

**Sustaining Socialism:  
Lessons from the Soviet and Chinese Experience**

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The record of efforts to reform socialist economies over the past decade has not been encouraging for socialists. The program of perestroika in the USSR, announced as a plan for renovating socialism, led instead to the dismantling of socialist institutions and the current attempt to build capitalism in its place. The Chinese leadership's quite different strategy for reforming socialism has produced rapid economic growth, but in the past decade China's development path has increasingly appeared to be one of transition to capitalism. The promised "socialism with Chinese characteristics" has come to look more and more like "capitalism with Chinese characteristics."

The particular model of socialism pioneered by the Soviet Union undoubtedly brought significant economic and social progress in many countries. It made possible rapid economic development without capitalists, without unemployment, without large income differences, and with a high degree of social protection. However, the Soviet model had serious flaws. In the Soviet Union both state and economy operated in a hierarchical, authoritarian manner. As a result, working people were largely passive recipients of benefits rather than active participants in running the political and economic institutions of the Soviet system. Not only did this feature of the Soviet model represent a departure from socialist ideals, it eventually came to limit the system's ability to promote economic progress (see Kotz and Weir, 1997, ch. 3). It was the sense that the model was "running out of steam" in various countries that led to efforts at restructuring.

This paper will argue that socialist reform need not lead to a restoration of capitalism. The experiences of the Soviet Union and of China hold lessons which can help in devising a strategy for transforming a Soviet-type system into a viable socialism that will bring renewed social and economic progress without abandoning the core socialist values of equality, solidarity, cooperation, and democracy.

### **The Soviet Experience: The Peril of Postponing Reform**

In our book *Revolution from Above* (Kotz and Weir, 1997), Fred Weir and I present a

detailed analysis of why perestroika led to the demise of the Soviet system rather than to its reform. We argue that by the 1980s the party-state elite which ran the Soviet system no longer bore much resemblance to the party of revolutionary socialists who had come to power in 1917. Over time they had evolved into a pragmatic elite, the majority of whom no longer took the official socialist ideology seriously and instead pursued individual power, prestige, and privilege. When under perestroika the Communist Party leadership gave up control over society, throwing the future direction of social development open to debate and legal political struggle, the majority of the party-state elite quickly abandoned their superficial allegiance to socialism and lined up behind Boris Yeltsin's drive to bring capitalism to Russia.

The elite realized that capitalism would enable them to grow rich by gaining ownership of the valuable assets of the Soviet system. This ambition has in fact been realized by many of them; a good example is former Prime Minister Viktor Chernomyrdin, who was the Minister of Natural Gas in the Soviet days and became a billionaire owner of a sizeable slice of Gazprom after the natural gas monopoly was privatized. The fact that the majority of the Soviet people favored a reformed and democratized socialism rather than capitalism made no difference to the outcome.<sup>1</sup> The system had made working people politically inactive, and there was little to obstruct the elite's program of dismantling everything the Soviet people had built.

Perestroika had come too late. If it had been tried in the 1960s, the conditions for socialist reform might have been more favorable. At that stage the Soviet elite had not yet fully lost its belief in socialism, and it might have supported a major reform within a socialist framework, rather than seizing upon such an effort to dismantle socialism. However, although the economic problems of the Soviet model had become apparent by the 1960s, the reform efforts of that decade were cautious and very limited, falling short of a serious renovation of the system.

There are two lessons from this experience. One is that, if socialism is to be reformed, the

process must begin while the leadership, broadly defined, retains its belief in socialism and before serious degeneration has set in. The second is that the real beneficiaries of socialism – the ordinary working people – must be empowered to participate in undertaking the reform if it to be a socialist reform rather than a capitalist restoration.

### **The Chinese Experience: Marketization as a Road to Capitalism**

Many well-intentioned socialists, from Yugoslavia to China to New York, have argued that market socialism is the only viable form of socialism. The claim is that market socialism can combine the efficiency, innovativeness, and individual choice which competitive markets are supposed to assure with the social justice and economic security promised by socialism. While there are several problems with the market socialist case, the Chinese experience points out its greatest flaw – that marketization leads to capitalism.

In 1978 the new Chinese leadership under Deng Xiaoping set out to reform China's economy by harnessing market forces in order to accelerate economic development. Unlike in the Soviet case, the Communist Party held onto political power, and the language and symbols of socialism were retained. Some socialist institutions have endured, such as the large state-owned enterprises, a state-owned banking system, and a significant degree of state planning for the still-large state sector of the economy. Full-scale private ownership is still largely absent in land and the means of production.

However, as was intended under the marketization scheme, a non-state, market oriented sector has grown rapidly since 1978. This sector now produces over half of China's gross domestic product. While most of China's non-state enterprises are officially owned by townships or villages or by the enterprise's labor collective, they have increasingly operated in practice just like capitalist firms. They hire and fire workers based on profitability criteria, pay the lowest wage the market will bear, and require long hours of work often under very poor working conditions. The top officials of these enterprises have become de facto capitalists, growing wealthy from the labor of their workers.

Market forces work by means of harnessing individual pursuit of wealth. Under appropriate conditions, the drive to get rich can lead to establishment of aggressive business firms that drive down the costs of production while offering a product that people want, or can be induced to want. However, markets cannot operate effectively unless individuals are permitted to enjoy the fruits of their successful efforts to produce cheaply and sell dear – that is, the fruits of becoming a successful capitalist. Understanding this, the Chinese leadership endorsed such slogans as “it is glorious to become rich.” Marketization of a socialist economy does not always succeed, but if it does, it is bound to produce a class of capitalists. As the wealth and power of this new class grows, it will seek to abolish the constraints on its further enrichment that are represented by the remaining socialist features of the system.

As Meisner’s (1996) insightful book on Chinese socialism documents, to a significant extent China’s new rich have arisen from the Communist Party itself. The problem of corruption of cadres, which the leadership admits is serious, is not the result of some unfortunate lack of vigilance or moral fiber. It is the natural outcome of the strategy of marketization. When the green light was given for going into business, those best positioned to do so were local leaders who had the contacts, knowledge, influence, and access to resources needed for success. The new wealth generated by market activity was bound to be used to secure favorable treatment from an officialdom that controlled the resources and permissions that are vital to market success. Eventually close relatives of the top Communist leaders plunged into business themselves – the so-called “crown princes and princesses.”

Whatever the intentions of the Chinese leadership, the process they set in motion has produced what is now a full-fledged capitalist development process. Ironically, it has been borne along by the achievements of socialist construction in China -- large-scale irrigation projects that provided a sound basis for agricultural advance, a state industrial sector that provides inputs at low

prices to the new private firms, a state banking sector that offers cheap credit, a cadre of state planners who have carried out large-scale infrastructure investments and guided the overall development of the economy, and a relatively well-educated and healthy population due to the egalitarian provision of social services.

China's development model has produced rapid economic growth – real GDP grew at 9.4% annually during 1978-95. However, the negative features of capitalist development have come along with the development of the forces of production. Tens of millions of peasants flood the new development zones seeking work, in greater numbers than the available jobs in the new private industries, driving down wages and raising the specter of mass unemployment. Vast inequality has sprung up in what had been a relatively egalitarian system. Good farmland is being rapidly converted to more lucrative uses, threatening the future subsistence of China's population. The environmental cost of china's market-driven development continues to mount.

The growing power and influence of China's new capitalist class is reflected in the leadership's insistence that the large state owned enterprises are China's key economic "problem." This last vestige of socialism is now on the chopping block, with plans afoot to privatize the state owned enterprises.

The lesson of china's experiment with marketization is that this is not a way to renovate socialism but rather a way to abolish it. While Russia's neoliberal strategy began with the sudden dismantling of socialist institutions, China's strategy is achieving the same result, far more effectively, in a gradual fashion over several decades.

### **The Alternative: Participation and Democratization**

A stable, enduring socialism must have an economic structure that does not produce an elite with anti-socialist interests. Attempting to hold fast to the traditional Soviet model cannot save socialism, since the officialdom of such a system will eventually degenerate into a privileged group

ready to use its power to appropriate the means of production as their private property. Marketizing the system creates an economic elite – a bourgeoisie – both outside and inside the leadership, which will likewise eventually dismantle the socialist features of the system. Socialists have always insisted that socialism is a system that benefits the great majority of the population. Accordingly, reforming socialism requires empowering the majority, both in the economy and in the state. A democratic state and a participatory planning system represent the basis of a viable socialism.

Models of democratic planned socialism have been elaborated by Devine (1988) and Albert and Hahnel (1991). These models share the following five principles: 1) wide participation in decision-making by those affected by a decision; 2) representation of the population as workers, community members, and consumers on decision-making bodies; 3) a decision-making process based on negotiation and compromise, to handle the inevitable existence of opposing interests among different groups; 4) an equitable sharing of the benefits and burdens of economic and political life; and 5) a system designed to promote the development of people and the enrichment of their experience as workers, family members, and community members, rather than an ever rising level of goods consumption.

Space constraints prevent giving a detailed account of how a system based on democratic planning would work, and only a few examples can be considered here. One key economic flaw in the Soviet model is its failure to produce goods that match what people want. Work incentives are undermined if workers cannot find things they wish to buy, and this problem also generates cynicism about the system as a whole. However, this is not an inevitable feature of a system based on public ownership and economic planning. The Soviet economy produced some goods of excellent quality that were just what the customer wanted. Examples include military hardware, certain kinds of industrial machinery, and high quality housing for top officials built by special construction enterprises. What distinguished such products was that their consumers -- the military brass, the

industrial ministries, the Party elite -- had the institutional power within the planning system to effectively insist on high quality. Ordinary consumers had no such power.

If consumer representatives sat on enterprise boards and on regional and national level planning bodies, they could insist that enterprises produce high quality consumer goods that people would like to purchase, with the power to impose economic sanctions to back up their needs. If the top political leaders are dependent on popular support for staying in office, they would be under pressure to make the system work to meet the needs of ordinary people. Democratic institutions, which in a capitalist system are always limited by the enormous political power of the rich, would work far better in a socialist system that has no class of wealthy owners.

The promise of getting rich is not necessary to build an efficient, innovative economy. "Innovation Institutes" could fund the testing out of new ideas, new products, and new services. Someone with a proposal for a new restaurant or service establishment could apply for funds and leasing rights to carry out their proposal, without departing from the principle of public ownership of productive property. Modest material rewards should be sufficient to encourage innovation and new and varied services, given the presence in any population of many individuals who are personally inclined to launch new projects. Indeed, without the necessity to risk one's life's savings in such endeavors, the outpouring of innovation might be even greater under such a system than under capitalism.

Any system of resource allocation is based on power relations. In the traditional Soviet model, planning was viewed as a technical exercise that should be left to specialists. In reality, Soviet planning was a system which enabled the most powerful groups in society to get the products they wanted while the majority had to largely settle for second-class quality. A market system of allocation is supposed to be impersonal and free of any unequal power relations, but in reality it empowers the rich, through their buying power, to cause society's resources of labor and means of

production to be devoted to making the luxury cars and other things they desire.

Democratic planning is based on the recognition that any system of resource allocation operates by means of the exercise of power. By providing representation for all constituencies in the making of allocation decisions, it would provide channels for all groups to see that their needs are addressed. It also recognizes the existence of conflicting interests even in a socialist society and provides institutions in which groups can negotiate and reach compromises. For example, enterprise boards having representatives of workers, consumers, and the community could strike a reasonable balance among workers' interest in not being overworked, consumers' interest in affordable and well-made products, and the community's interest in avoiding pollution of air and water.

The claim that a system based on private property and free markets is superior to any other in efficiency and innovation has no foundation. The attempts to prove the optimality of a competitive market economy suffer from a long list of flaws.<sup>2</sup> While capitalism can develop the forces of production and bring a rising level of material consumption for part of the population – in some cases for a sizeable part – history shows that it has been unable to build a civilization that meets the needs of the entire population.

Only socialism can assure everyone material comfort, individual security, and a guaranteed opportunity to participate in productive labor, without some exploiting others. Only socialism can build a society based upon the better aspects of human nature, rather than its baser aspects, and finally enable people to become the real masters of their fate. But socialism can carry out this historic mission only if it embraces democracy and popular participation as the basis of its institutions.

**References**

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**Endnotes**

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1. For public opinion survey evidence that the majority of Soviet citizens opposed capitalism in the perestroika years, see Kotz and Weir (1997), pp. 137-139. See pp. 114-115 for evidence that the great majority of the Soviet elite, by contrast, strongly favored capitalism.

2. The proof rests on assumptions so unrealistic that it is irrelevant to the performance of any actual economic system. Among other far-fetched assumptions, in order to prove the efficiency of a competitive market it is necessary to assume that every person and firm has full knowledge of the price and qualities of every product produced in the economy. A model of entirely centralized planning works quite well if such enormous information is assumed to be readily available to a single decision-maker. Perhaps even more devastating is the admitted failure, after decades of effort, to prove the uniqueness and stability of a competitive equilibrium, even under the usual highly restrictive and unrealistic assumptions. This leaves no theoretical basis for the claim that a competitive market system assures an optimally efficient allocation of resources.