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To cite this article: Gary Fields (1997) The ascendancy and calamity of the planned economy, International Review of Sociology, 7:2, 243-266, DOI: [10.1080/03906701.1997.9971238](https://doi.org/10.1080/03906701.1997.9971238)

To link to this article: <https://doi.org/10.1080/03906701.1997.9971238>



Published online: 04 Jun 2010.



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The Ascendancy and Calamity of the Planned Economy

GARY FIELDS

Introduction

The demise of Communist governments in Eastern Europe and the former Soviet Union brought an abrupt conclusion to what was arguably the most compelling economic and social experiment in human history—the attempt to create a totally *planned* economy. Prior to the collapse of these regimes, the 20th century appeared to be the great divide marking the passage from capitalism to socialism. In this transition, economic planning emerged as the supposed antithesis of the market economy and the basis of the advance toward the socialist future. As the countries in Europe's Eastern periphery currently confront the challenge of a far different transition—a transition to the economy of the marketplace—a vexing historical question remains to be answered regarding the Communist planning experience. If, as events in the USSR and Eastern Europe suggest, it was premature to believe that society had embarked upon an epochal transition from capitalism to socialism, what can be concluded about the historical role played in this century by the Communist movement and its economy of state central planning? This essay seeks to answer this question.

The thesis of this essay is that state central planning was not simply the flawed element in an abortive transition to socialism, but was more fundamentally the economic agent in a broader transition in Russia to the capitalist market economy in which the vestiges of semi-feudalism were overcome.¹ Despite its aim as an alternative to capitalism, central planning, as it evolved under conditions of totalitarianism, created the historical impacts associated with capitalist industrialization. In the absence of a strong capitalist class throughout the economic space of the former Russian Empire, central planning filled a historical vacuum. What this class accomplished beginning in 18th-century England—development of the factory system, consolidation and modernization of agriculture, creation of an industrial workforce, establishment of a modern labour process—the system of central planning replicated. In effect, central planning was used by the Communist movement as a substitute for a historically-weak capitalist bourgeoisie to create the conditions for a modern industrial society. Although included in its ranks were individuals with aspirations for a far different project, communism and its attendant economic system of central planning became the agency in countries on the periphery of capitalism for accomplishing the historical tasks of capitalist modernity. By the time the system of central planning had created an infrastructure for industrial society, it had exhausted its economic potential and vanished precipitously from the stage of world history with barely a struggle.

In this essay I shall examine how state central planning came to embody the economic project of socialism, and why this planning project failed. In examining

the demise of planning in the context of historical transition, this essay seeks to augment explanations for this collapse that focus on the institutional and operational failings of central planning, including its undemocratic character, that were obviously flawed. The technical shortcomings and the political deformities of the Soviet planning system were undeniable but the causes of these pathologies are attributable most fundamentally to two historical circumstances that helped shape these flaws even before the Soviet regime actually brought them into existence when it created the planned economy in 1929.

In the first place, the evolution of socialist political economy, beginning in the early 19th century, succeeded in defining an economic project—state central planning—that was, in itself a problematic mechanism for efficient, democratic, socialist economic development. Beginning with Saint-Simon, continuing through Marx, and culminating in Lenin, the idea of a centrally-planned economy became elevated as the economic foundation of the socialist transition. Contained within this idea, however, was a naive and ultimately fatal miscalculation. According to socialist political economy, the system of capitalism was readily convertible to a socialist economy that could be easily managed through planning. This notion proved so compelling that it established a powerful and enduring legacy within the socialist movement during the 19th and early 20th centuries—a legacy that the Soviets unwittingly inherited even before Lenin added his own contribution to this tradition. The result was that state central planning, with its unforeseen difficulties and immense complexity, was already well-established as the economic imperative of socialism by the time the Soviets came to power, thereby defining the range of choices available to the Soviet regime when the time came to establish the structures of the planned economy in the late 1920s. Secondly, this project was decisively hampered by the fact that historical development in Russia had not secured the triumph of capitalist modernity over feudalism in the broad sense. Owing to its ascent in conditions of relative backwardness, the Russian Revolution gradually succumbed to a familiar pattern exhibited by previous revolutions in which revolutionary radicalism and its economic programme experience temporary victory but suffer ultimate defeat and in the process contribute, paradoxically, to capitalist development.

These two points are not to suggest that the failure of Soviet planning was predetermined. Individuals within the Communist movement made policy choices that proved fatal for the establishment of a viable planned economic system. They made these choices, however, in a context where the parameters of the socialist planning project were already fundamentally given, and where capitalist development still possessed enormous space for further historical progress. This context weakened the capacity of state central planning to pose as a credible historical alternative to capitalism. The collapse of the planned economies and the birth from this collapse of emerging, albeit highly-deformed, free market systems suggest that the historical transition to capitalism in the broad sense is a more varied and contradictory phenomenon than previously understood.² The historical meaning of this transition is the issue explored in this essay.

From Markets to Marx

From the time of St Augustine, continuing through the Enlightenment *philosophes*, and culminating in Hegel and Marx, protagonists from a tradition in historical writing maintained that history was an ascent toward a final outcome. For

Augustine, history was the narrative of humanity's quest to find the City of God that would end when all of humanity embraced belief in the Christian Kingdom. For the *philosophes*, history was the unfolding tale of human progress toward rationality with an end point, in contrast to Christian belief, in the Kingdom of Reason. For Hegel, history was a dialectical process guided by an overseeing world Spirit that would conclude in the human realization of this Spirit. It was Marx, following in this tradition, who revealed history to be a series of transitions from antiquity, to feudalism, to capitalism, and who prophesied that the next phase in this process would be history's final frontier, socialism leading to communism.

The socialist phase of history was to contain elements never before created by societies of the past. In the transition from capitalism to socialism, society would supposedly establish new priorities for what to produce, and would exhibit new levels of equality, an expansion of democracy, and more creative, less exploitative ways of organizing the work process. Perhaps most importantly the transition was to entail a bold attempt to overcome the uncertainties, inefficiencies and inequalities of capitalist production by consciously directing the economic activity of society through planning. The planned economy thus became embedded in the ideology of socialism's 20th-century proponents.

The story of how the planned economy became the project of 20th century socialism begins much earlier than the Russian Revolution. The story actually originates in the period of the Enlightenment and takes place along an historical pathway linking the age of the French Revolution to the age of the Russian Revolution. Along this pathway the ideals of socialism gradually converged with the idea of planning to create the economic basis of the transition from capitalism to socialism.

In 1776, Adam Smith in his treatise on *The Wealth of Nations*, argued that planning of the economy by a state 'sovereign' would be inefficient compared with the results derived from the unplanned division of labour in a free market. According to Smith (1776), the marketplace gives rise to a natural specialization of production activities on the part of individuals, which increases the prosperity of society and provides the greatest good for the greatest number. This division of labour is the unplanned result of human propensity to 'truck, barter and exchange one thing for another' (Smith, 1776, p. 25). The autonomous activity of individuals, pursuing their economic self-interest in a market, is the key to creating what Smith called the 'Great Society' and elevating the wealth of nations. A 'hidden hand' guides this unplanned activity and ensures that society will attain this goal of national wealth enhancement. According to Smith, it would be 'the utmost folly and presumption' for the government sovereign to think that it could adapt this Great Society to its own designed plan (Smith, 1776, p. 25). Planners, representing the sovereign, could not possibly respond as knowledgeably or as efficiently to the opportunities in the marketplace as individuals and companies pursuing their own interests in a market-driven environment.

While Smith was concerned with distinguishing the market from mercantilist planning, he nevertheless anticipated how the notion of economic regulation by the state would emerge as a central element in the future critique of the market economy. In developing his theory of individual self-interest and the division of labour, Smith established the parameters of a debate contrasting the attributes of the free market and government involvement in economic life that occupied a position of critical importance in the field of political economy for another 200 years.

The first stirrings for the idea of a planned economy based upon the foundations of modern industry can be traced to the French utopian socialist, Henri de Saint-Simon. Inspired by the Industrial Revolution in England, the Great Revolution in France, and the Enlightenment concept of progress, Saint-Simon forged his ideas on socialism and planning in opposing the social consequences of the market system that were just beginning to emerge (Saint-Simon, 1974). Echoing the liberal theory of Smith, Saint-Simon maintained that the goal of a rational economy was general prosperity. Unlike Smith, Saint-Simon did not believe that this aim could be accomplished by relying upon the market's 'hidden hand'. He lauded the virtues of modern industry as a means of elevating the living standards of the working poor but emphasized that industry would have to be reorganized through conscious planning in order to accomplish this goal.

Saint-Simon believed that the degree of certainty achieved in the natural sciences could be replicated in the social sciences in order to accomplish the reorganization of society (Saint-Simon, 1975, p. 114). In his view, society was akin to a biological organism whose parts functioned according to a design that was knowable in advance through scientific inquiry. Saint-Simon used this analogy to argue that a healthy society was a well-organized society built upon the foundations of modern industry. In advocating this view of society, Saint-Simon fused politics with economics, insisting that 'politics is the science of production' (Saint-Simon, 1976, p. 168). He called for a new social order based upon a benevolent system of administration whose function would be to reorganize the operations of modern industry into a coordinated national workshop. This vision of a reorganized economy based upon planning and industry, and the primacy of economic administration over politics in the socialist system of the future eventually found sympathetic disciples in Marx and Engels.

Like Saint-Simon, Marx and Engels found inspiration for their socialist vision in the nature of capitalist industry. For Marx and Engels, the factory system of capitalism, with its concentration of production and its highly-evolved division of labour, was a well-organized, *social* activity. Control over this fundamentally social activity, however, was not in fact social, but private and *individual* resulting in wasteful competitive anarchy between individual capitalists. According to Marx and Engels, the contradiction between the social character and cooperative spirit of capitalist production, and the private, individual control over production could only be resolved by the passage to socialism. In this historical transformation, the working class would take control of the production system from the capitalist minority and socialize it by administering production in its own majority interests.

What is surprising about the writings of Marx and Engels is the relatively limited number of references in their work to the future socialist economy in which this social administration of production by the majority would take place. Select passages from Marx's *Capital* (1867) and *Critique of the Gotha Program* (1875), and Engels' *Anti-Duhring* (1878) represent their most ambitious forays into the socialist future. Of these three, Engels' work is the most extensive examination of post-capitalist society. In *Anti-Duhring* Engels summarizes the tenor of Marxist views on planning when he writes how the 'anarchy of social production' under capitalism gives way to a social regulation of production 'on a planned basis'.³ This notion of capitalist *anarchy* is the underlying theme sounded by Marx and Engels to contrast the market system to the planned economy of the socialist future.

In *Capital*, Marx formulates his most explicit contrasts between planning and the market economy emphasizing how planning would constitute the distinct element

in a production system that is superior to capitalism (Marx, 1867). Throughout *Capital* Marx writes of the anarchic character of capitalist production and contrasts it with efforts to control production by a process of social regulation. For Marx, anarchy 'presupposes unbridled exploitation of labour power by the capitalist' (Marx, 1867 [1974], Vol. I, p. 449). Anarchy in production and exploitation of labour are thus similar expressions for the fundamental nature of capitalism. In order to overcome the exploitation of labour, it is imperative to eliminate the anarchy of production. Marx therefore makes a distinction between capitalist production and 'a society in which producers regulate their production according to a preconceived plan' (Marx, 1867, Vol. III, p. 261).

In another formulation, Marx develops his concept of commodity fetishism to juxtapose capitalism and planning. For Marx, the foundation of capitalism is the commodity that embodies both *use* values, and *exchange* values. Commodities also have more 'mystical' characteristics as embodiments of human labour. Contained within the commodity is not only the labour of the worker required to produce the commodity, but an increment of additional value added by the worker that is hidden, 'veiled' in the commodity. This hidden value is appropriated by the capitalist as profit at the expense of the worker. The veiled attributes of labour embodied in the commodity and the unequal relations of power between the worker and the owner that enables the owner to profit from the labour of the worker, is the contradiction expressed by commodity fetishism. Embedded in commodity fetishism is thus the exploitative nature of capitalism. For Marx, production will be rid of commodity fetishism's 'mystical veil' and will lose its capitalist character when it becomes 'production by freely associated producers, consciously regulated by them in accordance with a settled plan' (Marx, 1867, Vol. I, p. 84).

Marx does not dwell on the difficulties in implementing such a plan. It is likely, however, that Marx and Engels, owing to their fundamentally optimistic Enlightenment view of the future, simply did not foresee any problems (Steele, 1992, p. 50). Like Saint-Simon, they believed that modern industry contained the key to unlocking future socialism but, unlike their utopian predecessor, hesitated to speculate on future socialist society. For Marx and Engels, the socialist economy was implicit in the production processes that capitalism was creating. This helps explain their primary interest in capitalism and their willingness to accept planning as a virtually self-evident project of future socialism. There were good reasons to believe, based upon Marx' and Engels' view of capitalism as a totality, that planning, in overcoming capitalism, would assume grandiose dimensions. In addition, the very favourable views of Marx and Engels on science and technology suggested that planning, by harnessing these forces of progress, could accommodate the ambitious task of administering the entire economy. Nevertheless, practical details about planning remained unresolved in their work. It was the next generation of socialists who would attempt to confront this issue in accordance with how they understood capitalism to be evolving during the 50-year period from publication of *Capital* until the Russian Revolution.

From the Day After the Revolution to the Day Before

The first socialist to address the practical issue of planning was the principal theoretician of the German Social Democratic Party, Karl Kautsky. In 1902 Kautsky delivered two lectures in Holland in which he explored how the economy

of socialism would replace the market economy. It was in the second of these two presentations entitled, 'On the day after the social revolution', where Kautsky raised several troubling questions about the difficulties of planning (Kautsky, 1902, pp. 103–189).

Kautsky asserts that the prerequisite of socialism is large-scale, capitalist industry and that the appropriate starting point for the socialist regime in the transition to socialism is the regulation of capitalism's largest enterprises. In order to accomplish this aim, the workers' government, according to Kautsky, can apply existing organizing principles of the capitalist trusts. 'We simply need to do on a large scale what the trusts are doing' (Kautsky, 1902, p. 143), he writes, conceding that the highly-organized nature of capitalist industry is the key to socialist planning. Yet he cautions in a prophetic insight, that such planning, if undertaken in a command fashion from above, could return society to a lower stage of civilization (Kautsky, 1902, pp. 150–151). Kautsky thus acknowledges the difficulties confronting the socialist regime in trying to balance the needs for large-scale coordination without resorting to top-down 'prison-like' regulation of the economy. By recognizing this problem, Kautsky exhibits an extraordinary prescience in anticipating the undemocratic pathologies of the Soviet planning system. Overcoming this dilemma, he insists, will be the most difficult challenge facing the workers' regime and while not insurmountable, 'will furnish [the regime] with many hard nuts to crack' (Kautsky, 1902, p. 151).

Kautsky's ideas in *'On The Day After the Social Revolution'* might well have served as the inspiration for Marxists to address problems of administering a post-capitalist economy. Surprisingly, it was a group of economists outside of both the Marxist tradition and the socialist movement who sought to confront some of Kautsky's concerns. Notable in this group were Nikolaas Pierson, Enrico Barone, and Friedrich von Wieser who were intrigued by the challenges of organizing a planned economy though they differed in their degree of sympathy for the aims of socialism. Eventually, aspects of their critique surfaced in the work of one of socialism's most implacable intellectual adversaries, Ludwig von Mises (1920), who would later develop the infamous 'calculation' argument demonstrating why the planned economy was inherently doomed.

Pierson (1902) actually attended Kautsky's lectures and shortly thereafter wrote a paper entitled 'The problem of value in the socialist community' in which he critiqued Kautsky's remarks.⁴ Pierson's major point was that the planned economy could not dispense with the concept of *value* as derived from the market system. He stressed that if planning was to be successful, then the socialist administration would have to make rational choices about production possibilities. Rational choices in turn demanded that net production exceed resources expended in order to generate net income for the socialist society. The only way to ensure that such efficiency prevailed was to devise a system for measuring the outputs and inputs of production and consumption 'which vary among themselves' into common units. For Pierson these common units could be nothing other than 'values', which he argued have meaning only with reference to exchange in the marketplace. The problem, revealed by Pierson, however, is that 'in the communistic society, exchange is absent' and thus 'a value criterion will be lacking.' According to Pierson, in the absence of competitive markets, the values for common units of production and consumption will be distorted. These distortions, uncorrected by market forces, would cause the socialist regime to make many errors in its planning choices, thereby rendering planning an impractical task. Pierson's conclusion was indeed

disquieting. The planned economy needed the very market system it aimed to replace.

Six years later Enrico Barone (1908) developed a different, though no less challenging critique of planning.⁵ In his article, Barone addressed the problem of 'how, in a collectivist regime, should production be directed?' He sought a quantitative solution to this problem. Barone developed a system of equations for measuring how the inputs and outputs throughout the various sectors of the economy could be balanced to achieve planning targets for production, distribution and consumption. These equations would reveal 'the equilibrium best adapted for obtaining the collective maximum', from the economy. Barone was perhaps the first to grasp the enormity of this planning task. 'It would be a tremendous—a gigantic—work', he writes. Barone concluded that planning might be theoretically possible but cautioned that the difficulties confronting the unsuspecting socialist regime, in undertaking such a project, would probably turn out to be completely overwhelming.

While Barone acknowledged the theoretical possibility of a planned economy, critics such as Friedrich von Wieser were less convinced. In his book, *Social Economics* (von Wieser, 1914, pp. 396–397), von Wieser observed that economic activity had evolved from a simple, to a social activity requiring joint action on the part of individuals. For Wieser, this social economy was inconsistent with 'submission to one single command'. Wieser insists that production is far more efficient when executed by 'thousands and millions of eyes, exerting as many wills' than it would be if 'guided and directed by some superior control'. Echoing themes from Barone and anticipating arguments from Mises, Wieser notes that a 'central prompter of this sort could never be informed of the countless possibilities' needed to determine 'the utmost utility to be derived from given circumstances or the best steps to be taken for future advancement or progress'. For Wieser, the social and cooperative spirit of the modern industrial economy was incompatible with what he stressed was the command character of planning.

Far from accepting the challenge posed by Pierson, Barone and Wieser, Marxists instead found cause for renewed optimism about the viability of planning based upon trends in the economy of 20th-century capitalism. The analysis of these trends by economists from Eduard Bernstein to Rosa Luxemburg and Rudolf Hilferding provided the socialists with seemingly new evidence to support claims implicit in Marx that the transition to the socialist economy of planning was inherent in the structures of capitalist enterprise. Regardless of whether this transition occurred through evolutionary change as Bernstein argued, or revolution as Luxemburg maintained, or as a result of both as Hilferding insisted, late capitalism for these theorists was the key to the socialist future.

Of all the works that helped shape the convergence of socialism and planning, Hilferding's *Finance Capital* (1910), made the most decisive contribution, prior to the Russian Revolution, in fusing the aims of socialism to a particular planning model. In his work, Hilferding examined the transformation of capitalist enterprise from competitive firms into cartels, trusts and monopolies. The centres of power in these new organizations were large financial institutions whose control over financial capital enabled them to dominate production activity. This dominance of finance capital over industrial capital marked a new stage in the development of capitalist production.

According to Hilferding, monopolies, cartels and trusts relied upon planned coordination in order to manage their vast operational complexes and divide up the

marketplace in contrast to competitive firms. This expanded role of planning and regulation in the era of finance capital would facilitate the transition to socialism.

Finance capital puts control over social production increasingly into the hands of a small number of large capitalist associations, separates the management of production from ownership, and socializes production to the extent that this is possible under capitalism ... The tendency of finance capital is to establish social control of production, ... The socializing function of finance capital facilitates enormously the task of overcoming capitalism.... (Hilferding, 1910, p. 367).

For Hilferding, the aim of the socialist revolution was to seize control of the economy from the oligarchy of finance, a task made easier for socialists because of the way this oligarchy rules. Owing to the concentration of economic power in the hands of the finance capital oligarchy, this class 'seizes possession of the state apparatus in a direct, undisguised and palpable way' (Hilferding, 1910, p. 368). The blatant control of the state by the oligarchy of finance sharpens the focus of the revolution, compelling the working class to take possession of the state apparatus. It is the conquest of the state that enables society to gain control over the economy. Hilferding goes on to provide an extremely buoyant picture of how conquest of the state can result in pervasive control over the socialized economy. In a key passage, he writes that in Germany 'taking possession of six large Berlin banks [through state control] would mean taking possession of the most important spheres of large-scale industry, and would greatly facilitate the initial phases of socialist policy during the transition period, ...' (Hilferding, 1910, p. 368). Such formulations depicted how the economy of planning was rooted in the real process of economic development and provided a picture of late capitalism as a highly-socialized, planned system. In this picture, contrary to the claims of socialism's opponents, the prospect of a state-directed, totally-planned economy was not a utopian ideal, but rather the logical outcome of economic growth.

Ironically, it was a government not of socialism but of monarchy and the circumstances of war that provided the first real test for the idea of a centrally-planned economy along the lines of what socialists were advocating. During the First World War, Germany implemented a system of centrally-directed resource allocation in order to coordinate production in its armaments establishments. Though variants of this system functioned in the other wartime economies, the German system, under the direction of industrial planner Walter Rathenau, was the most highly-planned and efficient economic mechanism of its kind and the envy of the other warring powers. Rathenau, who had run Germany's largest public utility was not a socialist but was arguably an incarnation of Saint-Simon's directing, *industriels*, managing the German economy from the top down. In his book, *The New Economy* incorporating his wartime experience, Rathenau advocated for the unification of German industry and commerce into one great state 'Trust' (Friedman, 1987, pp. 24-25)—a concept that would soon resurface.

The German war economy exerted a dramatic impact on socialists. For the first time, the socialist movement could reference a working model that, despite its wartime aims, demonstrated the capacity of state planning to direct national economic activity. Perhaps the most thorough analysis of how such an economy might function as a bridge to socialist central planning was offered by the Austrian socialist, Otto Neurath. In a series of articles written between 1909 and 1919, Neurath explored the relationship between the concept of the war economy and

what he termed an 'economy in kind'.⁶ In the process, he outlined how a socialist planned economy might function and provided a new endorsement for the idea of total, centralized, state planning.

According to Neurath (1973), the war economy revealed the enormous potential of society to organize economic activity. He writes that the socialist economy is distinguished from the war economy by two elements: (i) economic socialization; and (ii) a comprehensive plan based upon principles of egalitarianism. For Neurath, to socialize the economy means to lead it toward an overall plan that is realized by a decisive central body 'the most significant of which is the state' (Neurath, 1973, p. 137). According to Neurath, socialization can be accomplished through a planning process only if the whole economy is involved and 'only from above' (Neurath, 1973, p. 150).

Economic plans would have to be designed by a central office which would look on the national economy as a single giant concern.... The central office above all would have to design economic plans for the future.... We must regard a large-scale economy in kind as a fully valid form of economy.... The difficulties which stand in the way of such an economy are mainly political (pp. 141, 145, 138).

It was Lenin who, in studying the very wartime economy inspiring Neurath and devising a cogent political strategy for the transition from late capitalism to socialism, provided the most lucid articulation of socialism as a state-owned, party-dominated, and centrally-planned economy. Three works of Lenin were instrumental in developing this model: *Imperialism, the Highest Stage of Capitalism* (1916), *State and Revolution* (1917), and *What is to Be Done?* (1902).

In *Imperialism*, Lenin argued that capitalism had reached its final stage of development and was therefore poised for transition to socialism (Lenin, 1916, Vol. 1, pp. 667–768). Drawing upon Hilferding, Lenin re-emphasised how the capitalist economy had become dominated by monopolies that in turn were controlled by financial institutions. This 'trustified' economy represented the highest, most developed stage of capitalism, its imperialist phase. Lenin maintained that in capitalism's imperialist phase, competition between enterprises had become supplanted by the planning of trusts. Yet, despite the suppression of competition within national economies, international competition between monopolies from different countries had become exacerbated. It was this competition pitting the monopolies of one country against the monopolies of another nation that, according to Lenin, led to the outbreak of World War I. What was encouraging to Lenin, however, was the fact that in the event of a capitalist collapse because of the War, the economic rationale for the transition to the planned, coordinated economy of socialism was verifiable in the nature of the late capitalist firm.

What Lenin omitted in *Imperialism*—a discussion of the institutions for coordinating the monopoly enterprises of late capitalism—he added in his work, *State and Revolution* in which themes from Hilferding again resurfaced. Lenin re-examined the Paris Commune of 1871 to argue that the state had evolved to become nothing more than a 'committee' for running the capitalist economy in the interests of the capitalist class. He emphasized that the working class, upon assuming power, would have to destroy this state and create a state of its own. This workers' state would expropriate the means of production owned by private capitalists and convert this property to state-owned property. The state would run the nation's enterprises but would reorganize the individual trusts and monopolies into 'a single countrywide

state syndicate' in which 'the whole of society will have become a single office and a single factory' (Lenin, 1917, Vol. 2, pp. 283–376). Lenin remarks how the accounting and control necessary for managing this state syndicate 'have been simplified by capitalism to the utmost and reduced to the extraordinarily simple operations—which any literate person can perform—of supervising and recording, knowing the four rules of arithmetic, and issuing appropriate receipts' (Lenin, 1917, p. 361). In this formulation Lenin provided the basis for future socialism as a system of central economic planning and state control that would be relatively easy to administer.

It was Lenin's concept of the Bolshevik Party, developed earlier in *What is To Be Done?* that provided the link between the plan and the state (Lenin, 1916, Vol. 1, pp. 220–240). The party, representing the interests of the working class, was to be the vehicle for the workers' conquest of the state. Once in power, the party, owing to its control of the state, would control the economy because the state, through the nationalization of enterprises, was now the owner of the means of production. In this way the Bolshevik Party became the embodiment of Lenin's 'committee' administering the monopolized economy of late capitalism as a single state syndicate in the planned economy of socialism.

As a result of Lenin's fusion of economic theory, political theory and organizational theory, socialists on the eve of the Russian Revolution had a logically coherent, if overly schematic formula for the transition from capitalism to socialism. The economic theory of late capitalism, the political theory of the state, and the organizational theory of the revolutionary party had coalesced in a way that elevated the concept of party-dominated, state-controlled economic planning within a prominent wing of the socialist movement. While Lenin played a key role in promoting state central planning as the economic goal of socialism, the attribution of this planning model to Lenin and his successors is misleading. Central planning was the result of an inexorable march within socialist political economy that began in the early 19th century with Saint-Simon and reached an apotheosis in the program of Lenin. The convergence in socialist political economy between socialism and planning, and the gradual augmentation of this convergence in the works of numerous theorists, enabled the paradigm of 'Plan, Party, and State' to become the basis of the new socialist world. What started as an idea from the Enlightenment—that economic activity was a rational and thus knowable process—evolved to the point where socialists believed that the entire economy could be understood and totally planned as a single state syndicate. Following the Russian Revolution, this notion of planning framed the context for the debates within the Soviet leadership during the 1920s over how to construct the socialist economic order, and shaped the specific features of the planning system they would eventually create.

From the Commanding Heights...

The organization of the economy into a single state syndicate and the management of this state syndicate through planning did not occur immediately when the Bolsheviks assumed power in 1917. This transformation began after the mid-1920s in the midst of debates within the ruling Communist Party on how to encourage economic development without promoting private enterprise as had been done during the early years of the decade with the New Economic Policy (NEP). In these debates, the notion of state-directed central planning assumed an ever-more prominent role as the most viable solution to the dilemma confronting the Soviets.

What enabled the Soviet regime to embark upon its historic leap to a centrally-planned economic system in 1929 were two critical conditions: (i) the legacy of state central planning as a theoretical notion within the socialist movement; and (ii) the enormous concentration and centralization of power within the Bolshevik Party and within the Soviet State controlled by the Bolsheviks. These two factors account in large part for the character of the Soviet planning system, and the totalitarian political structure that grew around it.

On the eve of the Russian Revolution, Lenin had forged a programme with a centralized, hierarchical command structure for directing the transition from capitalism to socialism. This command structure, with strong historical roots in the tradition of socialist political economy, was highly consistent with the socialist aim of transforming the monopolies of late capitalism into state-run enterprises that would be managed as an ensemble through planning. By the late 1920s, the victory of Stalinism in the Bolshevik Party had accentuated the centralized command logic in Lenin's programme, enabling it to flourish and dominate the institutions of the Soviet State. Nevertheless, while the regime of Stalinism was responsible for creating the Soviet centrally-planned economy, the roots of this planning model predate Stalin. Lenin's programme for the transition to socialism, with its historical links to the centralized planning tradition in socialist political economy and its own articulation of a totally planned, state-owned, party-controlled economy, defined the range of choices available to the Soviets when the time came in 1929 to begin setting up the structures and institutions for the planning system. This did not mean that the Soviet planned economy was predetermined to be hierarchical, centralized and undemocratic. There was, however, little room in the logic of both the socialist planning tradition and Lenin's programme to sustain less hierarchical and more democratic planning alternatives.

With the transition to the system of state central planning, the Soviets endeavoured to create foundations for production, distribution, and consumption that would shatter the basis of the market system. For the Soviets, the fundamental elements of the market economy consisted of: private ownership of productive property; the social and economic relationships of free buying and selling; and a system of institutions that legitimized the activities of market exchange. Accordingly, three primary elements emerged as the foundations of the Soviet planning alternative to the market economy.⁷

The first element focused on property ownership. In 1929 the Soviet regime abolished virtually all private ownership of productive property, including agricultural property, and replaced it with nationalized, state property thereby creating a base of state-owned enterprises in industry and agriculture (collective farms). Secondly, the Soviets developed the mechanism of an economic Plan to sever the market links between enterprises, collective farms and individuals. By establishing output targets for state-owned enterprises and assigning allocations of inputs to enterprises for the fulfilment of output targets, the Plan circumscribed the ability of economic actors to enter into relationships to buy and sell products, including labour, on the basis of freely-associated negotiation—a negotiation that, in the market system, results in the establishment of prices and wages based upon supply and demand. The planned economy instead created new types of linkages between economic actors, woven around the Plan and the fulfilment of planning targets. Finally, the Soviets created a structure of planning institutions involved in political, judicial, and administrative decision-making regarding the establishment and fulfilment of the Plan. The configuration of enterprises and planning institutions

along a vertically-oriented chain of command, and the coordination of economic activity along this vertical chain according to the directives of the Plan, gave the Soviet planning system its peculiar character as a command economy.

The command economy consisted of a vast administrative apparatus for planning that embodied the political and economic machinery of the Soviet Government and the Soviet State. At the pinnacle of this command economy stood the leadership of the Soviet Communist Party. Subordinate to the Party was a hierarchy of planning institutions. At the highest level were the ministerial planning bodies such as *Gosplan*, responsible for creation and fulfilment of Plans, and *Gossnab* which was responsible for the allocation and distribution of materials set out in the Plan. Underneath the ministerial planning bodies were the functional ministries responsible for such activities as finance and foreign trade. At another level down stood the branch ministries for individual industries, which issued instructions to the individual enterprises. Through its control over the state, government, planning institutions and enterprise management, and through the coordination of economic activity along the vertical networks of power that linked these institutions, the Communist Party was able to centralize the planning system and dominate it.⁸

In conjunction with *Gosplan*, the Party Politburo set strategic targets for economic growth across four basic sectors: agriculture, capital goods, consumer goods and military hardware. *Gosplan* worked out the material balances—the increments of labour, energy, land and supplies—needed to achieve targeted outputs in selected industries within the four sectors. These material balances were coordinated through *Gossnab* and allocations of materials were eventually transmitted through industrial branch ministries to individual enterprises.

Economic information occupied a critical role in the central planning system. It served as the catalyst for the flow of economic activity along the administrative chain of command. Information assumed this function as a catalytic agent within the planned economy because it was the basis for both the creation of the Plan, and the implementation of resource allocations to achieve output targets. Information on demand and supply flows across industries and between enterprises enabled economic activity to move along the command structure. Control of information was thus a key source of power within the economy. The Party hierarchy, in addition to dominating the administrative institutions of the planning system, controlled economic information and used it as a means for consolidating its control over economic activity.

Information on planning targets flowed downward from the top of the planning hierarchy—the Party Politburo and elite planning institutions such as *Gosplan* and *Gossnab*—through the various planning bodies to the individual sector ministries and eventually to the individual enterprises where local management ensured that planning targets would be fulfilled. Information on the demand and supply flows across the various sectors of the economy was synthesized by the Soviets through complex modelling of material balances later innovated during the 1960s through input-output analysis. Needless to say, in attempting to master the complexity of the information involved in this massive forecasting project, the Soviets encountered a monumental undertaking. They were seriously handicapped in this task. Although economists such as Barone had provided implicit warnings to the socialist movement regarding the enormity of planning, socialists (with the possible exception of Kautsky) had largely ignored their work.

By the early 1920s, critics hostile to socialism, notably Ludwig von Mises, were prepared to argue that planning was inherently unfeasible because the management

of information needed to enable a planned economy to function was impossible to master. Mises, in his essay of 1920, launched what has come to be called the 'calculation debate' about socialism (Mises, 1920, pp. 87–130). In this debate, protagonists argued about the viability of socialism based upon whether society could assemble accurate information needed to administer a modern industrial economy. According to Mises, without market-determined prices for the basic production factors—land, labour and capital—it would be impossible to derive accurate signals about economic activity, thus precluding the socialist regime from generating the information necessary to guide a planned economy. The socialist planning project for Mises was untenable not only because the quantity of information, as Barone had emphasized, was impossible to master, but more significantly because the quality of information, in the absence of market exchanges, as Pierson and Wieser stressed, was lacking. The result would be inevitable distortions in the planning choices made by the central planners and ultimately, economic decline. By the end of the decade, Mises' argument had proved compelling enough for some in the socialist movement, notably Oskar Lange, to try and refute its claims. There is no indication, however, that the Soviets paid any serious attention to this critique (Nove, 1986, pp. 63–87). They remained undaunted by the enormity of the planning task confronting them and forged ahead with their planning project, unaware of how prophetic the critique of Mises would turn out to be.

From the beginning, the orientation of the planned economy was dominated by an obsession with economic growth. In this goal it actually differed little from the market economy. There was an underlying necessity in this preoccupation with growth, however, that had little to do with later efforts at competing with the market economies of the West. The Soviets had good reasons to believe that the relatively underdeveloped industrial base and semi-feudal structure of agriculture inherited from tsarism would prove incapable of sustaining the transition to the planned economy of socialism. In order to circumvent this dilemma, the Soviet regime conceived of the state and the planning system as levers for rapid industrial and agricultural development. Such growth would presumably create the equivalent to modern capitalism, and bridge the difficulties confronting the USSR in creating a socialist society.

In conceiving of this growth strategy, the Soviets faced another daunting problem. The society they aimed to transform lacked the foundations needed to implement a rapid expansion of the nation's economic base. The social and economic attributes of underdevelopment inherited from tsarism were incompatible with the aims of industrial modernization and economic expansion. In these conditions, the planning system had to function not only as the engine for economic growth. Planning had to engineer the social preconditions necessary to achieve growth targets. The centrally-planned economy thus became the vehicle for accomplishing historical objectives analogous with early capitalist development. These objectives focused on expanding and modernizing capital goods industries, and transforming the system of agriculture upon which this industrial economy would depend.

In pursuing these two fundamental objectives, the Soviet regime aimed to achieve five outcomes that were critical to the programme of industrial modernization: (i) development of an urban-based factory system; (ii) creation of an armaments industry competitive with the weapons systems in the West; (iii) the consolidation of agricultural lands into larger and more efficient units through a

policy of forced collectivization; (iv) the migration of surplus rural labour to the factories of the cities; and (v) the creation of a modern labour process. All five of these aims were interdependent. Industrial development, military capability, agricultural modernity and labour mobilization reflected policies run in parallel to achieve the basic goal of growth.

In fundamental ways, this process of growth exhibited striking similarities to both the historical expansion of the early capitalist economy, and the contemporary expansion of world capitalism during the 1930s. In order to industrialize, the Soviets needed a more productive system of agriculture and a supply of labour for the new urban industries. By forcibly combining the rural population into large collective farms, the Soviet regime created a class of landless peasants forced to migrate to the employment opportunities in the factories of the cities. In this way, the policies of Soviet central planning created impacts similar to the English Enclosures that are often viewed as an essential motor of earlier capitalist development in England. In addition, just as capitalist economies during the 1930s such as the US, Germany and Italy were expanding on the basis of military production, so too was Soviet expansion being driven in a significant way by the production of armaments. Even during the 1920s, it was well understood by the Soviet leadership how the development of military hardware could have a very positive impact on industrial growth (Nove, 1969, p. 121). By the start of the first 5-year plan in 1929–1930, armaments constituted roughly 2.6% of total net industrial production.⁹ By 1937 this figure had climbed to 10.1%. Three years later, Soviet armaments accounted for 22% of industrial production. Finally, the system of state planning established a structure of labour relations designed to discipline the industrial workforce for the purpose of enhancing labour productivity and achieving economic growth. Incorporated within the process of planned production was a labour process that emulated the modern capitalist labour process based upon the productivity principles of scientific management popularized in the US by Frederick Taylor. Transplanted to the Soviet context, Taylorism became institutionalized during the 1930s as the system of productivity-enhancing incentives known as *Stakhanovism*.¹⁰ Consequently, planning, in its orientation to industrial development, agricultural development and labour relations, created economic impacts broadly similar in an historical sense to what had been, and what was being created by the capitalist economies.

As a result of these policies, the planned economy engineered historical social changes that enabled the USSR to embark upon its industrialization programme. Regrettably, the costs of these policy experiments was an immense human tragedy. In justifying their efforts to force the pace of history through planning, the Soviets referred to their policy of growth as primitive ‘socialist’ accumulation and attempted to contrast it with the convulsions of early capitalism. To defend the process in these terms, however, was difficult even for the most ardent defenders of the Soviet cause.

Nevertheless, by the time the decade of the Depression had ended, the USSR had developed into a formidable industrial power. After World War II, especially during the 1950s, economic growth in the USSR continued at impressive rates. By 1961 Soviet Premier Khrushchev confidently predicted that the USSR in 10 years would overtake the US in total industrial production and within 25 years would enjoy a higher standard of living. Indeed, growth statistics registered by the USSR seemed to suggest, even to communism’s opponents, that Khrushchev might be right.¹¹

If growth was one of the achievements of Soviet central planning, it was also at the heart of the system's undoing. For 50 years, the growth rates achieved by the USSR enabled the planned economy to emerge not only as an economic rival to the market system but also as an ideological rival, despite the totalitarian nature of the Soviet system. So deeply embedded did growth become as the justification for central planning, that when the system ceased to grow by the early 1980s, it lost both its economic and ideological supports. When stagnation continued, both rulers and technocrats began to look at the planned economy in a new way. By the mid-1980s, reformers in the USSR began to question the very precepts of central economic planning. It was not long before this critique sent fissures throughout the planned economy that eventually shattered the entire planning system.

...To 'The Lower Depths'

Two basic flaws undermined Soviet planning: (i) technical inefficiencies that rendered the central planning system incapable of sustaining previous patterns of economic growth;¹² and (ii) political characteristics that had made the Soviet planning system an economic mirror image of an inherently unstable totalitarianism (Kerlins, 1994, pp. 29–45).

In terms of technical weaknesses, what brought an end to the Soviet planning system was the fact that the model of central planning had come into conflict with the level of the economy's development—a level of development that the planning system itself had created. While the system of central planning had demonstrated a capacity for industrializing the backward economy of tsarist Russia, it proved to be particularly ill-suited for administering a highly complex, industrialized economy (Hewett, 1988, p. 12). The Soviet planning model was simply incapable of shifting the pathway of economic development away from large-scale industrialization based upon the standardization principles of Fordism, to one based upon innovations in production processes and product designs.

By the late 1970s, planners throughout Eastern Europe, along with numerous market socialists in the West, began to acknowledge that the calculation argument of Mises was at least a plausible starting point for explaining the pathologies of the planned economy leading to the growth slowdown. These pathologies included: poor product quality, biases in the system favouring quantity over quality, chronic shortages of consumer goods, little incentive for innovation leading to technological stagnation, low productivity, wasteful use of resources, denigration of the environment and endemic misallocations of production supplies. The scale of decision-making that lay at the heart of central planning had become so unmanageable that the planning system itself became the cause of the pathologies that undermined it and a 'fetter' on further development.¹³ The result was a breakdown in the system and a generalized economic malaise.

Evidence of this malaise was reflected not only in the worsening measures of economic growth, but also in the expanding web of market links established clandestinely by Soviet enterprise managers incessantly frustrated by the inefficiencies of the command-style allocation system. In order to fulfil output quotas, managers increasingly resorted to an informal system of bargaining with other enterprises for supplies. While such extra-legal relationships had always persisted alongside the formal legal structures of the command system, the explosive growth of these links eroded the stability of the vertically-oriented command

structure of Soviet planning. These informal market relationships were one of the foundations for the market reforms of *perestroika* launched by Gorbachev.

Paradoxically, the logic of reform exacerbated the technical deficiencies of the Soviet planned economy and hastened its collapse. The mechanisms of *perestroika* strengthened market forces within the planned economy to a degree that the framers of the reform programme had not intended. What ensued was a spontaneous breakdown in the vertically-oriented command system of allocation, production and distribution. Workers, managers and even ministers began to ignore planning directives. They withheld labour and those in positions of power hoarded materials, supplies, finished products, food or anything of value. The vertical relationships of the Soviet planned economy were, in effect, being shattered by the self-activity of the society's economic actors as the command system of planning lost its legitimacy. Where it had once engendered a relatively obedient structure of command, the planned economy now gave birth to an intractable defiance and paralysis.

While the planned economy lay mired in stagnation, market reforms and the marketplace itself had insufficient legal support within the still-dominant institutional framework of the planned economy to spur any appreciable economic recovery. In the breakdown of the planning system alongside the institutional weakness of the market, there was no longer any discernible code of laws or accepted conventions regulating economic activity. In this void of uncertainty and economic decline, the contradiction between planning and the marketplace became exacerbated. Under these circumstances, the mechanisms of the market became an irrepressible historical force. The failed coup against Gorbachev in August of 1991 only hastened this process.

If politics provided a catalyst for the collapse of the technically-flawed Soviet planning experience, it also loomed as an underlying cause for the breakdown. No less a factor in accounting for the disintegration of central planning is the political character of the regime that created the Soviet planning system. The command economy was destined to collapse not only because it was afflicted with technical pathologies that prevented it from sustaining its role as a viable platform for economic development. It was an extension of dictatorship that was by definition an inherently unstable political form.

From the beginning, the Bolshevik Revolution was haunted by conditions of economic underdevelopment. The necessity of creating the capitalist preconditions for the transition to socialism by means of breakneck-paced industrial growth, and the urgency of preparing for an emerging war with Germany, posed problems for the Soviet regime virtually defying resolution within the context of democracy. Portending tragedy, these circumstances of underdevelopment generated enormous pressures on the Soviet regime to seek command-style solutions to the issues confronting it. Lenin's model for the transition to socialism provided the Soviets with an accommodating structure for responding to these pressures. It was Stalin's political victory inside the Bolshevik Party, however, that gave vigour to the centralized tendencies of command in Lenin's model for the socialist transition.

Although the circumstances of economic backwardness and the evolution of socialist political economy created the context for the collapse of Soviet central planning, other forces of history were pushing the planned economy toward failure in another fundamental way. The Russian Revolution, in its market outcome, appeared to be yielding to a recognizable historical sequence from previous revolutionary upheavals. In this sequence, revolutions engender radical movements

that aim to create social and economic systems challenging the logic of the marketplace, but these revolutions inevitably resettle and ultimately result in historical gains for the advent of the capitalist market economy. Dissecting this pattern from previous revolutionary upheavals provides a key insight into why the Soviet planned economy failed, and how this failure has played a critical role in the broader historical transition in Russia to the economy of the capitalist marketplace.

The Paradox of Revolutionary Upheaval

When the Bolsheviks assumed power from the revolutionary government of Kerensky in October of 1917, their movement could lay claim to an illustrious revolutionary lineage. During the Russian Revolution the Bolshevik Party became the modern-day descendants of previous radical revolutionary groups that had challenged for, and acceded to, political power during revolutionary upheavals. The Levellers of the English Revolution, the Jacobins and Conspiracy of the Equals in the French Revolution, the socialists of the 1848 revolutions, and the Paris Communards of 1871 preached an egalitarian vision and maintained a critical outlook toward the consequences of the emerging free market economy. During these upheavals, actors from these movements endeavoured to transform the basis of their societies by challenging the logic of the marketplace in their revolutionary programmes. After fleeting ascendancy, all of these groups suffered cataclysmic political defeats and their vision for change became extinguished.

Revolutionary radicalism in previous centuries, despite a critical outlook toward the free market economy, has actually played a role in helping bring about capitalist development. What emerged from the defeat of the Levellers, the Jacobins, and even the Paris Communards was, paradoxically, what these movements had attempted to overcome, namely a society based upon property rights and the freedom to buy and sell property in a market unencumbered by restrictions of the past. Although these radical movements challenged the basis of these rights, their defeat actually secured the triumph of these economic freedoms against social forces aligned with the preservation of more restrictive forms of commerce. In this way, the pathway to capitalist development has been marked by a historical paradox—a paradox that lies embedded within the structure and pattern of revolutionary upheaval.

During revolutions, initial victories over monarchical despotism are engineered by a coalition of both moderate and radical revolutionary forces that bring the moderates to power. This victory invariably splits the revolutionary coalition, and forces the more radical wing into opposition to the moderate revolutionary regime. The radical forces then reorganize and the initial victory of the moderates is often followed by the conquest of power by more radical revolutionary groups advocating a far different vision of revolutionary transformation than the change advocated by the moderates. At a certain point, however, the radical wave is thwarted owing to a reorganization of the initial moderate revolutionary constituency. The moderates bid once again for power and force a reaction against the radicals. The radicals are thus overthrown and replaced by the reorganized coalition of moderates. The programme of radical transformation is abandoned. The final outcome of this process is that the more moderate revolutionary programme and the social constituencies and classes supporting it, prevail.

In an incisive description of this seemingly contradictory process, Friedrich Engels, in his Introduction to Marx's *Class Struggles in France*, notes that as a rule,

victorious revolutionary coalitions split into factions. One faction was content with the gains achieved by the revolution while radical constituencies pressed to implement more egalitarian demands. In many instances radical movements displaced revolutionary moderates in power and succeeded in implementing their programme. In the end, however, the more moderate revolutionary party would regain the initiative. For Engels this pattern was no accident; 'the truth of the matter', he reveals, 'was largely this':

the achievements of the first victory were only safeguarded by the second victory of the more radical forces; this having been attained, and with it, what was necessary for the moment, the radicals and their achievement vanished once more from the stage. All revolutions of modern times, beginning with the great English Revolution of the 17th century, showed these features...¹⁴

This historical hypothesis of Engels is an application of a poignant insight expressed earlier by Marx in his famous 'Preface' to *The Critique of Political Economy*. In this Preface, Marx writes: 'No social order ever perishes before all the productive forces for which there is room in it have developed; and new, higher relations of production never appear before the material conditions of their existence have matured in the womb of the of society itself' (Marx, 1875, Vol. 1, p. 504). What Marx suggests is that if there are possibilities for further development within a particular mode of production, such development must take place before a general transformation can occur, regardless of the intentions of historical actors to implement such transformation.

In another application of this theory Engels (1967), in *The Peasant War in Germany*, examines why the revolt led by Thomas Muenzer, the utopian peasant leader who advocated a form of primitive communalism, was not only bound to fail owing to the level of economic development in 16th century Germany. Engels maintains that the seemingly paradoxical outcome arising from this defeat—a social system the character of which Muenzer had expressly opposed—was logical, even predictable.

Muenzer's position at the head of the 'eternal council' of Muehlhausen was indeed much more precarious than that of any modern revolutionary regent.... The social transformation that he pictured in his fantasy was so little grounded in the then-existing economic conditions that the latter were a preparation for a social system diametrically opposed to that of which he dreamt (Engels, 1967, p. 105).

What these passages suggest is that there are limits to how far the historical process can evolve at any one particular moment, even during revolutions when the pace of historical change quickens. These limits are fundamentally determined by the given level of economic and social development, and whether the existing socio-economic system still retains a capacity for further progress. These constraints explain not only why radical revolutionary movements were defeated. They also account for the outcomes emerging from these defeats. If radical social constituencies emerge during the course of revolutionary upheaval and promote transformations exceeding what the existing order can sustain while there is still room within the existing order for further development, these groups may attain an ephemeral victory, but they and their programs are ultimately fated to perish.

The Russian Paradox

When the Soviets stood poised in 1929 to implement the world's first process for planned economic development, the economy they inherited to launch this project possessed pockets of capitalist industry existing alongside a vast geographic expanse of rural, semi-feudal backwardness. More than ample capacity existed for this society to absorb further industrial development, urbanization, agricultural reorganization, and new technology—the historical achievements of the capitalist epoch. The Russian economy represented a relatively early stage of industrialization that was far from exhausting its development potential within the framework of capitalism. In response to this historical dilemma, the Bolsheviks had to invent a new orthodoxy for the transition from capitalism to socialism. This new orthodoxy became enshrined as the process of 'primitive socialist accumulation'.

The aim of primitive socialist accumulation was to establish the foundations for socialist construction by completing the transition from feudalism to capitalism. In the conditions existing in the USSR at that time, this aim amounted to creating the equivalent to *advanced capitalism*. The policy, however, reflected a contradiction. Primitive socialist accumulation, while acknowledging that capitalism was a necessary precondition for the transition to socialism, was also an attempt to force the pace of history by skipping over capitalist development. It did not succeed. The Bolsheviks and the Russian Revolution were unable to rise above the logic of history.

By applying the lessons of past revolutions to the experience of the Bolsheviks and the Russian Revolution, the collapse of Soviet Communism and its economy of central planning, and the current efforts to create a market economy inherit new meaning. These events resemble a pattern from previous revolutions in which radical movements collapse, their economic programmes are discarded, and a more market-oriented economy emerges. The Jacobins in the French Revolution, the socialists of 1848, and the Paris Communards carried the revolutionary upheavals in their time to positions that were not permanently defensible. The temporary seizure of power by these groups and their implementation of economic policies striking at the logic of capitalist development, proved to be a safeguard for the main advance of those revolutions toward the creation and consolidation of the market economy. In the same way, the Bolshevik seizure of power carried the Russian Revolution to a position that was not defensible within the context of existing economic conditions in Russia. Like the victories of their historical counterparts from previous revolutionary upheavals, the victory of the Bolsheviks ultimately safeguarded the main advance of the Russian Revolution toward establishment of an industrialized society and a market economy.

The Bolsheviks were aware of the contradictions that their political ascendancy posed. While in power during these early years, they fully expected one of two possible outcomes to follow their victory: either the revolutionary wave they had started would spread to other capitalist countries, especially Germany, and assist the Bolsheviks in constructing socialism on a regional scale on the basis of more highly-developed economies existing in those countries; or, this revolutionary wave would fail to materialize and the Bolsheviks, unable to build socialism from a primitive economic base, would fall victim to the inevitable reaction and vanish from history.

The revolutionary wave did indeed materialize but the upheavals in Germany, Italy, Hungary and Austria did not result in the conquest of power by parties in

these countries that were the political equivalents to the Bolsheviks. Instead, these parties and the workers' movements aligned with them, achieved but fleeting victories. In the wake of their defeats emerged a reaction in the form of fascism. Despite these setbacks to their cause, the Bolsheviks remained at least nominally in power and embarked upon the construction of socialism on the foundation of an underdeveloped economy. 'Socialism in one country' became the official policy of the Soviet regime. It was at this point that the paradox of revolutionary upheaval began to transform the Russian Revolution.

One of the first to recognize that the Russian Revolution had succumbed to this correction of history was one of the Revolution's leaders. In 1926, Leon Trotsky spoke of the Russian Revolution's 'second chapter' to describe what he perceived as the reaction afflicting the Revolution and its Bolshevik leadership similar to the reaction of Thermidor during the French Revolution. Ten years later, Trotsky (1937) would supplement this observation about a Soviet Thermidor with a trenchant hypothesis on the likelihood of a fully-fledged capitalist restoration, forged from the ranks of 'communist administrators, technicians, directors, party secretaries and privileged upper circles in general' (Trotsky, 1937). Events since 1989 have cast new light on this prediction.¹⁵ Although Trotsky framed his interpretation of this capitalist restoration in the context of individual betrayal aimed at Stalin, he accounts for Stalin's perfidy by reference to analogies between the Russian Revolution and previous revolutions. He recalls how all previous revolutions have been followed by reactions. Just as in the French Revolution, when many in the Thermidorian coalition that overthrew the Jacobins had actually belonged previously to Jacobin circles, so too were Russian Thermidorians—Stalinists—laying in wait within the ranks of the Bolshevik Party. It was the pressures of an insufficiently-developed economy that provided fertile ground for this reaction to gather strength within the Bolshevik Party, making this reaction 'inevitable'. Economic underdevelopment thus enabled the same pattern that had determined the outcome of previous revolutions, to engulf the Russian Revolution as well. As powerful as it is paradoxical, this logic contributed in sealing the fate of history's first effort to create a planned economic system.

Conclusion: History, Transition and Planning

The demise of the centrally-planned economy in the Soviet Union in 1989–91, and the current transition to the market economy in the economic space of the former USSR, raise two fundamental issues explored in this essay: (i) the reasons for the collapse of the central planning as a model for economic development; and (ii) the meaning of the historical period between 1917 and 1991 during which the planned economy played a crucial role. The thesis of this essay is that Soviet central planning served as a historical pathway for overcoming the last remaining survivals of the precapitalist economy and advancing the transition to capitalist modernity in an area of Europe where capitalism had not secured an enduring historical foothold. In this sense, central planning was not necessarily a 'failure'. It achieved an undeniable degree of success as an agency for developing the infrastructure of a modern industrial society.

Where state central planning did fail was in its role as a platform for *socialist* economic development. State central planning neither endured in its competition with capitalism, nor forged any discernible alternative to the development goals and practices of the capitalist economy. Its goal of incessant growth did not differ in any

fundamental way from the basic aim of capitalism while its methods for achieving this shared goal of growth were predicated on undemocratic, totalitarian political practices, and the same types of production relations characteristic of the market economy. This essay explored these failings of central planning in the context of two historical circumstances.

In the first place, state central planning had become embedded within the tradition of socialist political economy as the economic project of socialism, but this project, as it evolved within the socialist movement, contained a fatally-flawed assumption. Beginning with Saint-Simon, running through Marx and culminating in Lenin was the notion that the modern industrial economy could be totally and easily managed through planning. Unforeseen by socialists in this notion was the immense complexity of total planning, and the difficulties of balancing the tasks of total planning with the political practices of democracy. As this mistaken notion attained the status of orthodoxy within the socialist movement, it established the parameters for the economic project of socialism even before Lenin made his own contribution to this legacy. State central planning with its unforeseen technical challenges and its potentially undemocratic and totalitarian character, was therefore already well-established as the economic imperative of socialism by the time the Soviets came to power. This defined the range of choices available to the Soviet regime when the time came to establish the structures of the socialist planned economy in the late 1920s. The result of this miscalculation was an economy with totalitarian political pathologies and latent technical inefficiencies that became exacerbated after the economy had achieved a certain level of industrial development.

Secondly, owing to the triumph of the Bolshevik regime in conditions where capitalist development still possessed enormous space for further historical progress, central planning was incapable of sustaining the economy in a socialist direction. These circumstances pre-empted the capacity of central planning to pose as a credible historical alternative to capitalism and compelled the planned economy to become the historical agent for the establishment of industrial modernity needed for the socialist project. Planning, however, was never conceived as the historical agency for consolidating the capitalist foundations of socialism. On the contrary, it was the foundation of advanced capitalism that would supposedly give rise to the planned economy. The pressures on the Soviet planned economy to create the historical equivalent of capitalist modernity—indeed its success in accomplishing precisely this aim—continually undermined the system's socialist pretensions and created enormous pressures for market-oriented economic development. The Soviet central planning system was thus called upon to perform a fundamentally contradictory mission. This contradiction eventually had to be resolved, leading to the demise of the Soviet regime and the collapse of the centrally planned economy.

The market outcome that is emerging from the wreckage of Soviet central planning has recast the historical meaning of the Soviet planning experience and the Russian Revolution. As this essay has shown, the rise of a market economy following the demise of central planning shows remarkable similarities to sequences from previous revolutions that make these recent events intelligible in relationship to patterns of the past. This essay, using insights from Engels' analysis of revolutions, suggests that the collapse of the planned economy represents a 20th-century episode in a story dating from the 17th-century English Revolution and the revolutionary upheavals in France during the 18th and 19th centuries. The theme of this story focuses on the attempts by radical revolutionary movements to

implement programmes designed to overcome the logic of the free market economy. Protagonists in this historical drama include the English Levellers, the Jacobins, the socialists of 1848 and the Paris Communards. The efforts made by these groups to overcome the logic of the marketplace resulted in defeat or failure. Paradoxically, what emerged in the wake of these setbacks was precisely what these movements had attempted to overcome, namely capitalist development. The fate of the Russian Revolution and its programme of state central planning is part of this same heritage. The Russian Revolution gradually succumbed to the pattern of previous revolutions in which revolutionary radicalism and its economic programme experience temporary victory, but suffered ultimate defeat and in the process contributed, paradoxically, to capitalist development.

If there is anything in the Soviet planning experience, however, that gives reason to believe that planning may resurface, it is the fact that the failure of central economic plan at replacing the market economy is not the first instance of a failed transition to a new production model. Capitalism, in its quest to supplant feudalism, has actually exhibited at least two, and arguably several aborted attempts at overcoming the restrictions of the preindustrial economy.

Renaissance Italy and 17th-century Holland represent two such historical examples of failed transitions to capitalism (Krantz & Hohenberg, 1975). The mechanisms for production and exchange pioneered by these two societies, though bearing many resemblances to what might be called capitalism, ultimately were not capable of sustaining a fully-fledged transition to the capitalist mode of production in Italy and Holland. The transition from feudalism to capitalism has thus been a process interspersed with false starts and failures. These examples suggest that if capitalism is not 'the end of history', then the transition to the economy capable of replacing capitalism will likely involve a long period marked by experimentation and failure. Soviet central planning may very well be a failed transition much like Renaissance Italy and 17th century Holland. Only time can determine whether the failure of Soviet central planning is an isolated aberration of the past, or whether state central planning, in its failings, may spark a new movement for the creation of a successful planned economy in the future.

Notes

1. A variant of this thesis was suggested in 1966 by Barrington Moore, *Social Origins of Dictatorship and Democracy* (Boston, Beacon Press).
2. The work at the centre of the debate on the transition from feudalism to capitalism is Maurice Dobb, *Studies in the Development of Capitalism* (New York, International Publishers, 1947).
3. Frederick Engels, 'Anti-Duhring', in Marx, K. and Engels, F., *Collected Works*, Vol. 25 (London, Lawrence and Wishart, 1987, pp. 105–309. See especially Part III on 'Socialism', pp. 254–271 and p. 302).
4. N. G. Pierson, 'The problem of value in the socialist community', in Hayek, F. A. (ed.), *Collectivist Economic Planning* (New York, Augustus M. Kelly, 1967), pp. 41–85. Information in this paragraph taken from pp. 69–75.
5. E. Barone, 'The Ministry of Production in the Collectivist State', in Hayek, F. A. (ed.), *Collectivist Economic Planning* (New York, Augustus M. Kelly, 1967), pp. 245–290. Information in this paragraph taken from pp. 245–246, 286–290.
6. Several of these articles are contained in Otto Neurath, *Empiricism and Sociology*, edited by Marie Neurath and Robert S. Cohen (Dordrecht, Holland, D. Reidel Publishing Company, 1973), pp. 123–157.
7. On the Soviet planning system see Michael Ellman, *Socialist Planning* (Cambridge, Cambridge University Press, 1989), pp. 17–50; Ian Jeffries, *Socialist Economies and the Transition to the Market* (London, Routledge, 1993), pp. 9–23; Maurice Dobb, *Soviet Economic Development Since 1917*

- (London, Routledge and Kegan Paul, 1972), pp. 337–384; Ed Hewett, *Reforming the Soviet Economy* (Washington, DC, Brookings Institute, 1988), pp. 94–152.
8. There is a widespread claim that the Soviet system was never a centrally ‘planned’ economy but rather a centrally ‘managed’ system. This claim is based upon the assertion that the technical capacity for actual central planning does not exist and the political character of the system was always oriented toward control and management, not planning. See Michael Ellman, *Socialist Planning* (Cambridge, Cambridge University Press, 1989), pp. 48–50; Peter Rutland, *The Myth of the Plan* (La Salle, Illinois, Open Court Press, 1985), pp. 61–63.
 9. Figures on the Soviet armaments industry taken from R. W. Davies, ‘Soviet military expenditures and the armaments industry, 1929–33: a reconsideration’, *Europe-Asia Studies*, Vol. 45(4) (1993), pp. 577–608, Table 9, p. 601.
 10. It is well known that Lenin and the Bolshevik leadership admired Taylorism as a means of imbuing the Russian worker with a culture of work. Stakhanovism, however, differed from Taylorism in one key aspect. While both aimed at extracting greater productivity from labour, Taylorism sought to increase the power of managers at the expense of workers while Stakhanovism, by contrast, also aimed at disciplining managerial personnel who had successfully resisted planning instructions from above. See Lewis H. Seigelbaum, *Stakhanovism and the Politics of Productivity in the USSR, 1935–1941* (Cambridge, Cambridge University Press, 1988), p. 6.
 11. Economic growth statistics for the USSR have been the subject of controversy. In the past 10 years the work of Grigori Khanin has recast statistical measures of Soviet growth. According to Khanin, industrial output from 1928–1980 grew 6.5% annually compared with the official Soviet figure of 9.9%. Growth of national income for the same period according to Khanin was 3.2% compared with the official figure of 8.4%. For 1981–90 Khanin calculated an overall decline of 3% in the net material product of the Soviet economy compared with the base year of 1980. Khanin concedes that historically Soviet economic growth was ‘extensive’ but points out that this growth was propelled predominantly by increasing the volume of resources used. He notes that as it became more difficult to increase the volume of resources expended, the economy was destined to contract. See Grigori Khanin, ‘Economic growth in the 1980s’, in Michael Ellman and Vladimir Kontorovich (eds), *The Disintegration of the Soviet Economic System* (London, Routledge, 1992), pp. 73–85, pp. 75–77.
 12. See especially Michael Ellman and Vladimir Kontorovich (eds), *The Disintegration of the Soviet Economic System* (London, Routledge, 1992).
 13. According to Nove writing in 1988, ‘Soviet economists have been pointing out for years that the sheer scale of the decision-making rendered necessary by the very nature of centralized planning was in itself a cause of imbalance, misallocation and shortages’. See his introduction to Abel Aganbegyan, *The Economic Challenge of Perestroika* (Bloomington, Indiana, Indiana University Press, 1988), pp. xvi–xvii.
 14. Frederick Engels, ‘Introduction’ to Karl Marx, ‘The Class struggles in France 1848 to 1850’, in Karl Marx and Frederick Engels, *Selected Works in Three Volumes* (Moscow, Progress Publishers, 1969), Vol. I, pp. 186–299, pp. 190–191.
 15. ‘Until a year or two ago, Trotsky’s prediction in the Revolution Betrayed that state bureaucrats might be transformed into private capitalists seemed to have been completely falsified by history.... Trotsky’s prediction has unexpectedly turned from a wild misjudgment into an imaginative prophecy’. R. W. Davies, ‘Gorbachev’s socialism in historical perspective’, *New Left Review* (January–February, 1990), pp. 5–28, p. 23.

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