

1 *The rise and fall of socialist planning*

Introduction

In February 1921 Russia established a State General Planning Commission to work out and implement a unified economic plan for the national economy. For seventy years this commission, known as Gosplan for short, played a significant, but varying, role in Russian and Soviet economic life. Under the influence of the Soviet example, planning organisations spread throughout the world, to state-socialist countries, to OECD countries such as the USA, France, the Netherlands and Japan, and also to developing countries such as India. In April 1991, deeply discredited by the poor performance of the Soviet economy and the ideological developments of 1985–90, Gosplan was transformed into a Ministry of Economics and Forecasting with substantially different tasks. Hence, socialist planning came to an end in the USSR, even prior to the end of the USSR itself. This radical transformation was not confined to the USSR or Eastern Europe. Two years later, in March 1993, China amended article 15 of its constitution to replace the description of its economic system as a ‘planned economy’ with the term ‘socialist market economy’. The term ‘planned economy’ was seen as discredited and inappropriate and was replaced by a term which incorporated the once rejected ‘market economy’. This chapter gives an overview of these dramatic developments and their causes.

The classics

Marx devoted most of his life to the analysis of capitalism and was notoriously opposed to attempts to design utopias. Nevertheless, from his scattered observations about socialism, and from those of his close

This chapter is a revised version of a chapter previously published in S. Estrin, G. Kolodko and M. Uvalic (eds.), *Transition and beyond* (2007), and is reproduced with permission of Palgrave Macmillan. The earlier version is available from www.palgrave.com/PDFs/0230546978pdf

comrade Engels (for example, in *Anti-Dühring* and *Karl Marx*) his followers drew the idea that in a socialist economy the market mechanism would be replaced by economic planning. That the market economy was inherently inefficient, and fundamentally unsuited to coordinate large-scale industrial production, came to be widely believed. Similarly, the notion of the superiority of planning, which would enable society as a whole to coordinate production *ex ante*, became widespread in the international Marxist movement. These ideas became an integral part of the Marxist critique of capitalism and the Marxist conception of socialism. They were elaborated in the works of the late nineteenth-century German Social Democrats and were regarded as axiomatic by the Russian Bolsheviks.

Russian discussion during the civil and national wars (1918–20)

Having come to power committed to replacing the market by planning, the Bolsheviks rapidly realised that they had no concrete ideas of how to do this. As Lenin (1965: 296–7) observed in his report at a session of the All-Russian Central Executive Committee of 29 April 1918:

We know about socialism, but knowledge of organisation on a scale of millions, knowledge of the organisation and distribution of goods, etc., – this we do not have. The old Bolshevik leaders did not teach us this . . . there has not been anything about it yet in Bolshevik pamphlets, and nothing is said about it in Menshevik pamphlets either.

In December 1918 the second All-Russian Congress of Councils of the National Economy advocated the construction and implementation of a single economic plan for 1919 but this remained a purely paper aspiration. Similarly, the second Party programme, adopted at its Eighth Congress in March 1919, aimed at ‘the maximum centralisation of production . . . simultaneously striving to establish a unified economic plan’. In their famous commentary on this programme, *The ABC of Communism* first published in Petersburg in 1920, Bukharin and Preobrazhensky (1969: 114–15, 118), two leading Bolshevik intellectuals and politicians, explained what lay behind this formulation.

They explained that under communism:

society will be transformed into a huge working organization for cooperative production. There will then be neither disintegration of production nor

anarchy of production. In such a social order, production will be organized. No longer will one enterprise compete with another; the factories, workshops, mines and other productive institutions will all be subdivisions, as it were, of one vast people's workshop, which will embrace the entire national economy of production. It is obvious that so comprehensive an organization presupposes a general plan of production. If all the factories and workshops together with the whole of agricultural production are combined to form an immense cooperative enterprise, it is obvious that everything must be precisely calculated. We must know in advance how much labour to assign to the various branches of industry; what products are required and how much of each it is necessary to produce; how and where machines must be provided. These and similar details must be thought out beforehand, with approximate accuracy at least; and the work must be guided in uniformity with our calculations. This is how the organization of communist production will be effected. Without a general plan, without a general directive system, and without careful calculation and book-keeping, there can be no organization. But in the communist social order, there is such a plan.

In response to the question of how it would be possible to combine planning with the withering away of the state, they explained that:

the main direction will be entrusted to various kinds of book-keeping offices or statistical bureaux. There, from day to day, account will be kept of production and all its needs; there also it will be decided whether workers must be sent, whence they must be taken, and how much work there is to be done. And inasmuch as, from childhood onwards, all will have been accustomed to social labour, and since all will understand that this work is necessary and that life goes easier when everything is done according to a pre-arranged plan and when the social order is like a well-oiled machine, all will work in accordance with the indications of these statistical bureaux. There will be no need for special ministers of State, for police and prisons, for laws and decrees – nothing of the sort. Just as in an orchestra all the performers watch the conductor's baton and act accordingly, so here all will consult the statistical reports and will direct their work accordingly.

How to combine these long-term aims with the concrete reality of short-term economic policy gave rise to a lively discussion in Bolshevik circles in 1920–1.

The global economy

The division between advanced and backward countries has been a major feature of the world economy since West European military technology

overtook and surpassed that of all other parts of the world in the sixteenth century (Cipolla 1965). This division widened still more after the Industrial Revolution. The advanced countries were in Western Europe and subsequently in certain overseas territories which they colonised. The backward countries comprised the rest of the world. Historically speaking, this division is very recent. When Marco Polo visited China, he was most impressed by Chinese civilisation, which manifestly compared extremely favourably with that of Western Europe. It seems that in the fifth to fifteenth centuries per capita incomes were higher in China than in Europe (Maddison 1998). Europe then was a backward part of the world and China the advanced part. However, within a historically very short period the Europeans used their newly acquired military superiority to conquer the whole American continent, Australia, New Zealand, most of Africa and much of Asia. China probably only escaped colonisation because of rivalries between the potential conquerors.

This predatory behaviour by the advanced countries aroused intense anxiety in the surviving independent countries, the leaders of which realised that if they were to retain their independence it was necessary for them to catch up with the advanced countries. This fact was keenly appreciated by Japan's rulers after the Meiji Restoration and by Russia's rulers during Witte's tenure of office. It was also appreciated in nineteenth-century China by perceptive officials such as Feng Guifen (Schell and Delury 2013: chapter 3) and the reformers who inspired and attempted to implement the Hundred Days' Reform of 1898 (Schell and Delury 2013: chapter 4).

This historical background is absolutely indispensable for understanding the purpose and functioning of socialist planning as it actually existed. It originated in a backward country, and its major purpose was to propel the countries which adopted it into the ranks of the advanced countries. This explains the emphasis these countries placed on overtaking and surpassing the advanced countries.

The fact that the countries which adopted socialist planning were mainly backward countries (with some exceptions, such as the GDR and the Czech lands) is not an accident but has a definite theoretical explanation. As Kornai pointed out (1992: chapter 15), socialist planning was a result of Marxist–Leninist parties coming to power. That these parties came to power in backward countries is strange from the standpoint of classical Marxism. According to classical Marxism, i.e. the Marxism of the Second International (which differed in some

respects from the earlier views of Marx and Engels themselves), the socialist revolution is the result of the contradictions of capitalist society. Hence, those people and political parties who wished to organise socialist revolutions in pre-capitalist societies simply showed their ignorance of the laws of motion of society discovered by Marx. This view was made explicit in Plekhanov's famous polemic with the Narodniks (or populists) in the 1880s. Nevertheless, the Bolsheviks, and all subsequent Communists, ultimately came in practice to accept a different view, which seems to have been the view of Marx and Engels themselves (van Ree 2013). Classic formulations were given by Marx in 1850 and repeated by Lenin in 1905.¹ It is the view that Communists should strive for power and build socialism even in countries which were not yet developed capitalist countries, i.e. the theory of the 'permanent revolution'.² The significance of this theory, as explained by its chief Russian theorist (Trotsky 1930: 15, italics added), is that it

demonstrated that the democratic tasks of backward bourgeois nations in our epoch lead to the dictatorship of the proletariat, and that the dictatorship of the proletariat places socialist tasks on the agenda. This was the central idea of the theory. If the traditional view was that the road to proletarian dictatorship ran through a lengthy democratic period, the doctrine of permanent revolution asserted that *for the backward countries the road to democracy leads through the dictatorship of the proletariat.*

This analysis makes it clear that Communist dictatorship is only relevant for backward countries and quite irrelevant for the advanced countries. It also explains why the Euro-Communist parties, which operated in advanced countries, abandoned the aspiration to establish dictatorships of the proletariat years before perestroika. Since they operated in advanced countries which already had democracy, policies advocated for pre-democratic backward countries were absolutely irrelevant.

¹ The classic texts are: the *Address of the Central Committee to the Communist League* (1850); *Two tactics of Social-Democracy in the democratic revolution* (July 1905); and *Social-Democracy's attitude to the peasant movement* (September 1905).

² This differed from Marx and Engels's theory of permanent revolution in that in the Bolshevik interpretation the workers take the initiative in the bourgeois revolution, whereas in the vision of Marx and Engels the workers seize power after the democratic petty bourgeoisie has come to power.

The fact that the state-socialist countries were backward countries desperate to catch up partly explains why it is that, instead of executing the legacy of Marx, i.e. of constructing an egalitarian, non-market society with a truly human organisation of the labour process and an end to the division of labour and the exploitation of man by man, they were actually mainly concerned with executing the legacy of Peter the Great, the Meiji Restoration and Feng Guifen. This mainly meant the accelerated import of foreign technology in order to preserve national independence and catch up with the advanced countries. As Lenin put it in 1918 (in *'Left wing' childishness and the petty-bourgeois mentality* – English translation Lenin 1965: 340):

our task is to study the state capitalism of the Germans, to spare *no effort* in copying it and not to shrink from adopting *dictatorial* methods to hasten the copying of it. Our task is to hasten this copying even more than Peter hastened the copying of Western culture by barbarian Russia, and did not refrain from using barbarous methods in fighting barbarism.

There were three reasons why socialist planning was not adopted by the advanced countries. First, in those countries capitalism led to a huge and historically unprecedented increase in real wages, a development not foreseen by Marx or the Communist parties. Secondly, the advanced countries were not backward countries struggling to catch up. Thirdly, the experience of socialist planning – although it had some important achievements to its credit – did not demonstrate a clear superiority over capitalism. Indeed, in some respects it demonstrated a clear inferiority with respect to capitalism. This book analyses this in some specific areas (such as agriculture and consumption) and considers why this was the case.

That Soviet economic policy was largely concerned with catching up, for military reasons, was clearly explained by Stalin at the very beginning of socialist planning. In a famous speech delivered in 1931 and reprinted in his (1955b: 40–1) he explained the imperative need to press on with rapid industrialisation regardless of the obstacles:

It is sometimes asked whether it is not possible to slow down the tempo somewhat, to put a check on the movement. No, comrades, it is not possible! The tempo must not be reduced! On the contrary, we must increase it as much as is within our powers and possibilities. This is dictated to us by our obligations to the workers and peasants of the USSR. This is dictated to us by our obligations to the working class of the whole world.

To slacken the tempo would mean falling behind. And those who fall behind get beaten. But we do not want to be beaten. No, we refuse to be beaten! One feature of the history of old Russia was the continual beatings she suffered because of her backwardness. She was beaten by the Mongol khans. She was beaten by the Turkish beys. She was beaten by the Swedish feudal lords. She was beaten by the Polish and Lithuanian gentry. She was beaten by the British and French capitalists. She was beaten by the Japanese barons. All beat her – because of her backwardness, because of her military backwardness, cultural backwardness, political backwardness, industrial backwardness, agricultural backwardness. They beat her because to do so was profitable and could be done with impunity. You remember the words of the pre-revolutionary poet: ‘You are poor and abundant, mighty and impotent, Mother Russia.’ Those gentlemen were quite familiar with the verses of the old poet. They beat her, saying: ‘You are abundant’, so one can enrich oneself at your expense. They beat her, saying: ‘You are poor and impotent’, so you can be beaten and plundered with impunity. Such is the law of the exploiters – to beat the backward and weak. It is the jungle law of capitalism. You are backward; you are weak – therefore you are wrong; hence you can be beaten and enslaved. You are mighty – therefore you are right, hence we must be wary of you.

That is why we must no longer lag behind.

In the past we had no fatherland, nor could we have had one. But now that we have overthrown capitalism and power is in our hands, in the hands of the people, we have a fatherland, and we will uphold its independence. Do you want our socialist fatherland to be beaten and to lose its independence? If you do not want this, you must put an end to its backwardness in the shortest possible time and develop a genuine Bolshevik tempo in building up its socialist economy. There is no other way. That is why Lenin said on the eve of the October Revolution: ‘Either perish, or overtake and outstrip the advanced capitalist countries.’

We are fifty or a hundred years behind the advanced countries. We must make good this distance in ten years. Either we do it, or we shall go under.³

This orientation of socialist planning to the building up of military might is one of the reasons why the USSR, unlike Japan, failed to catch up with the leading capitalist countries in the civilian sector of

³ The need for rapid growth to preserve national independence was also very important in motivating China’s high growth rates. Deng Xiaoping once observed (Vogel 2011: 673): ‘Those who are backward get beaten . . . We’ve been poor for thousands of years, but we won’t be poor again. If we don’t emphasise science, technology and education we will be beaten again.’ (This is a historically inaccurate echo of Stalin. Actually, for a long period China was relatively rich and powerful.)

the economy. Military programmes were a burden on the economy. Failure to take full advantage of the opportunities offered by the world market had adverse effects on economic growth and the quality of production. Stalin's stress on the need to build up the USSR's defence capacity was very prudent and entirely justified under the circumstances of the 1930s. However, his summary of Russian history was very one-sided. It ignored Russia's conquest of Poland, the Caucasus and Central Asia, and its annexation of the whole of northern Eurasia.

Planning in the NEP (New Economic Policy) period (1921–8)

Gosplan was established by a decree of the Council of People's Commissars of February 1921. It began work in April 1921 with a staff of thirty-four, most of them non-Party technicians and scientists, under the chairmanship of an Old Bolshevik. It grew rapidly, and by the middle of 1924 had a staff of 527. It was not the only planning organ. Just a month after it was created, another decree of the Council of People's Commissars set up planning commissions in a number of the People's Commissariats (i.e. ministries). For example, the decree established two planning commissions in the People's Commissariat for Agriculture, one for working out a general plan for agriculture and forestry and for coordinating the work of the commissariat with other commissariats, the other for working out a raw material plan. Similarly, it created three planning commissions in the Supreme Council of the National Economy, one in the People's Commissariat for Supply, etc. In 1923–5 republican gosplans were set up too. Since the USSR was such a huge country, the relationship between sectoral and regional planning remained a difficult one throughout the whole history of socialist planning.

During the New Economic Policy, Gosplan was mainly engaged in giving advice on economic policy, and struggling against both market forces and other bureaucratic organisations. In particular, it struggled to have its control figures (which subsequently became the basis for the annual plans) accepted as the basis for current economic policy in place of the annual budget drawn up by the People's Commissariat for Finance. Similarly, it struggled to have its five-year plan accepted as the basis for medium-term economic policy instead of the five-year plan drawn up by the Supreme Council of the National Economy. It also undertook a variety of economic calculations.

The economic calculations and economic models which underlay the concrete figures of Gosplan and other Soviet institutions in the 1920s played a pioneering role in international economic thought. For example, the economic balances calculated and published in the USSR in the 1920s played an important role in the history of the input–output method. Input–output was developed by Leontief, a Russian economist working in the USA who was well aware of the relevant earlier Soviet work. The latter was undertaken in, and published by, the Central Statistical Administration.

Gosplan was continuously involved in bureaucratic struggles with other organisations engaged in the economic policy process, such as the People’s Commissariat for Finance, the Central Statistical Administration and the Supreme Council of the National Economy. Gosplan only became the dominant planning body in 1932, when the Supreme Council of the National Economy was split up into a number of industrial commissariats. An area in which Gosplan has a good claim to priority is that of growth models. Feldman (1928) was a remarkable pioneering study which was published in Russian at the end of the NEP period, long before Western economics became interested in the theory of economic growth. It influenced early Indian planning, was analysed by Domar (1957), and translated into English in Spulber (1964). Feldman’s model was developed as a basis for long-term planning, and was originally a report to a Gosplan committee. It should be noted, however, that the concrete numerical work of Feldman and of the head of the committee to which he reported was much too optimistic. It treated as feasible entirely unrealisable goals. The attempt to realise them had disastrous effects on the economy.

It was in the 1920s that the view developed that planning should have four essential elements: the annual plans (originally control figures); the five-year plans; the ten-, fifteen- or twenty-year general or perspective plan; and the plans for concrete investment projects which made up the backbone of the other plans.

The first control figures were those for 1925–6, published in 1925. Gosplan’s annual control figures gradually grew in importance at the expense of the annual budget. This reflected the conscious choice made by the Bolsheviks in favour of industrial expansion at the expense of financial stability. As Dzerzhinsky (1926), candidate member of the Politburo, People’s Commissar for Internal Affairs and chairman of the Supreme Council for the National Economy, explained in February 1926:

Therefore, when it is said that because of the shortage of resources we should halt our investment projects, or reduce them to a certain level, then I assert that I, as chairman of the Supreme Council of the National Economy, will struggle against such an opinion to the end because it is fundamentally incorrect.

The results of this attitude, combined with state price control, were rising prices on the non-state market, increasing shortages of all goods and the grain crisis of the late 1920s. The latter resulted not from a *physical* shortage of grain but from an *economic* shortage resulting from prices which were unattractive to the producers and made feeding grain to animals more lucrative, and the limited availability of goods offered in return by the government. Hence, it can be seen that Gosplan and its annual control figures played an important role in undermining the NEP and in the events leading up to the collectivisation of agriculture and Stalinism. Accordingly, a decisive role in overcoming the legacy of Stalinism in Central and Eastern Europe was the abolition of the planning offices and restoring the key role of the annual budget and monetary equilibrium.

After long discussions of alternative proposals, Gosplan's three-volume work of more than 1,700 pages, *The Five-Year Plan of National Economic Construction of the USSR*, was approved in its optimum variant by the Fifteenth Party Conference in April 1929 and was published in May 1929. It subsequently had an enormous influence throughout the world.

Although numerous attempts were made in the USSR to construct a general or perspective plan for ten, fifteen, or twenty years, they never came to anything. They simply led to the publication of documents which speedily became irrelevant. After a short time, it became obvious that the main current problems were not those considered in the plan. On at least one occasion (the 1976–90 plan) the work was simply abandoned, and no document even published, as actual economic events evolved in a way quite unforeseen by those who had been working on the plan.

The prelude to socialist planning, 1929–33

Formally the First Five-Year Plan covered the period 1928–32. By the time it was adopted, however, 1928 and part of 1929 were already over. Economic policy in 1929–30 was dominated by the bitter struggle between the state and the peasantry, and in 1931–3 the country suffered