

# THE ROOTS OF THE PRESENT CRISIS IN THE SOVIET ECONOMY

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## I

There is a near-consensus among economists and political ideologues today in the world that the present crisis of the Soviet economy expresses the historical failure of central planning. All those directly or indirectly influenced by the néo-liberal/neo-conservative school, in the first place the Austrian school of von Mises — von Hayek and Milton Friedman, who identify central planning as applied in the USSR and Eastern Europe with socialism, triumphantly add: socialism is for ever dead and buried. And the most historical and theoretically minded among them remind us constantly: "We told you so." They refer to the century-old debate between the neo-classical school and **marxist** socialists of many creeds around the question: can any economy not guided by the market work with a minimum of efficiency? They now claim that history has definitely shown them to have been right from the start in that debate. ■

We reject all these statements and claims as empirically not proven and theoretically mistaken. Socialism never existed in the USSR, Eastern Europe, China, Cuba or anywhere in the world. Socialism cannot exist in one country or in a small number of countries. It can only exist in the leading industrial nations taken in their totality or near-totality.

What developed in the USSR and similar systems were societies in transition between capitalism and socialism, i.e. postcapitalist societies submitted to the unrelenting pressure of the capitalist system and the capitalist world market, military pressure, political pressure and economic pressure. Furthermore, for specific historical reasons neither unrelated to that pressure nor purely reducible to it, power in these societies was usurped (with the partial exception of Cuba) by a privileged bureaucracy, which by its concrete policies and the social consequences they engendered, made significant advances in the direction of socialism impossible.

So the only conclusion one can draw from the disaster which befell these societies is not that socialism has failed but that Stalinism, i.e.

bureaucratic dictatorship, has failed. People belonging to the **political/theoretical** tradition which I represent among others can say at least as emphatically as the neo-liberals (and certainly more than the social-democrats and neo-social-democrats): we told you so. For we have been predicting this crisis for decades. And we can convincingly show that the concrete policies which led to that crisis and the collapse of Stalinism in Eastern Europe in no way represent directly or indirectly a "logical product" of the theories or political projects of Marx and even of Lenin. They were conceived and implemented in a complete break with the ABC of Marxism, again an analysis not made now post festum but decades earlier.

With regard to economic organization, the question seems to boil down to a definitional, i.e. semantic dispute. The **neo-liberals/neo-conservatives**, and their social-democratic/neo-social-democratic hangers-on, proclaim that "the command economy" (others call it "barracks communism") is the only possible form of central **planning**.<sup>1</sup> They claim that central planning is impossible without huge bureaucracies. These are supposed to be the only possible "mediators" who could try to replace the market as forces determining preferences and allocation problems between "millions of products". But this substitution is considered doomed to be qualitatively less efficient and less "workable" than the mediation through the market.

Socialists on the contrary contend that bureaucratic **planning** is but one of the possible variants of central planning, as the capitalist market economy is but one variant of the market **economy**.<sup>1</sup> Democratic planning based upon articulated self-management and pluralistic, multiparty political democracy, is perfectly conceivable and workable. That is what "**Marxian** socialism" was all about and remains all about: the rule of freely associated producers as Marx states it (we would say to-day: freely associated producers/consumers/citizens).

Nothing that has occurred in Eastern Europe, China or the USSR presents any evidence against that hypothesis. Many trends of producers/consumers/citizens' behaviour in the East, the West and in the more developed parts of the South, show that more than ever this "third model" represents the line of the future, that history is moving in that direction, though in a contradictory way ("two steps ahead, one step backward"; sometimes "one step ahead, two steps backward") and in a much slower rhythm than Marx and his followers assumed in the past.

But whatever may be the value of a still largely speculative debate about what the future will show, what has today a very concrete content is a discussion of what really happened in Soviet

society and in the Soviet economy, and what is really happening there right now. This is a debate turning not around speculations but around an analysis of facts, (facts taken in their totality and their context, not fragmented, isolated and arbitrarily selected). In that debate, the Marxists represent the scientific tradition and use scientific methods of empirical verification and falsification. Their neo-liberal opponents appear as stubborn dogmatists, who oppose value judgements and unproven axioms to deny all those aspects of reality which do not conform to their schemas.

## II

What is strikingly apparent in practically all defenders of the axiom "central planning implies a hypertrophy of the state and thus of bureaucracy" is the reified approach to economic analysis on which it is based. "The plan" is presented as an anthropomorphic entity which operates with an implacable logic of its own.<sup>4</sup> Marx, at the end of *Capital*, vol. III, ironically suggested that you cannot meet in the street Mr Capital and Mrs Land and shake their hand. We must likewise ask the question: can you meet Mr Plan in a coffee-bar and offer him a drink?

An essential revolution which Marx introduced into economic analysis is the relentless effort to discover relations between human beings and human social forces underlying relations between human beings and things or institutions. Another similar revolution — the so-called materialist interpretation of history — consisted in searching for and discovering the material interests which, in the final analysis, explain the attitudes and actions of these actors on the historical scene, at least regarding basic problems and conflicts. This is why, let it be said in passing; there is no "purely" economic analysis in Marx. It is always a socio-economic analysis. Economic trends and "laws of motion" always assert themselves through actions by specific social groups.

"Planning", like "economic laws", like "the state", are not timeless phenomena, eternally equal to themselves. They are always specific to given historical situations and limited in their relevance to these situations only.

Soviet central planning therefore is not "planning in general". It is planning introduced by a ruling bureaucracy, in order to consolidate and extend its power and privileges. It will be shown that characteristics of economic organisation and management, which are not in any way congruent with any "general logic of planning" but which are contrary to such a logic, put their marks, their contradictions and their crisis-dynamic on the way Soviet planning developed from the beginning of the first Five Year Plan.

The objection is sometimes raised: is it not the switch from the NEP to generalized central planning which inevitably engendered a hypertrophied bureaucracy, rather than a hypertrophied bureaucracy which bureaucratically centralized (i.e. state-managed) planning?

In fact, the establishment of the bureaucratic dictatorship — the "Russian Thermidor" — occurred prior to the First Five Year Plan, not after it. It dates back to **1923** if not earlier. A tremendous apparatus of state and party functionaries controlling, under Stalin's Secretariat central control, all key aspects of social life in the USSR, existed prior to the turn towards forced collectivisation of agriculture and over-accelerated industrialization.

Certainly, these new economic policies extended the dimensions, power and privileges of the bureaucracy. But far from contradicting our thesis, this confirms it. We contend precisely that the specific forms of Soviet central planning had that extension as their main social purpose. Because the bureaucracy was in power and used power to further its interests, planning was introduced under such forms as to serve these interests.

Again, the question has to be decided on the basis of a concrete analysis. No logical argument can be advanced to prove that the massive deportation of hundreds of thousands of wage earners, — the so-called "oukazniks" — for absenteeism corresponds to the "logic of planning". If it did, how can one explain that it was not introduced in any Eastern European country simultaneously with planning (we don't know whether we should say: with the exception of Rumania)? Was the monstrous Gulag system an expression of the "logic of planning"? In what way? Aren't these criminal moves by the Stalinist bureaucracy notable expressions of a specific need to atomize, terrorize and condemn to passivity a working class still characterized by a level of class consciousness determined by the victorious socialist October revolution?

The biggest disaster which befell the Soviet Union in **1929-1931** was the forced collectivization of agriculture. Its consequences on livestock and meat production were felt for **25** years. Its effects on the workers' standard of living and on the peasants' mentality lasted longer. But in what way can one say that these were results of central planning? If so, why didn't they occur or were rapidly abolished in Yugoslavia, the GDR, Poland, Hungary under conditions of central planning? Was their duration and their disastrous effects in the USSR not a result rather of a political dictatorship of extreme ruthlessness, in which any form of dissent was suppressed through terror? How can one prove that such extreme forms of political arbitrariness, which made any rapid correction of the erroneous decisions of **1929-1931** impossible, were in any way necessarily congruent with central

planning, when this very regime disappeared even in the USSR after the death of the tyrant, while **central** planning continued?

In the analysis of what occurred under Soviet planning we have therefore to distinguish carefully what are likely to be features of planning in all its possible variants, and what is due to the specific social forces and interests, and the specific historical situation, in which Soviet planning was introduced. A similar method is used by Marx in vol. I of *Capital*, where he carefully distinguishes general features of commodities and of commodity exchange, from features specific to capitalist commodity production, i.e. commodity production with the use of wage labour as a decisive feature of the economy.

### III

How can we define "planning in general"? Planning is a system of economic organization, of resource allocation, based upon deliberate, conscious *a priori* choices determining the key trends of economic development. The words "determining the key trends" are decisive here.

Capitalists, and certainly big capitalist monopolies, do a lot of planning inside their enterprises and even in whole branches of production and exchange. But they do not have the power to decide in a conscious way how the economy and society will develop in its totality in the medium and long term. These trends will be imposed upon them "behind their backs", by objective laws — in the final analysis the law of value mediated by the oscillations of the average rate of profit and the deviations therefrom — parallel to the way they are imposed upon the mass of wage-earners and all other sectors of society behind their backs.

Behind the incapacity of capitalists to determine in the medium and long run the trends of socio-economic development, and the capacity of "planners" to do just that, lies *a qualitative difference in control over the social surplus product*.

Under capitalism, which can only exist in the form of "many capitals", i.e. of competition and private property leading to competition, such control is always fragmented. No absolute monopolies can exist. Central planning is only possible if society, under whatever political form (including extreme despotism) actually exercises such widespread monopoly, or delegates such control over the social surplus product, through the abolition of competition and private property.

Central planning equals *a priori* allocation of economic resources. But as long as we are not living under full-scale communism, with a generalized saturation of satisfaction of needs for goods and

services for the final consumers, resources are relatively scarce. So planned conscious allocation of resources always implies a deliberate choice of priorities. The realization of these priorities can only be implemented at the price of not satisfying other needs.

Exactly the same thing happens in a market economy. No neo-liberal economist or ideologue will deny that a market economy functions under conditions of relative scarcity of economic resources. This implies that the satisfaction of the demand for certain goods and services always leads to less satisfaction of the demand for other goods and services — if not complete non-satisfaction. In a market economy, unevenly divided income and especially unevenly divided wealth entail that the satisfaction of the demand of rich people and of large firms will be achieved at the expense of the demand of the mass of the wage earners, not to speak of the demand of the impoverished.<sup>5</sup> From that point of view, we are justified in speaking of "market despotism", in the same way as the critics of Stalinism are justified in speaking of "state despotism" in the USSR.

In both cases, the priorities in the use of scarce resources are determined by social forces and institutions behind the backs of the mass of the people concerned. Only in a system of democratic planning based upon articulated self-management would these priorities be decided in a democratic way by the mass of the people concerned.

While the "planning authorities" can actually decide priority allocations of scarce resources in whatever way they choose to do — including in an arbitrary and irrational way — they cannot overcome the relative scarcity itself and one of its main consequences: the unavoidable coincidence of "overinvestment" in those sectors chosen as priority sectors, and of "underinvestment" in the non-prioritized sectors. But in a complex modern economy characterized by a high degree of interdependence between all main branches of the economy and all main sectors of social activity, i.e. characterized by a high level of objective socialization of labour, the iron laws of reproduction, as first laid bare by Marx, inevitably assert themselves.

You need metals, electricity, and machine tools, in order to produce rockets, space craft, or pipelines for exporting gas. You need relatively well-fed, well-clothed and well-housed workers in order to produce these "priority goods" with a minimum of efficiency, especially when they have to use more and more sophisticated and costly equipment to assure that production.

But rockets, sputniks, tanks and Kalashnikovs do not contribute to the production of metals, power plants, machine tools, food, clothes and workers' housing. So if you "overinvest" excessively in the first production run, and "underinvest" excessively in the second range of

products, from a certain point on even your output of "priority goods" will start to stagnate. Subsequently it will even decline. No terror of Stalin, no boasting by Khrushchev, no benign neglect by Brezhnev, no cajoling by Gorbachev, could prevent these crises from developing.

In other words: central planning can function with a relatively high level of efficiency only inasmuch as a *certain minimum of proportional development between all main branches of the economy and sectors of social activity*<sup>6</sup> is realized, maintained and up to a point perfected. When these proportions are negated through arbitrary "overemphasis" on prioritized sectors, seeds of crisis if not of slow disintegration are implanted in the system.

Neo-liberals again retort with apparent triumph: this is precisely so because a planned economy does not possess in the market a built-in mechanism to correct such disproportions. "Free enterprise" does.

Factually this is not true. "Free enterprise" produces disproportions and waste on a huge scale, probably similar in extent to that of bureaucratic planning. These disproportions are "corrected" through the market by means of even bigger waste and outright destruction of resources. This is what economic crises, massive unemployment of human and mechanical resources, are all about.

In fact, two conclusions can already be drawn from this first general approach to the problem of Soviet planning.

First that it is wrong to represent it as "totally" or even "basically" inefficient. It isn't. Nothing in the history of the Soviet Union allows such a judgement. It is based upon a misrepresentation of what really happened.

In all those fields where the bureaucracy chose priority goals, these were by and large implemented. The Soviet Union did build nearly from scratch a heavy industry which transformed a semi-agrarian backward country into the second industrial power of the world. It built a weapons industry which enabled it to defeat Hitler in the second world war (compare that to the performance of Tsarist Russia in the first world war and Japan in the second world war). It equalled the USA in spacecraft during a whole period. It developed the diffusion of classical world culture on a mass scale unprecedented in any major country of the world, including the USA, Germany and Japan. It educated more scientists than the whole of Western Europe plus Japan.

One can discuss whether these priorities were correctly chosen, what were the reasons for their choice, whether other choices would have been more meaningful, what were the costs endured (sometimes tremendous and absolutely out of proportion to the relative importance of a given prioritized goal). But by and large, the

superiority of planning showed itself in the capacity of the system to realize those prioritized goals it had deliberately chosen.

Second, the excessive weight of these priorities in overall planning goals led to an excessive number of underdeveloped branches and sectors, i.e. to built-in disproportions, which created from the start economic and social deficiencies which co-determined the general dynamics of the Soviet economic and social system as a whole. The failures of bureaucratic "planning" are as much part and parcel of Soviet reality since 1928 as are the undeniable achievements in prioritized sectors.

The end-result of the interaction between what functioned and what did not function under Soviet bureaucratically centralized planning was overdetermined by two key factors: the existence inside the country of huge reserves of manpower, raw materials and "virgin soil", which could be mobilized and introduced into the system with relative ease, "regardless of cost"; and the possibility of borrowing with relative ease advanced technology from the imperialist countries.<sup>7</sup>

When these environmental contributions were generally positive, the average rate of growth of the Soviet economy was on average high — much higher than that of the imperialist countries. Stalin and Khrushchev could have the illusion that they would "catch up and surpass" the USA. This period is correctly called that of extensive growth of the Soviet economy.

But from a certain moment, the environmental contributions turned into environmental constraints. Now the hour struck for turning from extensive into intensive growth. Reserves declined. Natural resources became depleted. Stepping up the skill, training and motivation of workers became more important than just bringing young people from the countryside into factories as semi-skilled labourers. Technological change in the West became more and more accelerated. Keeping up with it in antagonism and not cooperation with imperialism became more and more difficult.<sup>8</sup>

Moreover, and of particular importance, Soviet society could less and less free itself from the desire of at least tens of millions of consumers to imitate the consumption pattern of the richer capitalist countries, with all the positive and negative aspects of that pattern. In that respect, the unification of the world market in the forty years after World War II, coinciding with a long expansive wave of the international capitalist economy first, and a still limited impact of the subsequent declining long wave later, exercised a strong pressure upon the Soviet economy and society, in sharp contrast with the advantages the USSR drew from the fragmented world market of the twenties, the thirties and the early forties.

Deep inter-imperialist rivalries prevailed under the latter conditions. A lasting imperialist alliance substituted itself to those, with inter-imperialist rivalries operating within that alliance.

#### IV

From the first Five-Year Plan onwards, Stalinist-bureaucratic planning was characterized by fundamental disproportions:

1) The disproportion between allocations to heavy industrial and to "department III" expenditure (armaments and administrative expenditure)<sup>9</sup> on the one hand, and allocation of resources for mass consumer goods and services on the other hand. The second category of expenditure was first drastically reduced in absolute terms. It then increased in absolute terms during half a century, with the exception of the war years. But in relation to the sum total of available resources, it was qualitatively lower than under the NEP and remains so till today.

While the intention of the "planners" might have been to maximize investment and the rate of growth in this way, this continuous and sometimes extreme curtailment of mass consumption did not result in significantly higher rates of growth, contrary to a myth widespread among many economists and ideologues in East and West, including socialist ones.

We explained long ago why this was not the case. Consumer goods and services for producers (workers and toiling peasants) are indirect producer goods. When they are continuously below expectation, producers become unmotivated. Their output remains constantly below what was expected from a given mass of means of production introduced. A huge mass of "controllers", i.e. economic "policemen/women", i.e. lower and medium-rank bureaucracy has to watch over them constantly. Hence the tremendous increase of non-productive expenditure. Hence the reduction of expected growth in productive investment, side by side with the relative reduction in consumer outlays.

As we formulated it elsewhere: the key for understanding bureaucratically centralized planning does not lie in a hypertrophy of department I.<sup>10</sup> It lies in a hypertrophy of department III.<sup>11</sup>

2) The disproportion between the allocation of resources (outlays) for industry on the one hand, and allocation of resources for services on the other hand. It is difficult to globalize information in this respect. But we believe that we are not wide off the mark if we estimate that outlays for the modern tertiary sector were and remain in the USSR roughly around half of what they are in the West and the semi-industrialized countries of the "third world" as a fraction of the GNP (of total annual outlays). In practice this means a tremendous

and chronic underdevelopment of the transport system, of the distribution system, of the system of storing and of the repair (and spare parts) systems.

3) A chronic underdevelopment of reserve stocks, i.e. a tendency to use all currently available resources for increasing current annual output.

4) A systematic underdevelopment of investment in agriculture as compared with investment in industry, the only exception being investment in some agricultural raw materials for industry like cotton. It is true that this disproportion began to be partially corrected much earlier than the other ones, immediately after Stalin's death. But the corrections were limited and often inconsistent. They led, however, to an impressive growth in agricultural output.

These disproportions had increasingly perverse effects upon the Soviet economy and society taken in its totality. Their interaction explains most of the basic ills of the system of bureaucratically centralized planning, and the way they tended to spread like malignant tumours.

The underdevelopment of the service sector meant that an increasing part of current production did not reach its intended final destination, was wasted and lost for the planned economy. A dramatic example is that of potatoes. The USSR produces four times as much potatoes as the USA. Yet 75% of these potatoes do not reach the final consumer. They rot on the fields, rot in open railway cars waiting days if not weeks before getting unloaded, cannot be adequately stored when they reach cities, etc. Another similar example is that of chemical fertilizers.

The underdevelopment of stock, reserve inventories and generally margins of flexibility in the use of available resources led to a chronically discontinuous flow of raw materials and spare parts to productive units. Production was therefore often curtailed if not interrupted during part of the month; efforts to fulfil the plan were feverishly stepped up in the final part of each month (the period of so-called "sturmvojtchina"~).

Food and consumer goods shortages had a disastrous effect upon workers' morale and motivation and led to a productivity of labour much below expectations by the "planners", as well as much below that of capitalist production units using similar techniques.<sup>13</sup> Again, exact aggregation of these differences is extremely difficult. Our rough estimate would be that, for similar technologies, USSR productivity of labour is around-50% of the American level in industry and below 20% of American productivity of labour in agriculture.

Under capitalism, demotivation of direct producers is partially

compensated by the pressure of unemployment and the fear of unemployment. The noncapitalist nature of the Soviet economy is most strikingly revealed in the fact that this whip did not work for nearly half a century (even Stalin's terror could not really replace it). So demoralized and demotivated direct producers became a permanent, near-structural feature of bureaucratically centralized planning.

The combined perverse effects of all these disproportions were so all-permeating and so vast that society in its near-totality, Stalin's terror notwithstanding, started to develop spontaneous reactions in order to limit the rot. The very pressure for fulfilling planning goals operated in the same direction. Confronted with chronic discontinuities in supply, as well as chronic shortages of stocks (inventories) at central level, managers systematically built up hoards of supplies and resources including manpower. "Unstocking" at centrally planned levels was thereby compensated by "overstocking" (overhoarding) at plant level, one could even say over-compensated.

Chronic shortages of food made available through the collective and cooperative sector of agriculture led to a rebirth of private food production, all intentions for completely collectivising agriculture notwithstanding.<sup>13</sup> Insufficient and inefficient "official" distribution of food led to the revival of legal and illegal private distribution networks (black market). Arbitrary access by the bureaucracy, including its lower ranks, to given categories of consumer goods and services, led to a widespread "grey" market, i.e. barter of goods and services on a "scratch-my-back-and-I'll-scratch-yours" basis. This rapidly spread from food distribution to distribution of different industrial consumer goods. Hence it spread to illegal output of these goods, as long as the used techniques were relatively simple and the illegal appropriation of raw materials and tools likewise.

In that way, a whole private system of "informal" economy developed side by side with the planned economy. Some observers estimate that it adds 20-25% to the official GNP.<sup>14</sup> The key purpose of the middle ranks of the Soviet Nomenklatura and the new "middle class" of the USSR is to legalize that black and grey market and informal economy through perestroika and privatization/marketization.<sup>15</sup>

So the perverse end-effect of excessively centralized planning with huge built-in disproportions, is the emergence of a vast non-planned, uncontrolled sector of the Soviet economy. The conclusion is clear: the Soviet economy is not a fully planned economy. It is a partially planned and partially unplanned economy, a quasi-planned or semi-planned economy. The USSR is not only suffering from too little political democracy and too little market relations.

It is also suffering from too little planning. More real efficient planning is only possible with significantly less disproportions, which is only possible with qualitatively more democracy and self-management, and, in addition, for a long transition period, more control through the market. <sup>16</sup>

## V

The economists in charge of drafting the successive Five-Year Plans were of high quality. The same remark applies to some of the initiators of the so-called Liberman-Kosygin reforms from the early sixties on. They were certainly aware of most if not of all the deficiencies of bureaucratically centralized planning as sketched above. The question therefore arises: how could it happen?

There is no monocausal explanation of what went wrong with Soviet planning right from the start, and why its dysfunctions gradually increased. But in the chronological and logical chain of causes and consequences, a common denominator can be discovered: the nature and the interests of the Soviet bureaucracy as a relatively autonomous ruling social layer in the USSR.

This was in the beginning an essentially conservative layer, intent upon enjoying a calm and undisturbed existence, after the violent upheavals of revolution and civil war. Stalin gained the upperhand in the inner-party faction fight against the Left Opposition first, the United Opposition later, by catering for that bureaucracy's needs.

He therefore opposed any serious acceleration of the pace of industrialization, any serious reduction of the part of the social surplus controlled by the kulaks and the petty and middle bourgeoisie (Nepmen). His faction as well as the supporters of Bukharin disregarded the warnings of the Opposition about the kulaks' growing capacity for a delivery strike of grain surplus, which could put feeding the city and the army in jeopardy. They rejected the rather mild cure proposed: a gradual stepping up of industrialization, in the first place in order to assure the building of tractor plants; the financing of these initial steps of industrialization through a tax on high incomes and a radical reduction of administrative expenditure; a turn towards the gradual development of producers' cooperatives in agriculture, based upon a higher technology than that of private farms, and ensuring therefore for the poor peasants who would join them voluntarily from the start an increase in their standard of living; an elimination of unemployment and an increase in real wages in order to increase the morale, motivation and active involvement of workers in ensuring economic growth.

When the delivery strike by the kulaks finally occurred in the winter 1927-1928, <sup>17</sup> the Stalin faction and the bureaucracy reacted in

a panicky way. They jumped practically from one day to another from complacency towards the kulaks towards harshest repression, from "industrialization at a tortoise pace" to industrialization with dizzy rhythms. An investment effort serious planners had projected to be spread over ten years, now suddenly had to be implemented within a time-span of four years. A general overextension of efforts, a radical tautness in the allocation of all available resources, a fanatical concentration on attaining plan objectives regardless of cost, became the rule. Hence the priority given to physical indicators in the general formulation of often contradictory planning objectives. Hence the increase of waste at all levels of economic life.

The argument of "imminent war danger" (the defence of the beleaguered bastion) was largely invented by the Stalin faction to justify the crushing of all opposition and dissent in the 1927-1932 period, especially when a huge famine and economic crisis resulted from the disaster of forced collectivization of agriculture and Stalin's prestige in the party apparatus began to decline. After Hitler came to power in 1933, the war danger became quite real. It increased pressure for prioritizing heavy industry and armament industry developments far from the traditional industrial centres of the Donetz, Moscow, Leningrad, the Ukraine and Western Russia, again regardless of any growing disproportions in the economy.

Serious theoretical mistakes contributed to these excesses. Around Strumilin, a whole school of "voluntarists" arose, denying the existence of objective economic laws in the transition period. Other economists, some of them of Menshevik origin, genuinely believed in the "law" of priority development of heavy industry in order to ensure long-term accelerated economic growth.<sup>18</sup> This "law" is derived from an erroneous two-sector model of **production/reproduction** instead of a three-sector one. Maurice Dobb stubbornly defended the same mistake for decades in the West, but he was by no means the only one.

The disastrous social consequences of the panicky measures of 1928-1932 provoked a social crisis of major dimensions, besides sowing the seeds of long term economic dysfunctioning. The two main classes of Soviet society, the working class and the peasantry, witnessed a traumatic decline in living standards. As a result, both classes became demotivated with regard to elementary economic efficiency. Increasing output and productivity of labour could not be based under these conditions upon conscious involvement and even the material self-interest of these classes. Only the material interests and the strictest monopoly of authority in the hands of the bureaucracy became the motor for fulfilling the plan. Thereby, power and privileges of the bureaucracy as opposed to those of the mass of both the workers and the peasants, became rigidly institutionalized

throughout the economic system and society as a whole. Stalin's total political control at the top crowned a complex system of levers and incentives to ensure a minimum of operability of the planned economy which was thereby, from the start, a form of planning managed by the bureaucracy in the interests of the bureaucracy.

But a basic contradiction arose out of the combination of bureaucratic planning and bureaucratic management geared to the material self-interest of the bureaucracy. Bureaucratic planning over-emphasized the realization of planning goals in physical terms. Income increments of the bureaucrats depended upon fulfilment and overfulfilment of the plan. But under conditions of taut and over-stretched resource-use and discontinuous flows of supply, the closer the plan goals came to the actual maximum capacity of output of a factory, the more difficult it became to fulfil or slightly overfulfil the plan, and the lower became the total income of the "economic" bureaucracy. So a permanent tug-of-war set in between the "central" layers of the bureaucracy (sometimes called the "political" layers) and the economic managers. The latter became systematically inclined to build up hidden reserves of resources at plant level. The former were constantly on the look-out for such "hidden resources for additional investment" (additional growth).

An absurd system of rampant disinformation arose. Information about productive capacity at plant level was systematically wrong, *i.e.* below reality. At the "centre", it was systematically considered as such, and arbitrary "additions" were added to projected output figures. This led to the hiding of still more reserves, and to still more dismissal of information coming from below by the central authorities.

Whereas the constant flow of information, unhampered by private property and competition, is one of the great potential advantages of a planned as compared to a "free market" economy, bureaucratic planning and the bureaucracy's material self-interests produced a system of permanently unreliable information, which even the obligation of filling out literally billions of control and checking forms a year could not basically correct.

During an initial phase, the bureaucracy as a large social layer (at least its top and middle layers, *i.e.* several millions of households) had an obvious self-interest in building a broad industrial basis in the country. You cannot have several million cars and apartments, endowed with millions of electro-domestic equipment, without large-scale automobile, steel, machine building, electrical equipment, power stations industries. But once that layer, which concentrated all political and economic power in its hands, had reached a certain saturation of consumer demand, its attitude towards economic growth began to change. It again reversed to its initial conservatism:

"anything for a quiet life". Increasingly, it became demotivated for speeding up, not to say optimizing economic efficiency.<sup>11</sup> The system became one of generalized irresponsibility, to quote the former Stalinist prime-minister of Hungary, Andres Hegedus.<sup>12</sup>

Caught between the unbreakable inertia of a huge bureaucratic machine on the one hand, and a largely atomized and demotivated mass of workers and peasants still unable to replace bureaucratic mismanagement by generalized producers' self-management, the system gradually ground towards stagnation. The rest is recent history.

This sad story in no way implies that democratic planning based on articulated self-management has been condemned as impracticable or undesirable by the Soviet experience. Its case stands as it stood in the past. Intellectual and moral arguments in its favour remain convincing. But the last word has to be said by practice.

## NOTES

1. We deal more in detail with that debate in the last chapter of our book "Power and Money. A General Theory of Bureaucracy", London, Verso, 1991.
2. Underlying some of the formulations in that respect is a form of myopic conservative prejudice: everything which does not exist cannot exist. With the same "logic" one could have stated that slavery was the only possible form of large scale agricultural or handicraft production (in the 1st century AD); that monarchy was the only possible form of government (in the 14th and 15th century); that parliaments could only be elected without universal franchise (in the 18th century) etc. Yet slavery finished by being abolished. Republics appeared while monarchies disappeared in their majority. Universal franchise ended by becoming general in all countries opting for a parliamentary system. Not to see what is developing without being already realized is a form of ideological colour-blindness often based upon wishful thinking: you don't see what you don't want to see.
3. Market economy based upon small independent producers, who have direct access to their own means of subsistence (land) and their own means of production, is structurally different from a capitalist market economy in which such access is denied to 80-90% of the population.
4. A radical example in that respect is offered by the Belgian economist Gerard Roland, in his interesting book *L'économie politique du système soviétique* (Paris, 1989). He presents the Soviet economy as ruled by "indicator values" i.e. the gross output targets set for enterprises. How can "indicators" rule over human beings?  
Do they fall from the sky? Aren't they the product of humans? Shouldn't one say that some human beings, social layers, use indicator values to rule over other human beings?
5. A good example is that of housing under contemporary capitalism. In the richer countries, millions are still homeless and waiting for cheap apartments, while in the meantime millions of "second residences", often unoccupied during most of the year, have been built. In the poorer countries, hundreds of millions are homeless or dwell in miserable shantytowns and slums, while the rich have villas built for them which equal those of the richest countries, and the super-rich live

in estates and luxury compounds which more than 99% of even the richer countries' inhabitants cannot afford.

The allocation of relatively scarce resources for education and health, just to give these two examples, is decisive for the long term development of any country, including the economic one.

The economic crisis of the thirties made it profitable for German capitalism first, USA capitalism after that, often in competition with each other, to export modern machinery on a large scale to the USSR. The relatively slow pace of technological change didn't create any problems of successive waves of technological innovation in that period for the Soviet economy.

The stepped-up arms race since the beginning of the cold war, and especially since the sixties, exercised a growing pressure on the Soviet economy. As the GNP of the USSR was only 50% or less of the GNP of the USA, similar or equal arms expenditures meant a burden of double the size on the Soviet economy compared to the burden of the arms race on the USA economy.

In an adjusted tri-sector system of reproduction, department III includes all those goods and services which do not reenter the simple or expanded reproduction process. These are distinct from department I goods, raw materials, energy and machinery (tools) for simple and expanded reproduction, and of department II goods: consumer goods and services reconstituting and expanding labour power.

This is the wrong assumption of, among others, the Cliff school of adherents to the theory of "state capitalism" supposedly existing in the USSR.

This is again ignored by Preece and Unsal, who correct Feldman's two sectors model by building an ingenious three sectors' one, in which the third sector represents machine-tools and like goods (during means of production). Goods not entering reproduction are ignored in an unrealistic manner, "Science and Society", pp. 32-3, 54-4.

One should however consider that, from the point of view of the worker, and of human development, the slower work rhythm in Soviet factories is not something *per se* negative.

This is one of several phenomena which prove that, at least in its extreme form, the theory of "totalitarianism", i.e. the allegedly total control of Stalinism over society, was as incorrect as a similar allegation about Nazi Germany. In fact, there was a significant saying among people in Stalin's time: "blat" (i.e. connections) are stronger than Stalin.

This might on the other hand be considered a simple correction of the many excessive output figures contained in official statistics, so that the GNP, including the 25% output of the shadow economy, would be roughly equal to official statistics not including the informal sector.

Widespread criminalization of the private sector of the economy developed in the last 10-15 years, side by side with increasing growth of the informal and market operations. The mafia became a permanent feature of Soviet economy and society.

Leon Trotsky summarized his views about a cure of the ills of bureaucratic mismanagement in the following formula: "Only through the interaction of these three elements, state planning, the market, and Soviet democracy, can the correct direction of the economy of the transitional epoch be attained." (The Soviet Economy in Danger", in: *Writings of Leon Trotsky*, 1932, p. 275.)

See in that respect among other sources E. H. Carr and R. W. Davies: *Foundation of a Planned Economy 1926-1929, Volume One — II*, pp. 698-701. Stephen F. Cohen: *Bukharin and the Bolshevik Revolution*, pp. 278-280.

This was especially the case of Feldman, one of the fathers of the first Five Years plan.

19. The saddest example in that respect is that of the tens of thousands of scientists enthusiastically engaged in creative research and in building a model "communist city" in Akademgorodok near Novosibirsk, just to become completely demoralized by a decline in their standard of living combined with the increase in material privileges of their superiors, and generally their subordination to a rigidly hierarchical system of science management.
20. It has been alleged that the bureaucracy rules the USSR, like Western capitalists, in order to assure "production for production's sake". In the first place, this isn't an adequate description of the way capitalism functions anywhere in the world. The correct formula is: production for profits' sake. Capitalists are not interested in unprofitable output. They ruthlessly curtail output when this serves the profit motive. In the second place, there is not the slightest indication that Soviet managers or even the Soviet bureaucracy in its totality is motivated or even interested in the last decades by maximizing, not to say optimizing output. All evidence revealed since the beginning of *glasnost* — indeed already initially revealed in the sixties — shows the opposite: a growing indifference towards overall economic performance, at plant level as well as at macro-economic level.