brings us back to the issue of the allocation of the means of production in any economy between different enterprises. As Alec Nove indicates,<sup>83</sup> the two choices for any economy are that either the center allocates these means of production to different enterprises or enterprises buy means of production from other enterprises, choosing their suppliers themselves. In the first place there is some variant of the planned economy. The center must take an inventory of the resources available and then decide how to ration them between different economic activities. Whatever this process is called it is always going to be

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<sup>83</sup> Nove, A. (1990) “Socialism,” p. 234, in Eatwell, J. Milgate, M., and Newman P. eds. *Problems of the Planned Economy* (Macmillan, 1990).

a plan. If enterprises freely buy their means of production from whomever they choose without reference to the center, then the economy cannot be planned. In this system, the production of means of production must respond to supply and demand and we have a market economy.

Some socialist writers spend years of their lives coming up with the most convoluted economic blueprints that they hope will be neither “Stalinist planning” nor free market capitalism. Once analysed critically, their imaginary structures fall to the ground like a house of cards in a breeze. The type of system these writers want has never been found to date because in principle it cannot be found.

### **Conclusion**

The Soviet economy up to 1953 provides us with a legitimate model for a future socialist economy. Like the Soviet Union during this period, a socialist economy should mainly rely on the conscious planning of economic activity, rather than trying to use prices as incentives to achieve the desired outcomes. As we have seen, socialist planning does not need to rely on massive investments in polluting heavy industry for economic growth. The Soviet Union needed to do this because it needed to build up its economic and military power to defend itself from the threat posed to it by Fascism. In altered historical circumstances, such as our own, different growth strategies can and most likely must be used.

It has to be admitted that significant aspects of the restoration of capitalism in the Soviet Union after 1953 have not been examined here. For example, the compulsory sale of the Machine Tractor Stations to the collectives was an important part of Khrushchev’s efforts to increase capitalist commodity relations within the Soviet economy. How this measure may have retarded post-war food production is certainly a very interesting question, but our main subject here has been industry, not agriculture.

Similarly, efforts to expand Soviet trade with the capitalist world probably moved the Soviet Union further in the direction of outright free market capitalism. (This was even more true of Eastern bloc countries like Poland.) Production for export to the capitalist world is clearly a form of capitalist commodity production. Thus, export production for the capitalist world market pulls a state-owned economy further and further in the direction of free market, as the example of China after 1978 also shows. An enterprise cannot serve two masters; it either follows the directives of

the socialist economic plan or it bases its decisions on the forces of supply and demand in the global capitalist market place. Nobody really wants “socialism in one country,” if there is any alternative. Certainly the Soviets settled into this mould not by choice but of what they perceived to be necessity. But when only one country is socialist, or only a few are, there is a real dilemma about how to deal with the trade issue. Fundamentally, socialist countries must try to break out of their economic isolation by inspiring socialist revolutions in other countries and then building economic links with these countries. If socialist nations settle into a pattern of ever-deepening trade and financial links with the capitalist world, then full-scale capitalist restoration will be around the corner.

The key point of our enquiry is that socialism must keep moving forward to survive. In any socialist society there is a constant class struggle between those pursuing what can be called a “socialist road” and those pursuing a “capitalist road.” Those taking the socialist road seek to expand the sphere of scientific, socialist planning. At the same time they seek to break down class differences by involving the people in the planning process in an ever-deeper manner. Those taking the capitalist road wish to expand the sphere of commodity production and by so doing entrench and widen the class divide.

In the past the nature of this struggle was not always grasped. It must be said that Stalin, himself, seemed not to fully understand that the struggle against revisionism was a class struggle against a new emerging bourgeoisie in the Communist Party. However, though the system Stalin helped to lead has long fallen, the relevance of the system the Soviet people built under his leadership lives on to show that socialism is not just history. It is a system that today still has the potential to help liberate humanity. Indeed, as the world economy lurches from one crisis to another, including ecological crises that are exacerbated even during the economy’s “boom” times, we can say that the need for socialism now is probably at least as great as it has ever been.