

# My Time with Soviet Economics

— ◆ —

PAUL CRAIG ROBERTS

**T**he academic study of the Soviet economy was unsuccessful. Several widely held misconceptions contributed to the lack of success. Western economists assumed that economic growth was assured because the central planning authority controlled the rate of investment. They assumed that the Soviet economy was planned centrally because it had a central planning agency. They assumed, as Alexander Gerschenkron put it in his December 1968 Ely Lecture at the eighty-first annual meeting of the American Economic Association, “that hardly anything in the momentous story of Soviet economic policies needs, or suffers, explanations in terms of its derivation from Karl Marx’s economic theories” (1969, 16). All of these assumptions were false. Western scholars (and intelligence agencies) consequently were unprepared for the sudden collapse of the Soviet Union. Their subject simply disappeared before they ever understood it. In this article, I discuss each of the erroneous assumptions in turn.

In April 1988, the Central Intelligence Agency and the Defense Intelligence Agency told the Joint Economic Committee of Congress that the Soviet economy had grown by approximately 2 percent yearly from 1981 to 1985, by 2.2 percent yearly from 1976 to 1980, by 3.1 percent yearly from 1971 to 1975, and by 5 percent yearly from 1966 to 1970 (U.S. Central Intelligence Agency 1988, 61). These estimates were given to Congress even though two months earlier Mikhail Gorbachev had told the Central Committee of the Communist Party that, except for vodka sales

---

Paul Craig Roberts is chairman of and John M. Olin Fellow at the Institute for Political Economy in Washington, D.C., and a senior research fellow at the Hoover Institution, Stanford University.

*The Independent Review*, v.VII, n.2, Fall 2002, ISSN 1086-1653, Copyright © 2002, pp. 259–264.

and the higher prices paid for Soviet oil, the Soviet economy had not grown for twenty years (“Communiqué” 1988, 1; see also Bergson 1988 and Franklin 1988).

In 1962, G. Warren Nutter tried to bring some reality into the estimation of Soviet economic performance with his book *The Growth of Industrial Production in the Soviet Union*, published by Princeton University Press for the National Bureau of Economic Research. Nutter had little success in curbing exaggerated estimates of Soviet economic growth. In the end, even his own estimates proved to be on the high side.

As late as 1979, economists still ascribed a remarkable growth potency to central planning. In that year a World Bank report, *Romania: The Industrialization of an Agrarian Economy under Socialist Planning*, credited central planning with achieving a 9.8 annual rate of economic growth over the quarter century from 1950 to 1975. Remarkably, the World Bank economists did not realize that using these lofty growth rates to project backward the World Bank’s estimate of Romanian income per capita produced a figure too low to sustain life. This mistake provoked the *Wall Street Journal* observation: “We have heard exaggerated claims made for central economic planning, but never that it resurrected a whole nation from the dead” (“Resurrection of the Dead” 1979).

Economists could make such errors with impunity without any adverse effect on their careers because a positive attitude toward central planning was considered a sign of sophistication. It was more important not to be considered anticommunist than to know what one was talking about. Even as late as 1989, Paul Samuelson delivered the obligatory paean to the Soviet economy in his economics textbook (Samuelson and Nordhaus 1989, 837).

The emphasis on growth rates was one way of avoiding the question of what the growth rates were measuring. Much of Soviet output related very poorly to use. Inputs often were combined to create outputs worth less than the inputs. It is not genuine industrialization to construct capacity embodying production functions that produce outputs worth less than the inputs. The pitiful income per capita in Russia today reflects seventy-five years of wasting resources.

The Soviet Union wasted its resources because the success indicator for Soviet managers allowed them to be successful even though their output was poorly related to the needs of users. Soviet output basically satisfied no one but the statistician measuring it.

The Soviet manager’s success indicator was a measure of gross output, such as weight, quantity, square feet, or surface area. Gross output indicators played havoc with assortments, sizes, quality, and so on. Nikita Khrushchev complained of chandeliers so heavy “that they pull the ceilings down on our heads” (qtd. in Roberts and LaFollette 1990, 8). A famous Soviet cartoon depicted the manager of a nail factory being given the Order of Lenin for exceeding his tonnage. Two giant cranes were pictured holding up one giant nail.

If weight was the plan indicator for nails, the assortment would be heavily weighted with large nails; if the plan indicator was quantity, small sizes would pre-

dominate. The Soviets experimented by adding other indicators, but in the end a gross output indicator always determined the manager's success or failure.

When I first examined this system, it was clear to me that signals interpreted by managers constituted the main difference between the Soviet economy and a normal market economy (Roberts 1968b, 1969, 1971a). In a normal market, managers organize production by interpreting price and profit signals. In the Soviet economy, managers interpreted gross output indicators. The critical difference is that gross output indicators are irrational from the standpoint of economic efficiency.

Soviet managers were as autonomous as their market counterparts. They set their own plan targets by disguising their productive capacity and overstating their resource needs. Soviet planners served primarily as supply agents for enterprises, endeavoring to supply the enterprises with sufficient inputs to fulfill their gross output targets. The system of material supply could seldom perform this task, and Soviet factory managers made barter arrangements with one another and produced their own inputs. This activity led me to the conclusion that the Soviet economy, like a market, was organized polycentrically and not hierarchically as a planning system. The "central plan" was little more than the summation of the factory managers' individual plans.

My conclusion was buttressed by the absence of a theory of central planning. Despite many years of observing the Soviet economy, no one could explain how planners derived the structure of output. Jan Drewnowski of the Central School of Planning and Statistics in Warsaw noticed this problem. In a 1961 article, he tried to use the concept of revealed planners' preferences to explain how central plans are derived. Given a production possibilities curve and a state indifference curve or preference function, the point of tangency would indicate the coordinates of the plan. Generalizing this procedure reveals a "whole system of rates of substitution" that "may be looked upon as relative shadow prices" or "state preference prices" (348–49).

The problem was that Drewnowski did not have the state indifference curve. So how was the point of tangency determined? In his theory, the plan or output targets are given exogenously. The planners' preferred point on the production frontier is found before the planners' indifference curve is found. The state preference prices depend on the slopes of the arbitrarily drawn segments of indifference curves. Because the plan is a given, the laboriously revealed state preference function is superfluous (Roberts 1968a, 1972).

When Drewnowski's theory exploded, some economists fell back on Oskar Lange's (1938) theory of socialist planning. Lange's "theory" is market simulation disguised in socialist vocabulary that creates the illusion of planning. His model depicts the market with public ownership and therefore embodies all the exchange relationships of commodity production. The purpose of central planning, however, was to eliminate the market, not to simulate it. Lange took the concept of socialist planning out of its historical context and obscured it. He turned the debate about socialist planning into a discussion of the logical consistency of models of market simulation—their determinacy, stability, and convergence toward equilibrium. It was

easy to show that his “theory” permitted no planner to derive a central plan (Roberts 1971b, 1973b).

Economists fell for Lange’s “theory” because they were unfamiliar with Marxist aspirations. Marx attributed the alienation of man to commodity production—that is, to an economic system that organized production for sale on the market. Economic crises and all the evils that Marx attributed to capitalism followed from the structure of commodity production (Roberts and Stephenson 1968, 1973, 1983). The purpose of socialist planning was to eliminate market exchange and organize production for society’s direct use. The economy would be organized as a single factory, and everything produced would have a predetermined aim, as on a self-sufficient feudal manor or family farm.

Unfamiliar with the aspirations of planning, Sovietologists never understood Soviet economic history. When Lenin and the Bolsheviks seized power, those revolutionaries undertook a direct transition to socialism. They were unable to organize the Russian economy to produce for the direct use of society. They did succeed, however, in disrupting all economic relationships, causing famine and widespread rebellion. Looking back on “five years of the Russian Revolution,” Lenin acknowledged the “grave political crisis” in 1921. “The reason for it,” he said,

was that in our economic offensive we had run too far ahead, that we had not provided ourselves with adequate resources, that the masses sensed what we ourselves were not then able to formulate consciously but what we admitted soon after, a few weeks later, namely, that the direct transition to purely socialist forms, to purely socialist distribution, was beyond our available strength, and that if we were unable to effect a retreat so as to confine ourselves to easier tasks, we would face disaster. (1960–68, 421–22)

Despite unequivocal and overwhelming evidence, Sovietologists and historians misinterpreted the Bolsheviks’ efforts to eliminate market exchange as ad hoc measures to deal with civil war and inflation. Western academics placed a non-Marxian interpretation on Soviet economic history that permanently blinded them to the ideological intentions of Soviet planning. Collectivization of agriculture and the Soviet institution of material supply were never understood as part of the communist assault on commodity production.

In my account, Soviet economic history is a product of the interaction of utopian intentions with a refractory reality, an interaction that ended in the abandonment of the original aims of the revolution (Roberts 1970, 1971a, 1971c, 1971d, 1973a, 1990; Roberts and LaFollette 1990). In my account, economic and historical necessities have to make room for speculative excess as a force in history. The powerful socialist symbols of the twentieth century were expressions of passion for conviviality. They represented inordinate aspirations and caused Soviet history to be shaped by aims that did not comport with reality.

## References

- Bergson, Abram. 1988. Gorbachev on Soviet Growth Rate. Radio Free Europe, Radio Liberty, March 25.
- Communiqué on the Plenary Session of the Central Committee of the Communist Party of the Soviet Union. 1988. *Pravda*, February 18, 1.
- Drewnowski, Jan. 1961. The Economic Theory of Socialism: A Suggestion for Reconsideration. *Journal of Political Economy* 69 (August): 341–54.
- Franklin, Daniel. 1988. The Soviet Economy. *The Economist*, April 9.
- Gerschenkron, Alexander. 1969. History of Economic Doctrines and Economic History. *American Economic Review* 59 (May): 1–17.
- Lange, Oskar. 1938. *On the Economic Theory of Socialism*. Minneapolis. University of Minnesota Press.
- Lenin, V. I. 1960–68. *Collected Works*. Vol. 33. London. Lawrence and Wishart.
- Nutter, G. Warren. 1962. *The Growth of Industrial Production in the Soviet Union*. Princeton, N.J.: Princeton University Press.
- Resurrection of the Dead. 1979. *Wall Street Journal*, August 10.
- Roberts, Paul Craig. 1968a. Drewnowski's Economic Theory of Socialism. *Journal of Political Economy* 76 (July–August): 645–50.
- . 1968b. Oskar Lange, Hierarchy, Polycentricity, and the Soviet Economy. In *Vědecké Informace*, 113–44. Prague: Czechoslovak Academy of Sciences.
- . 1969. The Polycentric Soviet Economy. *Journal of Law and Economics* 12 (April): 163–79.
- . 1970. War Communism: A Re-examination. *Slavic Review* 29 (June): 238–61.
- . 1971a. *Alienation and the Soviet Economy*. Albuquerque. University of New Mexico Press.
- . 1971b. Oskar Lange's Theory of Socialist Planning. *Journal of Political Economy* 79 (May–June): 562–77.
- . 1971c. Professor Roberts Replies. *Slavic Review* 30 (June): 463–64.
- . 1971d. Review of *The Soviet Economy*, by Howard J. Sherman. *Journal of Political Economy* 79 (November–December): 1426–31.
- . 1972. Revealed Planners Preferences Once Again. *Journal of Political Economy* 80 (May–June): 608–11.
- . 1973a. The Concept of Planning in the Soviet Union. *Survey: A Journal of East and West Studies* 19 (autumn): 36–44.
- . 1973b. The Theory of Socialist Planning: Reply. *Journal of Political Economy* 81 (March–April): 465–70.
- . 1990. *Alienation and the Soviet Economy* (with a new introduction). New York: Holmes and Meier for The Independent Institute.
- Roberts, Paul Craig, and Karen LaFollette. 1990. *Meltdown Inside the Soviet Economy*. Washington, D.C. Cato Institute.

- Roberts, Paul Craig, and Matthew A. Stephenson. 1968. Alienation and Central Planning in Marx. *Slavic Review* 27 (September): 470–80.
- . 1973. *Marx's Theory of Exchange, Alienation, and Crisis*. Stanford, Calif.: Hoover Institution Press.
- . 1983. *Marx's Theory of Exchange, Alienation, and Crisis* (with a new introduction). New York: Praeger.
- Samuelson, Paul A., and William D. Nordhaus. 1989. *Economics*. 13th ed. New York: McGraw-Hill.
- U.S. Central Intelligence Agency. 1988. *Report Presented to the Subcommittee on National Security Economics of the Joint Economic Committee of Congress*. April 13.
- World Bank. 1979. *Romania: The Industrialization of an Agrarian Economy under Socialist Planning*. New York: World Bank.

# SUBSCRIBE NOW AND RECEIVE A FREE BOOK!



“*The Independent Review* does not accept pronouncements of government officials nor the conventional wisdom at face value.”

—**JOHN R. MACARTHUR**, Publisher, *Harper’s*

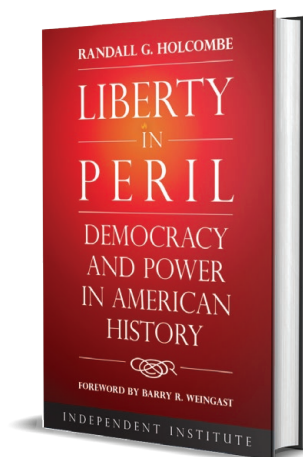
“*The Independent Review* is excellent.”

—**GARY BECKER**, Nobel Laureate in Economic Sciences

Subscribe to [The Independent Review](#) and receive a free book of your choice such as *Liberty in Peril: Democracy and Power in American History*, by Randall G. Holcombe.

Thought-provoking and educational, [The Independent Review](#) is blazing the way toward informed debate. This quarterly journal offers leading-edge insights on today’s most critical issues in economics, healthcare, education, the environment, energy, defense, law, history, political science, philosophy, and sociology.

Student? Educator? Journalist? Business or civic leader? Engaged citizen? This journal is for YOU!



Order today for more **FREE** book options

**SUBSCRIBE**

*The Independent Review* is now available digitally on mobile devices and tablets via the Apple/Android App Stores and Magzter. Subscriptions and single issues start at \$2.99. [Learn More.](#)

