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What are the reasons for the lackluster performance of the Soviet economy between 1985 and 1988, its rapid deterioration after 1988, and collapse, along with the USSR itself, in 1991? As well as being important in a historical context and for prognoses of future developments in the former Soviet republics, the answer to this question is of immediate political relevance: it directly affects analyses of the alarming economic situation in the newly independent states and recommendations for remedying it.

Simplifying the issues somewhat, one can identify two schools of thought concerning this question.

According to the first school, on the eve of Mikhail Gorbachev's ascendance to power in 1985 the Soviet economy was experiencing some difficulties, but, generally speaking, the system of central planning and administration, managed by the communist party and the government in accordance with basic socialist principles, was functioning fairly effectively. The extant problems - low labor productivity, poor returns on investment, technological backwardness, environmental degradation, poor quality of manufactured goods, suppressed inflation, and some structural imbalances - could have been corrected by tightening labor discipline, modernizing capital stock, and marginally improving the planning and administrative mechanisms, but without truly radical systemic reforms.

Unlike Western market economies, the Soviet system was economically, socially and politically stable and the people had confidence in the future of the socialist system. Proponents of this view argue that the fact that the "command" system of central planning was created in the early 1930s and existed with minor modifications for more than fifty-five years testifies to its viability and effectiveness. The ill-advised perestroika, with its conflicting objectives and policies, they say, entailed the introduction of poorly designed, contradictory, and often unnecessary half-measures. Many of these policies, in fact, amounted to a dismantlement of socialism. The ultimate goals of perestroika were constantly redefined, disorienting enterprises, ministries, and regions and damaging work discipline and the effectiveness of administrative controls. As a result, the time-tested Soviet socialist institutions (such as central planning and supply systems, state-set wages and prices, state monopoly on foreign trade, state control over foreign exchange rates, and uniform tax, credit, and budget policies) were partially destroyed

or rendered ineffective, but no coherent system was put in their place. The communist party, the argument goes, had always played an extremely important role in the hierarchy of political power in the country and in ensuring that all the economic agents in the complex matrix of interrepublican and interbranch relationships complied with orders issued by the center; these relationships were upset by the constraints imposed by Gorbachev in 1989 and 1990 on the administrative functions of the party, while the disparagement of Marxist-Leninist ideology weakened the moral fiber of society. The deterioration in the economy, and the paralysis of central power that occurred in the late 1980s and ultimately the collapse of the Soviet Union is thus seen as the direct outcome of Gorbachev's perestroika.

The second school of thought maintains that the Soviet-type "command economy" has never been a viable system. Adherents of this point of view (1) argue that the Soviet system endured for as long as it did because of sustained growth of national income generated by increases in the use of factors of production (labor, natural resources, capital, and land), achieved under a brutal, repressive regime at the expense of the living standards of the population. But the Soviet economy could not rely on extensive growth model forever. The labor force was growing more slowly because of demographic factors.(2) Relentless pressure to increase production in the short run regardless of long-term consequences, affected the quality of production, particularly the quality of mineral resources and of soil fertility. For example, a long-term decline in the gluten and protein content of wheat, starch in potatoes, and sugar in grapes and in sugar beets was reported in the Soviet literature 1970s and 1980s. Extraction of energy and of other raw materials was becoming increasingly expensive, forcing up manufacturers' costs. Technological progress was retarded by institutional factors such as faulty managerial incentives and isolation from the international scientific and commercial community. The Soviet ruble remained inconvertible which isolated domestic prices from world market prices and made foreign trade planning inefficient; bilateral trade arrangements limited the overall volume of foreign trade. Except for some military and space projects the Soviet industry was lagging technologically behind the world. The quality of manufactured goods continued to be inferior by world standards because of the absence of demand pressures on producers isolated from buyers by the centralized supply system. Excess demand in many markets produced by state-fixed prices, inefficient state retail trade network, restrictions on consumption and other factors led to the emergence of a flourishing underground or "second economy" corrupting the system and disrupting the planning process and state controls over the economy.(3) The traditional stress on short-term growth of industrial output "at all cost" resulted in ever-widening ecological disturbances; the defense sector protected by a veil of secrecy and virtually unaccountable carried a particularly heavy responsibility for contamination of soil and water with radioactive waste, heavy metals, and toxins. Owing to the growth in the number and complexity of economic tasks and their interrelated nature, the overcentralized and inflexible planning apparatus was becoming

increasingly ineffective.

Many of the defects of the system, such as soft budgetary constraints and the resulting self-perpetuating shortages of intermediate and consumer goods, inefficient patterns of capital investment and wrong state-fixed prices were systemic and could not be corrected. The historical movement toward the inevitable collapse of the system driven by built-in inefficiencies had been occasionally slowed down by such favorable exogenous developments as the bonanza of growing hard currency earnings resulting from higher world oil prices in the 1970s and early 1980s, but it could not have been reversed. The cumulative weight of continuous waste, inefficiencies in the allocation of resources and resulting sectoral deformities and structural imbalances, adverse effects of growing environmental degradation, and policy errors finally started the process of systemic disintegration.

Adherents of the second school argue that the events of 1989 in Eastern Europe support their thesis. Soviet-type systems in the socialist bloc collapsed as soon as it became clear that the USSR would not interfere militarily to defend the ruling communist parties and the existing order. Economically and politically these "command-administrative" systems simply could not survive independently of the USSR.

Leonid Brezhnev, Andrei Kosygin, Yurii Andropov, Konstantin Chernenko and others in central authority, it is argued, did not detect the decay, because bureaucrats presented them with false pictures of "business as usual," purposely or inadvertently concealing or ignoring the evidence of economic deterioration and the decline of the quality of life in the country. Faulty data produced by the Central Statistical Administration not only presented a distorted picture of a robust economy and deeply satisfied society to the outside world and Soviet people but deceived the leadership as well.

Thus, in the eyes of the second school, the accelerated economic deterioration of the last few years was the inevitable product of the past and would have ultimately ensued with or without Gorbachev and perestroika. Were Andropov have not died when he did or were a different secretary general elected in the spring of 1985 instead of Gorbachev the Soviet system may have lasted a couple of years longer or the collapse could have come earlier but the end was inescapable.

Were there any other non-systemic factors that caused the economic collapse of the Soviet Union? Three factors should be considered -- the defense burden, independence movements in republics, and President Reagan policies towards the USSR.

It could be argued that the continuing growth of defense expenditures contributed to the country's economic difficulties in the 1970s and 1980s. Arguably, high defense expenditures should not be considered an inherent feature of the Soviet or any other socialist or communist system; yet, even in the area of defense, such systemic features as overcentralization, the primitive nature of budgetary and cost accounting, incorrectly set prices for inputs and outputs, the hidden subsidies to the military-industrial complex, and the absence of technological spin-offs of military production made the high defense costs extremely burdensome for the

economy. And, as in many other areas of state policies, the true nature of the burden was hidden from the leadership by fragmented and distorted statistical system.

The poor economic performance of the late 1980s and the dissolution of the Soviet Union in 1991 could also be partially traced to interethnic friction and the quest for independence of Soviet republics. These could conceivably be seen as political factors that have nothing to do with Marxist economic ideas or socialism. But Marx and Lenin (and even Stalin in his earlier days) repeatedly argued that forces of nationalism were anachronistic and that loyalty and commitment to one's class, ideology, or party superseded national identification. Accordingly, the Soviet Union, it was believed, did not have "nationality problems." The dismissal of nationalism as an important political force became an integral part of the Soviet state doctrine. These beliefs explain Gorbachev's suicidal disregard of the evidence of the gathering in strength of centrifugal forces in the country and his refusal to grant more autonomy to republics.

We must also consider the impact of American policies on the dramatic weakening of the Soviet system in the 1980s. In the early days of his presidency Ronald Reagan changed the official US policy of "containment of world communism" in effect since the late 1940s to a policy the goal of which was to change the Soviet system and to reduce Soviet influence in the world. Reagan's active intervention encompassed the following:

- Secret financial, material, and logistical help to the Polish Solidarity (independent anti-communist labor union) movement combined with strong international financial pressures on the Polish government to restrain it from dealing too harshly with Solidarity.
- Secret financial, material, and intelligence help to Afghan resistance movement in their fight with Soviet occupational forces.
- A covert program pursued in cooperation with Saudi Arabia aimed at reducing world price of crude oil for the purpose of cutting hard currency earnings generated by Soviet exports. This program was combined with attempts to slow down construction of gas pipe lines from the USSR to Western Europe.
- A policy aimed at reducing Soviet access to Western advanced technology, particularly military and dual purpose technology by strengthening CoCom operations.
- Rapid buildup of US defense expenditures and launching of multi-billion dollar "Strategic Defence Initiative" (otherwise known as "Star Wars"). The massive application of sophisticated American technology to the defense (regardless of prospects of success of proposed SDI) threatened to disturb the military parity achieved by the Soviet Union in the late 1970s.

All of these programs had been successful to a greater or lesser degree. Against all odds the Solidarity movement survived in Poland and must be given a major share of credit for toppling the Communist regime in Poland and introducing a major threat of labor unrest in all socialist regimes. The civil war in Afghanistan expanded and became increasingly costly to the Soviet Union both in terms of casualties and in ruble until Gorbachev was forced to withdraw his troops. In the 1970s and

1980s the Soviet Union was becoming increasingly dependent on imports of grain and machinery from the West paying for them by growing hard currency earnings from oil and gas exports. American and Saudi Arabia intervention and other factors forced the world market price of crude oil to be halved from the high \$34 per bbl in 1982 to about \$17 at the end of the 1980s. As the result the USSR lost tens of billions of dollars of export earnings and was forced to borrow from the West to finance the imports on which it became dependent. The technological challenge of "Star Wars" program could not be matched by Soviet defense sciences and industries. Gorbachev was compelled to move towards disarmament and a less aggressive international posture which created controversies and unrest among high party echelons and the military.

It must be stressed that President Reagan's policies alone, no matter how successful, would not have resulted in the collapse of the Soviet system. It would be reasonable to conclude, however, that they did exacerbate the deepening economic crisis.

The two alternative explanations of the economic decline and collapse of the USSR have been widely used by opposing political forces in the former Soviet Union. Conservative elements in society and large numbers of former communist party functionaries and members of the ministerial apparatus subscribe to the first explanation. They viewed Gorbachev's perestroika as a futile as well as a badly thought-out endeavor. They were always opposed to free markets, to private ownership of land, and to private enterprise, which, they believed, created socially disruptive income inequalities and fostered criminal economic activities. They advocated the immediate restoration of the power of the central government, the strengthening of administrative controls over the economy, the suppression of separatist movements in the republics, and the reestablishment of law and order. In a general sense these attitudes fueled the aborted anti-reform coup d'état of August 1991.

Radical reformers, on the other hand, derive their policy recommendations from the basic premise that the "command-administrative" system was not workable. The only real issue for them was how to go about dismantling the old system and transforming the Soviet Union into a modern pluralistic and economically viable market economy in the shortest time possible and at the lowest cost to the long-term prospects of the economy and the people.

The two views affect attitudes toward the economic crises in postcommunist societies in many ways. Those who subscribe to the first interpretation of the Soviet collapse tend to blame all adverse developments of the past few years on reforms and demand the restoration of central controls. The reform economists, meanwhile, view the current crisis (open high inflation, unemployment, and cuts in production) as an inevitable part of the legacy of the moribund socialist system. Thus, in their view, transition policies, such as those advocated by Egor Gaidar and Stanislav Shatalin, no matter how well designed or effectively implemented, could not have produced immediate positive economic results and the recovery process would be a long and painful one.

Both schools of thought represent complex blends of economic

analyses, ideologies, and doctrines, vested interests and, in many instances, somewhat slanted interpretations of the Soviet Union's economic performance. The lack of historical data and documents and the often biased nature of available economic statistics compound the difficulty of evaluating the two alternative theses. Moreover, the dividing line between the two schools of thought is not well drawn, and some advocates of one or the other exegesis have switched sides. It could be argued that Gorbachev, for example, started his career in the Politburo essentially subscribing to the first thesis, believing in the feasibility of a quick "fix" for all the country's economic ills. In the late 1980s, however, as the depth of the economic crisis became clear to him, he changed his position, recognizing the need for a thorough revamping of the system. (4)

The two alternative explanations of the malaise that affected the Soviet economy and is observed in the successor states are paralleled in controversies among academic and government specialists in the West. Supporters of the first school of thought ask the following question: if the second explanation is the correct one and the Soviet "command-administrative" economic system carried the seeds of its own destruction within it, why was this phenomenon not detected by those who specialized in measuring the Soviet gross national product, the welfare of Soviet people, and rates of economic growth?

The debates can be expected to continue and to expand to cover more issues. Many socialists in the West (Marxist and non-Marxist alike) argue that the Soviet system was not a truly socialist one and thus its disintegration is irrelevant in the assessment of the viability of the socialist model. The dictatorial nature of the command system and the use of brutally oppressive police controls are, according to these arguments, incompatible with true socialism, Marxian or not. Others argue that the system created by Stalin in the early 1930s was the only feasible (and hence inevitable) polity based on the ideas of Marx and Lenin.

ENDNOTES

(1) The author is supportive of this argument but is aware of the need for much additional research and deliberation before final conclusions can be drawn.

(2) A number of scholars in the former Soviet Union have advanced a "genetic deterioration" or "degradation of the genetic pool" thesis. Civil strife, wars, emigration, purges, and the Gulag inflicted disproportionately high losses on the better educated, more skilled, and more dynamic segments of the population, primarily of men of working age. This "negative selection," which has been taking place over several generations, has, it is argued, adversely affected the "genetic pool" of the nation both physiologically and mentally, resulting in the long-term degradation of education, labor skills and productivity. This thesis is an interesting one but is difficult to quantify or prove.

But it seems likely that the turbulent years of Soviet history must have had some long-lasting, cumulative adverse demographic effects.

(3) The net impact of the "second economy" on the effectiveness of official centrally-planned economy is difficult to evaluate fully.

The presence of the "second economy" did disturb the planning process and diverted productive resources to illegal private enterprise. Graft and corruption affected all areas of Soviet life and so did tax evasion. But the "second economy" also corrected inadvertent error made by officials in their distribution plans. Wrong consumer goods delivered at wrong times to wrong localities would be reshipped and sold for profit by underground entrepreneurs thus increasing consumption. The consensus is that the net impact of the growing "second economy" was adversely affecting the official economy.

(4) It must be noted that until the end of his Presidency, Gorbachev continued to occupy a middle-of-the-road position with respect to truly systemic reforms. As late as the fall of 1991 he was still professing to believe in the communist party and socialist ideas and objecting to such proposed reforms as the introduction of private ownership of land.