

How the Soviet elite lost faith in socialism in the 1980s

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[Vladimir Popov](#)



'1989 never happened'. Jugend Widerstand activists, Berlin. Credit: Joel Schalit/Flickr (via: [bit.ly](#))

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As early theoreticians of socialism believed, a centrally planned economy organised rationally – the whole society working as one single plant – should be able to avoid these losses and thus to achieve higher efficiency. “In the last analysis, – wrote Lenin in 1919, – productivity of labour is the most important, the principal thing for the victory of the new social system. Capitalism created a productivity of labour unknown under serfdom. Capitalism can be utterly vanquished, and will be utterly vanquished, by the fact that socialism creates a new and much higher productivity of labour” (Lenin, 1919, p. 231). And initially it seemed like the prophecy was coming true – the USSR was doing better than any other developing country in terms of catching up with the West.

Soviet catch-up development

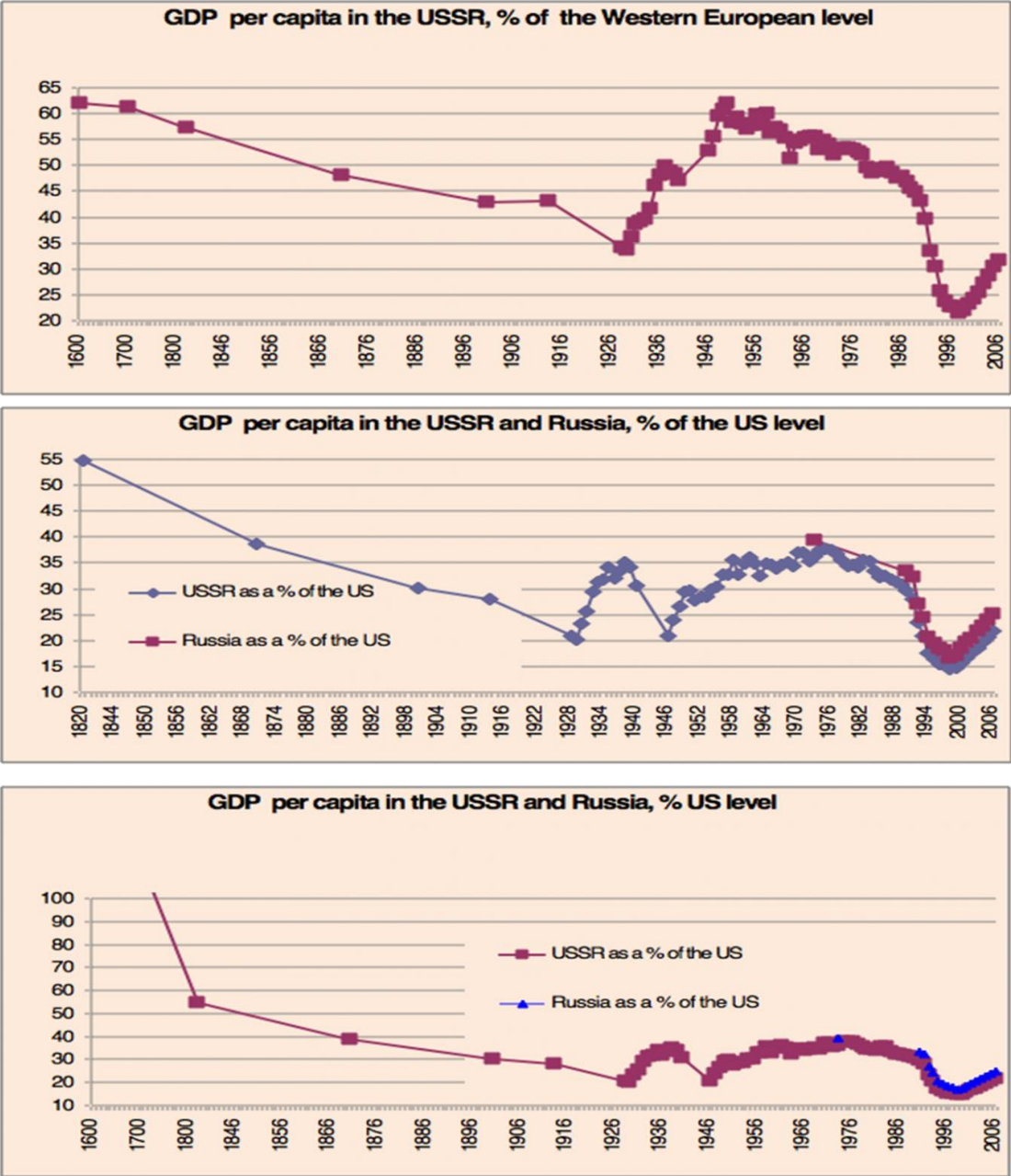
Soviet catch-up development looked extremely impressive until the 1970s. In fact, from the 1920s to 1960s, the USSR and Japan were the only two major developing countries that successfully, if only partially, bridged the gap with the West (figure 1). Russia was permanently falling behind the West in the 16-19th century – neither reforms of Peter the Great in the early 18th century, nor the elimination of serfdom in 1861 (Emancipation Act), nor Witte's and Stolypin's reforms in the early 20th century could have changed the trend. Only in the 1920s-60s Russia (USSR), for the first time in its history, started to catch up with the West (figure 1).

Despite popular beliefs that Soviet economic development was a failure, the USSR in 1928-70 was the second fastest growing country in world after Japan (Allen, 2003, fig. 1.1, p.7). Many developing countries all over the world were trying to copy the Soviet model in the 1950s-60s, even though Soviet assistance at that time was minimal and in any case way below Western assistance. The Soviet model at a time was probably no less attractive for the developing world than the Chinese economic model today.

Red Plenty, a novel by Francis Spufford, nicely captures the atmosphere of that time – the belief that the gap between the USSR and the West is closing down and will disappear soon because socialism is not only a more advanced social system, but also a more competitive economy (Spufford, 2010). During the famous “kitchen debate” of 1959 Soviet leader Nikita Khrushchev famously refused to admit that capitalism can have better innovations at least in some areas. Richard Nixon, the US vice president, opening an American exhibition in Moscow, offered a diplomatic formula – you are ahead in space, we are ahead in colored TV, let us compete for the benefit of consumers in both countries. Khrushchev, as soon as Nixon's words were translated to him, raised his hand up in objection: we surpassed you in rockets, we'll surpass you in TV, he said (Khrushchev and Nixon, 1959). Not only in the Soviet Union, but in the world, many people at that time sincerely believed that this is exactly what is going to

happen. That was the spirit of the time in the period when the Soviet system was retaining its dynamism and catching up with the West.

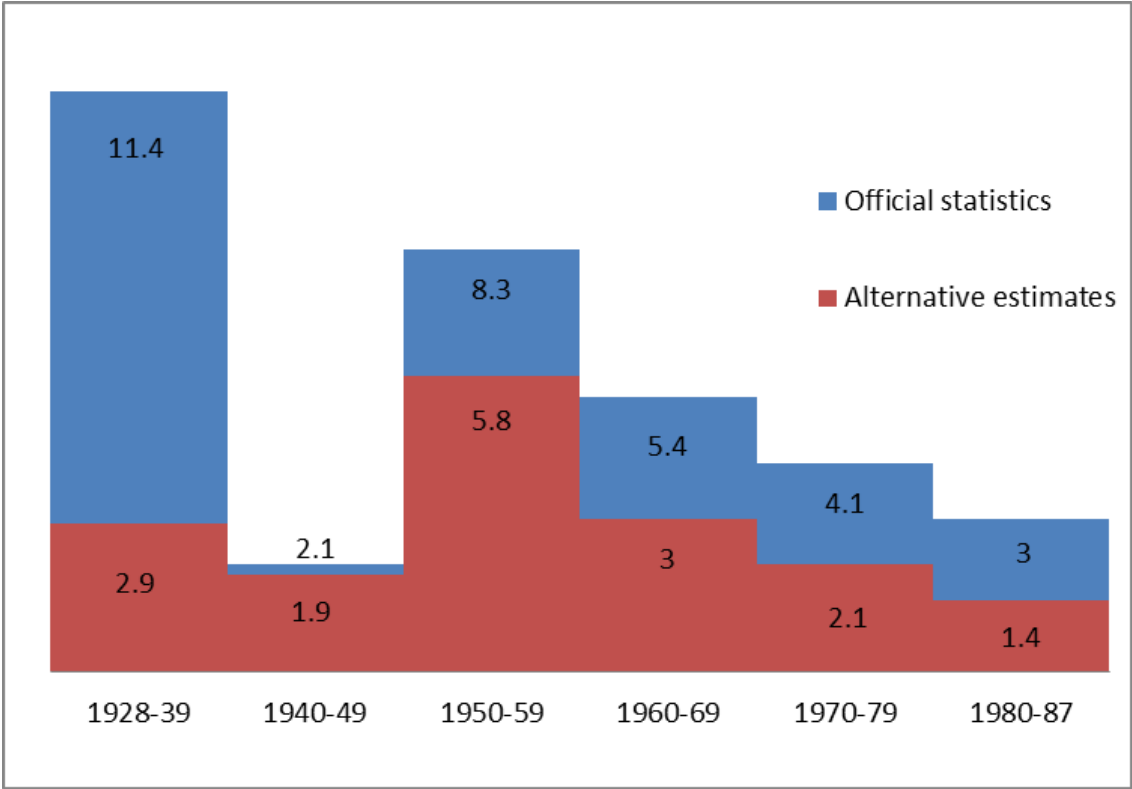
Figure 1. PPP GDP per capita in the USSR and Russia, % of Western European and US level



Source: Maddison, 2010.

In the second half of the 20th century, however, the Soviet Union experienced the most dramatic shift in economic growth patterns. High post-war growth rates of the 1950s gave way to the slowdown of growth in the 1960s-1980s and later – to the unprecedented depression of the 1990s associated with the transition from CPE to a market one. Productivity growth rates (output per worker, Western data) fell from an exceptionally high 6% a year in the 1950s to 3% in the 1960s, 2% in the 1970s and 1% in the 1980s (fig. 2).

Figure 2. Annual average productivity growth rates in Soviet economy, %



Source: Easterly, Fisher, 1995.

In 1989 transformational recession started and continued for almost a decade: output was constantly falling until 1999 with the exception of one single year – 1997, when GDP increased by barely noticeable 0.8%. If viewed as an inevitable and logical result of the Soviet growth

model, this transformational recession worsens substantially the general record of Soviet economic growth.

Minister Ivanov versus Minister Rodriguez

In 1964 the Minister of Communications of Honduras Mr. Rodriguez was receiving his Soviet counterpart Mr. Ivanov in Tegucigalpa. After negotiations Mr. Rodriguez invited Mr. Ivanov to his hacienda outside the capital. He showed Mr. Ivanov his 7-bedroom mansion with the swimming pool, garages and numerous domestic servants surrounded by 5 hectares of orchards; he took him for a fishing trip on a personal yacht and offered him a luxurious dinner with exotic foods that Mr. Ivanov never tasted before; he gave him a ride in one of his vintage limos and he told him about his children that study in Yale and MIT in the United States. Mr. Ivanov, however, was not discouraged and not that impressed. He knew that people of Honduras are poor and some of them starve, whereas in the Soviet Union the living standards are lower than in the West, but there is no starvation. He knew that life expectancy of the Soviet people has reached 70 years as compared to 50 in Honduras and that Soviet scientists are getting Nobel prizes; that Yuri Gagarin is the first man in space and that the Soviet ballet is the world's best; that Soviet nuclear submarines roam the Northern and Southern oceans and that the USSR, not Honduras, is rapidly catching up with the West. In short, he was proud to be a minister of the state that was successfully building the most advanced and just society in human history, the first workers and peasant state on Earth.

In 1984 the successor of Mr. Ivanov at the post of Soviet Minister of Communication, Mr. Petrov, visited Honduras to talk with his counterpart, Mr. Gonzales, the successor of Mr. Rodriguez, and was unpleasantly surprised and even irritated by what he saw. He learned that Honduras life expectancy in recent 2 decades went up from 50 to 65 years, whereas Soviet life expectancy did not grow and even declined, so it is just barely higher than in Honduras. He realized that even though the USSR was technologically more advanced and economically more developed than Honduras, he personally will never have the same living standards as Mr. Gonzales. And he had to ask himself – why? Doesn't he deserve what Mr. Gonzalez has? Whose

submarines are roaming the Northern and Southern oceans after all? Who is ahead of most countries in arts and science, ballet and space, Honduras or the USSR?

Previously, he thought, the Soviet Union was growing faster than the West, so we were sure that our difficulties are temporary and that we will finally catch up with rich countries. Before we saw the light at the end of the tunnel and were willing to endure deprivation for the sake of great and noble goals. Now, that we stopped catching up, why should we suffer and endure? The hell with socialism! Maybe it is an advanced social system, but obviously not for me. Under capitalism in the USSR I personally would do much better than Mr. Gonzales.

This story is total fiction^[1], but it captures the change in the mood of the Soviet elite at a moment when the Soviet system started to lose its social dynamism. Political, technical and intellectual elite was previously loyal to the regime despite lower welfare standards as compared to Western countries. It was inspired by the constantly reducing gap with the West in per capita incomes, life expectancy and other welfare indicators and the belief that socialism is a superior social system that will beat capitalism on all counts eventually, after it is fully developed. This belief was shaken and undermined when the USSR stopped growing faster than the West in the 1970s-80s.

Socialism as *alter ego* of capitalism

But the impact of the crisis and eventual breakdown of world socialism on the fate of capitalism as a system was ambiguous and even treacherous. In a sense, the collapse of socialism played a bad joke on capitalism. Socialism was the *alter ego* of capitalism, it created checks and balances, forcing to limit capitalist greed for profits and to introduce social programs. Unconstrained capitalism, without the moderating impact of socialism, is likely to repeat the mistakes that it committed a century ago and that finally led to the emergence of socialism. It is likely to drive inequalities up to the extent of bringing capitalism to the point of inefficiency and perhaps even self-destruction.

Could it be the case that capitalism can exist without committing a suicide only with its socialist *alter ego* that prevents it from creating destructive inequalities and social tensions? Maybe without socialism in sight, capitalist train inevitably develops a dangerous speed and can be saved from crash only by a turnover into the direction of socialism.

^[1] Any resemblance to real historical figures and places is merely coincidental.

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