

**Socialism and Capitalism:  
Lessons from the Demise of State Socialism  
in the Soviet Union and China**

by David M. Kotz

Economics Department  
Thompson Hall  
University of Massachusetts  
Amherst, MA 01003  
Telephone 413-545-1248  
Fax 413-545-2921  
E-mail [dmkotz@econs.umass.edu](mailto:dmkotz@econs.umass.edu)

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The Soviet model is the only version of socialism that gave birth to an alternative socioeconomic system to that of capitalism.<sup>1</sup> After its development in the Soviet Union in the late 1920s and early 1930s, the Soviet model, also referred to here as state socialism, was later introduced, with variations, in Eastern Europe, China, and other countries on several continents. That model of socialism now has either been dismantled or is in rapid retreat everywhere it had taken hold.

The attempt to renovate Soviet state socialism under Mikhail Gorbachev during 1985-91 led instead to the demise of that system and the disintegration of the Soviet state, with the leadership of the successor states to the former Soviet union seeking to build capitalist systems. Twenty years ago China's Communist leadership under Deng Xiaoping began a marketization process which they said would build "socialism with Chinese characteristics." The new Chinese model has produced rapid economic growth, but the new system has come to look more and more like "capitalism with Chinese characteristics."

This paper will examine the reasons why the Soviet Union and China, both the product of home-grown revolutions aimed at building a new socialist society, have embarked on transitions to capitalism. We will argue that, despite the obvious differences in the trajectories of the former Soviet Union and China along the path toward capitalism, there are similarities in the underlying factors that have been propelling them toward that end. This paper is organized as follows. First we will comment on aspects of Howard Sherman's work that are related to the topic of this paper. Second, we will consider the controversial question of what relation, if any, the Soviet model bore to socialism. Third, we will analyze the factors that led to the current effort at capitalist transition in the Soviet Union and those that have been pushing China toward the same destination. Last, we will discuss the lessons of the demise of state socialism in the Soviet Union and China for building a viable socialism in the future.

### **Howard Sherman on Socialism and the Soviet Model**

Among the many books Howard Sherman wrote, three deal extensively with socialism and economies of the Soviet type. These are *The Soviet Economy* (Sherman, 1969), *Radical Political Economy* (Sherman, 1972), and *Foundations of Radical Political Economy* (Sherman, 1987). He coauthored a fourth book on that topic. *Comparing Economic Systems* (Zimbalist and Sherman, 1984; Zimbalist, Sherman, and Brown, 2<sup>nd</sup> Edition, 1989). Two features of Sherman's work on socialism and the Soviet model are relevant to the topic and argument of this paper: his interpretation of the Soviet system and his early recognition of key problems in that system.

In his earlier books Sherman viewed the Soviet model as socialist, defining socialism as a system in which the means of production are predominantly publically owned (Sherman 1969 pp. 15-18, 1972 p. 240). In these works he emphasized, with characteristic realism and with attention to the inevitable gap between ideal types and real world systems, that we should not "toss [countries] out of the socialist category" simply because they have serious flaws, since that approach would mean "we never do face up to the problems that may still occur under socialism" (1972, p. 240). Later he decided that the lack of popular control over the economy in the Soviet model was more than just a flaw in socialism. While Sherman had always argued that a socialist system ought to be democratic, in his 1987 book he argued that economic democracy was not just a desirable feature of socialism but essential to it. On that basis, he concluded that the Soviet model was not socialist (1987, p. 260).

However, Sherman resisted the temptation felt by many Western socialists to portray the Soviet model, with its many negative features, as a form of capitalism. Sherman notes that the Soviet system lacks key features of capitalism as we know it, such as private ownership of the means of production, property incomes, inheritance of social position by members of the dominant class of officials, unemployment, or market-based competition among enterprises (1987, pp. 257-260). He

calls this system “statism,” to emphasize the appropriation of surplus through access to state power by a ruling class of party and state officials.

The typical Western specialist in comparative economic systems viewed the Soviet model through the lens of neoclassical economics and, not surprisingly, found little of merit in the economic performance of that system. Sherman’s several books that deal with the Soviet system have given us a more meaningful and balanced evaluation. He has noted the rapid economic growth in the Soviet Union, pointing out that over time an economic growth advantage of a system is likely to outweigh any static efficiency disadvantage. He has pointed out that the claimed efficiency advantage of capitalist economies is not so obvious as is assumed by neoclassical economists, if one takes account of such capitalist wastes as unemployment, advertising, and monopoly power. He gives due weight to the Soviet achievement of continuous full employment and a stable price level. He notes that the absence in the Soviet system of the large individual property incomes which characterize capitalist systems has led to a far more equal income distribution under the Soviet model.

Nevertheless, in his works Sherman has pointed out the many economic problems and failings of the Soviet system, including inefficiencies, inequalities, and obstacles to the rapid development of the forces of production, analyzing them based on the failure to meet socialist standards and expectations, as opposed to neoclassical prejudices. Most significantly, Sherman had several insights about problems of the Soviet system that would later be important in the system’s demise. First, in 1969 he suggested that the Soviet growth rate, which had been very impressive up until that time, might well slow down in the future. Second, he noted that structural features of the Soviet system made industrial managers reluctant to introduce new technologies, a conclusion he reached seven years before the publication of a widely cited book by Joseph Berliner which popularized this view (Berliner 1976). Third, he recognized the absence of democratic institutions in

the Soviet system as its key flaw, not just politically but in the working of the economy (1969, pp. 45-46). Fourth, in contrast to other Western Soviet specialists who sought to exaggerate the privileges of the Soviet elite, even after Sherman had come to view the Soviet elite as a surplus-extracting ruling class he recognized that the typical Soviet official had a level of privilege “far below that of most U.S. capitalists, both absolutely and relatively to their societies” (1987, p. 287).

### **What Was the Soviet Model?**

Any effort to explain the capitalist trajectory of the former Soviet Union and of China, as well as the lessons for a future socialism, depends upon one’s interpretation of the Soviet model as a mode of production. If the Soviet model is seen as a form of capitalism, then recent developments in Russia and China require little explaining, and lessons for the future of socialism are unlikely to be found in that process. On the other hand, if the Soviet model is viewed as bearing a significant relation to socialism, then the demise of this model would appear to hold important lessons about socialism. For this reason it is necessary to examine at least briefly the relation of the Soviet model to socialism.

There has been an understandable reluctance among Western socialists to admit a connection between the Soviet model, with its many undesirable features, and the socialism which was expected to be a liberatory society in every respect. Now that the Soviet model has largely passed away, it may be possible to investigate this question with less extraneous baggage. A full consideration of this issue would require grappling with the three most influential views about the Soviet model: that it was capitalist, that it was a new form of class society, and that it was socialist. Here we will only briefly comment on the first two views and then concentrate on the aspect of this question that is essential to our inquiry, namely, what relation the Soviet model bore to socialism.

Determining the character of the Soviet model in relation to the Marxian theory of modes of production is not a simple matter. No real world economic system ever precisely fits the simple

picture of any mode of production. One must use judgment to determine whether the main features of a particular mode of production are present and playing an important role in the real world system under investigation.

Sherman's objection to the claim that the Soviet system was capitalist -- that it lacked the key features of a capitalist system -- is well taken.<sup>2</sup> If there is any valid purpose in regarding the Soviet system as capitalist, it must be that such an identification enables one to apply the Marxian analysis of capitalism, about which there is a vast literature, to our understanding of the Soviet system. If the Soviet model does indeed depart from nearly all of the essential features of capitalism, then it would not be helpful to seek to apply the theories of capitalism to it.

A case can be made for Sherman's eventual position that the Soviet model is a new class system, a view also held by Paul Sweezy and many other Marxists. The Soviet model has a ruling group of top party and state officials that is privileged in a material sense as well as holding a monopoly on political and economic power. One can argue that this group is a ruling class that appropriates a surplus from the working population through its position in charge of the state and economy. One can construct a reasonable analysis of the Soviet system based on such a premise, as Sherman does in his later work.

However, this analysis leaves out a critical aspect of the Soviet model: not only was it constructed by self-proclaimed Marxian socialist parties but the model had significant features in common with a reasonable definition of socialism. There is far less agreement among Marxists about what constitutes socialism than about what constitutes capitalism. In my view a socialist system has the following defining features: public ownership of the means of production, economic planning, production for use, and democracy.<sup>3</sup> The first three of those features were present in the Soviet model. In the Soviet Union virtually all enterprises were state property, except for the collective farms (which differed more in form than in substance from state enterprises). Economic planning

guided economic activity. Production was not for profit but for use. The glaring departure from socialism was the absence of democracy.

This does not mean that the Soviet model was three-fourths socialist, or that it had a socialist economy but a non-socialist state. The authoritarian, repressive state, run by a self-perpetuating group of top officials, had a profound effect on Soviet economic relations. It prevented state ownership of the means of production from attaining the full status of “public” ownership, since the public was not sovereign over the state. It prevented economic planning from becoming an effective expression of the needs and wants of working people, leaving it as a reflection of the outcome of complex bureaucratic rivalries within the ruling group. It severely limited production for use, since most of the ultimate users of the economy’s output had little say in the operation of the system. These divergences from socialism meant that the Soviet model was not one in which the people were sovereign in the economy, much less in the state, and for this reason it cannot be considered simply a socialist system. Yet it did have an approximation of three of the four defining features of socialism.

The socialist features of the system produced a number of secondary outcomes that socialists had always said would characterize socialism. It achieved full employment, avoiding one of the worst flaws of capitalism. Workers had significant rights and powers on the job, partly stemming from the condition of full employment. The constant pressure on enterprise managers to fulfill their output quota, in the context of a full employment economy, placed significant informal power in workers’ hands. Desperate to hold onto their workers, large Soviet enterprises provided all kinds of fringe benefits for workers, from kindergartens to health clinics to subsidized meals to cheap vacation resorts. It was difficult to make the workers work harder or faster than they wished, as Soviet managers often complained. Although workers were not sovereign in the Soviet enterprise, they had enormous job security in this paternalistic institution.

The distribution of income was relatively egalitarian and became more so over time in the

Soviet Union after World War II (Kotz with Weir, 1997, pp. 28). A large part of the consumption of the population was supplied free or at a nominal price, including housing, health care, education, entertainment and culture, and transportation. Providing a large sphere of free public goods has always been thought to be an important feature of socialism.

The Soviet system also had several non-socialist features, in addition to its undemocratic state. The Soviet state was run by a privileged group of officials, who not only received high money incomes but also had substantial perquisites that included special stores stocked with high-quality goods made in special enterprises (and lacking the long lines found in ordinary stores), homes built by special construction enterprises, and so on. Whether or not one can consider this group to be a surplus-appropriating ruling class, they clearly were a privileged ruling group that would have no place in a fully socialist system.

A peculiar feature of this system was that consumption was based more on position than on money income. Many of the best things could not be freely purchased but could only be acquired based on one's job and connections. This feature of the Soviet model had a semi-feudal cast to it. So too did the rigorous controls on where people could live, reminiscent of the lot of feudal serfs. The Soviet party and state exercised control over many aspects of people's lives, allowing few outlets for non-approved organized activity. The system could never escape from a tendency to ascribe infallibility to its leader of the moment, another Medieval feature.

While socialism requires economic planning, the Soviet system utilized an extremely centralized form of planning, in which the attempt was made to direct, in a very detailed way, the entire Soviet economy from the center in Moscow. This left enterprises with little role to play but that of carrying out orders from above. Within enterprises, the general director was the absolute authority, and work relations were strictly hierarchical. This feature was the only important one that bears a strong resemblance to the relevant capitalist institution, although the substantive power

relations were different in certain respects. Soviet workers lacked unions that sought to actively defend their rights, but, as was noted above, full employment gave the workers significant informal bargaining power, both individually and collectively.

The Soviet system is best understood as a mixed social formation with significant socialist features. One implication of this view is that the experience of the Soviet model should tell us something about socialism, its potential strengths and its problems. Of particular relevance here, it suggests that the manner of the recent demise of the Soviet model should hold some valuable lessons about how to build a socialism that will be viable over the long run.

### **The Soviet Path to Capitalism**

In our book *Revolution from Above: The Demise of the Soviet System* (1997), Fred Weir and I present a detailed analysis of the demise of the Soviet system and the effort to build capitalism in Russia since 1992. Here I will draw upon that analysis but will also make some observations about this process which had not yet become clear to me at the time we completed the book manuscript.

Soviet state socialism brought rapid economic growth during 1928-75. During those years the country was transformed from a backward, largely agricultural one to an urban industrial society. By the late 1970s Soviet living standards had reached first-world levels in many respects (Kotz and Weir, 1997, pp. 34-38). In the mid 1970s Soviet economic progress slowed down sharply, as indicated both by the economic growth rate and the more difficult-to-measure rate of innovation (Kotz and Weir, 1997, pp. 41-47). Stagnation set in after 1975. Although output still increased every year through 1989, real GNP was now growing at only about 2% per year. This stagnation played an important role in Mikhail Gorbachev's accession to power in 1985, as a representative of the reform wing of the Communist Party leadership. He lost no time in announcing his aim of a serious renovation of Soviet state socialism, a program known by its Russian name "perestroika" (meaning reconstruction).

Gorbachev and his allies viewed lack of democracy, in its broadest sense, as the central problem of the Soviet system, and in 1989-90 new elective institutions were set up across the Soviet Union. Political power was rapidly shifted from the General Secretary and the Politburo to a new Presidency and elected soviets in the Soviet Union as a whole and in several key republics, including the huge Russian Republic<sup>4</sup> of the Soviet Union, which had three-fourths of the land area and half of the population of the Soviet Union. Gorbachev and his allies saw democratization as necessary to renew socialism and bring out its true potential.<sup>5</sup> However, after giving up the highly centralized power that had been vested in the General Secretary's office, nothing could have prevented the rapid development of a relatively open struggle over the future direction of Soviet society.

A group favoring the abandonment of socialism and its replacement by capitalism rapidly developed, led by former Moscow Communist Party boss Boris Yeltsin. In the space of a few years this group came to power in the Russian Republic, and, from that power base, was able to dismember the Soviet Union. How was this group able to defeat its two main rivals: the socialist reformers, who initially held the top positions in the party and state; and a third group that advocated a return to the pre-perestroika Brezhnev-era system, a position that also initially had many influential advocates?

The received wisdom is that the pro-capitalist group was able to win for two reasons. First, it is alleged that the Soviet planned economy collapsed, leaving no alternative but to adopt capitalism. Second, the Soviet public is supposed to have thrown its support to a capitalist future, through demonstrating, participating in strikes, and voting in the new elections for pro-capitalist candidates.

However, there is no support in the historical record for either pillar of the received wisdom. As we show in Kotz and Weir (1997, ch. 5), the Soviet planned economy did not collapse. Despite some disruptions from economic reform legislation that took effect in 1988, real output and real aggregate consumption grew continuously from 1985 through the first half of 1990. At that point,

although Gorbachev still held power in the Union state, Boris Yeltsin and the pro-capitalist coalition he led won political power in the Russian Republic of the Soviet Union and was able to use that power to begin dismantling central planning. That, along with other related developments, produced the first decline in output of the postwar period (at a 2.4% annual rate for 1990). The output decline accelerated in 1991 (to an estimated 12.8% rate of decrease) as central planning was fully dismantled and it became clear that privatization of Soviet industry lay ahead (Kotz and Weir, 1997, p. 75). The record shows that the Soviet planned economy did not collapse – it was dismantled through political means, as power shifted from Gorbachev to Boris Yeltsin and the pro-capitalist coalition.<sup>6</sup>

The Soviet public never embraced a capitalist future. They expressed dissatisfaction with many aspects of the Soviet system, and with the way the Communist Party had run the system, but polling evidence from 1990-91 consistently showed only marginal support for capitalism. For example, a very large sample survey of public opinion in May 1991, conducted by a US-based firm, found only 17% of respondents favoring “a free market form of capitalism such as found in the US or Germany,” while other surveys found even smaller percentages for capitalism.<sup>7</sup> Boris Yeltsin and his allies built their pro-capitalist political coalition without ever making it clear to the general public what kind of future they were planning for Russia.

One group in the Soviet Union understood clearly what kind of future Yeltsin represented. That was the party-state elite of the system, made up of the approximately 100,000 high-level officials in the party, the state, the economic management mechanism, and other key organizations, who ran the Soviet system. The views of this group were very much at variance with those of the general Soviet public by 1991. A focus group study of the Moscow elite, conducted by an American political scientist in June 1991, found that 76.1% of the participants had an ideological position of support for capitalism.<sup>8</sup> During the course of 1989-91, as the great majority of the party-state elite

gravitated to a pro-capitalist position, they threw their support to Boris Yeltsin and the pro-capitalist coalition. Gorbachev, facing a rapidly shrinking base of support within the elite for his socialist reform agenda, was unable to stop Yeltsin from pushing him aside and dismembering the Soviet Union, despite an overwhelming popular vote in favor of preserving the Union in a March 1991 referendum.<sup>9</sup> The pro-capitalist revolution in the Soviet Union was a revolution from above, made by its own ruling elite.

Why would the majority of the Soviet party-state elite desert the system through which they had ruled? The answer to this goes to the heart of the question of what kind of social system Soviet state socialism was. As was noted above, Howard Sherman observed that the material privileges of the Soviet elite, while substantial, were not nearly as large, absolutely or relative to the Soviet mean, as those of the capitalist class within a capitalist system.<sup>10</sup> The Soviet elite could not pass their positions on to their descendants (Kotz and Weir, p. 33). Members of the Soviet elite could not legally acquire any property beyond a modest home and automobile. Their relatively high level of consumption was entirely tied to their position in the hierarchy. Displeasing a superior could lead to a demotion and loss of privileges. Most of the members of the party-state elite were pragmatic and non-ideological, mouthing the official line in support of building socialism and communism without having any actual commitment to it. Once the future direction of the system was thrown open for struggle, the prospect of becoming wealthy property owners in a new capitalist system exerted an overwhelming appeal to members of this elite, except for the few who actually believed in the ideal of socialism and for those too personally conservative to accept a big change.

The rapidity with which the Soviet party-state elite abandoned their superficial allegiance to any form of socialism, and supported the dismantling of the system through which they had ruled, suggests that, if this was a class system of exploitation, it was certainly an odd one. Historically, ruling classes have tended to cling to their system, even when it is under strong attack. This is one of

the factors that makes class systems somewhat stable. There have been previous examples of the abandonment of a class system by a section of the ruling class. An example was the 1868 Meiji Restoration in Japan, when a part of Japan's feudal ruling class opted for capitalism. However, that followed Japan's military humiliation by the overwhelmingly superior Western capitalism, and even then the pro-capitalist part of the Japanese feudal ruling class had to fight a two-year civil war against the traditionalist wing before it could begin to dismantle Japanese feudalism and build capitalism. By contrast, the Soviet party-state elite ruled a superpower, and the ruling class desertion of the old system was so rapid and overwhelming that not a shot had to be fired.

The Soviet model, despite its having given birth to a privileged ruling elite, did not create a system of exploitation that was viable over the long run. Viewed as a system of exploitation, it was an abject failure. It allowed no property or security for its ruling group and it severely limited the privileges of its rulers. The slave mode, the feudal mode, and the capitalist mode each produced an appropriate, and effective, ideology to justify the privileges of its ruling class and also a set of practices that made the privileges of ruling class members reasonably secure, via inheritance of property and/or titles. State socialism developed neither, instead retaining a set of beliefs and official practices appropriate to an egalitarian socialist system. Privileges had to be hidden because they lacked justification within the accepted ideas of the system. This was not a stable set of arrangements. It can best be understood as an attempted socialism that had degenerated into elite rule over a system that still had many socialist features, ideological as well as economic.

The party-state elite was not the only group in the pro-capitalist coalition that arose in the last years of the Soviet Union. It found a key ally in the Soviet intelligentsia,<sup>11</sup> much of which adopted a simplistic version of free-market liberal thought in the late 1980s.<sup>12</sup> The intelligentsia solved a key problem facing the pro-capitalist coalition: how to win elections despite the unpopularity of capitalism among the Soviet population. They came up with the idea of "market

reform” as the slogan of the movement. As the mass media were turned loose from Party and state control under Gorbachev’s policy of glasnost (openness), intellectuals, and particularly economists, argued forcefully in the press that only the “free market” could save the Soviet economy, adding that a free market could function only if enterprises were privately owned.

Ordinary people resented the special stores carrying high-quality goods that were open only to members of the elite, while they stood in line awaiting inferior quality goods. A market economy was promoted as a method of allocation which would allow the average Soviet citizen, who typically had excess money to spend, to buy the best goods that the economy could produce, on an even footing with the elite. Thus, the free market was presented as an equalizing, leveling force. At the same time, the elite understood that a market economy, linked with privatization, would open opportunities for them to use their influential positions to accumulate private wealth. Thus, the mantra-like call for a free-market economy, initiated by the intelligentsia, was soon picked up by Boris Yeltsin and his associates as the way to simultaneously signal to the elite his plan to bring capitalism and great private wealth to the elite, while seeming to cater to the leveling desires of ordinary citizens (and ordinary voters).

Despite the evidence that the majority of the population opposed the introduction of capitalism, they were powerless to stop it. For seventy years the system had effectively depoliticized ordinary citizens, who were allowed no power or autonomy in the system. While they had certain rights and benefits that stemmed from the socialist features of the system, they were passive recipients of those benefits. When the ruling party-state elite moved to dismantle the system in favor of capitalism, the depoliticized masses, who stood to benefit from the democratization of socialism but had no recent tradition of organization or activity in defense of their own interests, remained helpless observers while the elite battled over their future.

### **The Chinese Path to Capitalism**

After the Chinese Communist Party came to power in 1949, a political struggle ensued within the leadership over how, or whether, to apply the Soviet model of socialism in the very different conditions of China. China's path seesawed between periods when the leadership sought to more or less follow the received Soviet wisdom, and times when there was an effort to chart a different course, as in the Great Leap Forward and the Cultural Revolution. When Deng Xiaoping came to power after the Cultural Revolution, one might have expected the orthodox Deng to follow the Soviet model, but that turned out not to be the case.

In 1978 the new Chinese leadership under Deng 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. Instead of privatizing state enterprises, the leadership encouraged the development of a new, non-state, market-oriented sector of the economy alongside the state sector. They retained central planning for the state sector and a system of partial price controls, gradually loosening both over time.

The non-state, market-oriented sector has grown rapidly since 1978. Although the large state enterprises have remained in state hands, the private sector now produces over half of China's gross domestic product. Most of China's non-state enterprises are owned by townships or villages or by the enterprise's labor collective. Many observers believed for a time that the predominantly non-capitalist ownership structure of China's private businesses meant that China was evolving into a market socialist system. However, despite their unconventional ownership structure, China's non-state enterprises 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 9.5% annually during 1978-98. The continuing active state role in managing the economy, and particularly China's refusal to open up its financial system to short-term capital flows, largely insulated it from the financial crisis that struck its Asian neighbors in 1997. 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.

### **A Viable Socialism**

The Soviet and Chinese paths toward capitalism have more in common than is generally realized. In the Soviet case the Communist elite's pursuit of greater wealth and privilege led it to dismantle state socialism and seek to build capitalism. In the Chinese case the pursuit of wealth by

the Communist elite is also playing a key role in the transition to capitalism, although the sequence of steps was different. Twenty years of encouraging profit-seeking private business by the Communist leadership has increasingly drawn the Chinese Communist elite itself into the pursuit of private wealth and is turning a section of that elite into a new capitalist class. Thus, in the Soviet Union, the elite first dismantled state socialism and then sought to become capitalists. In China the order was reversed. History has shown, so far, that the Chinese road, despite its retention of socialist language and even Communist Party rule, is a more effective means to transform a state socialist system into a capitalist one. Dismantling state socialism before capitalism has been built produces economic disaster and actually tends to block the development of capitalism. Ironically, building capitalism around the edges of a still-functioning state socialist system has proved to be the more viable path to capitalism.

A second similarity is the role of marketization. The Soviet pro-capitalist coalition called for marketization of the economy, and this call was used to justify the dismantling of central planning and, in order to make the market work properly, the privatization (and giveaway) of Soviet industry. In China a new market sector was built alongside a planned, state-owned sector, and the market sector has been propelling China toward capitalism. In each case market "reform," initially presented as a way to make the socialist economy work more effectively, played a critical role in pushing socialism aside.

From these similarities come two important lessons about the shape of a viable future socialism. First, a version of socialism in which a privileged political elite runs the system is not stable and in the long run tends to develop into capitalism. A viable socialism must have institutions which, by encouraging active participation of the population in political life, will prevent the consolidation of a self-perpetuating political elite.

The second lesson has to do with the potential role of markets in socialism. The feasibility

and desirability of market socialism has been sharply debated since the 1930s. Advocates have expressed the hope that it could combine the efficiency, individual choice, and technological progress that a market system is supposed to ensure with the social justice and individual security promised by socialism. Critics have warned that market socialism would reproduce many of the problems of capitalism, including inequality, macro-instability, and environmental destruction. The demise of the state socialist system has led to a renewed interest in market socialism among Western socialists, but a careful reading of the recent experience weakens rather than strengthens the case for market socialism. It suggests that marketization is not a socially neutral mechanism that can be used to improve the effectiveness of a socialist economy but rather is a path to capitalism.

The traditional criticism of the Soviet model by Western comparative systems specialists focused on the supposed efficiency advantages of free markets over central planning. This criticism missed what was essential in the economic rivalry between state socialism and capitalism. As long as central planning could bring rapid growth and a high rate of innovation, the efficiency problems of that system did not pose a serious obstacle to its reproduction. The state socialist system ran into trouble only when its growth and innovation performance worsened, to a level below that of contemporary capitalism. Marketization represented, not a way to achieve the efficiency of an imagined Pareto optimum, but a means to accelerate the development of the forces of production by unleashing individual pursuit of wealth. This works only when the unleashed pursuit of wealth is allowed to harness wage labor. What follows is the capital accumulation drive, as we know it in the capitalist world. Thus, the second lesson of the Soviet and Chinese transition toward capitalism is that a future viable socialism must have an alternative to the competitive market to coordinate the economy and develop the forces of production, one that is consistent with socialism. The appropriate mechanism is a democratic, participatory form of economic planning that would make the people sovereign in the economy, as well as in the state.

Models of participatory planning have been elaborated by Devine (1988) and Albert and Hahnel (1991). Such models typically embody such principles as the following: 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 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. Such a system does not necessarily entirely exclude markets, but it does exclude the allocation of resources primarily by market forces.

There are two potential problems with the model of a democratic, participatory form of socialism, one economic and one political. The first is that of economic viability. Could a large-scale economy be run and coordinated by boards representing many different constituencies which operated by negotiation and compromise? Would such a mechanism be too cumbersome to function effectively? Would it be unable to make timely adjustments to changes in circumstances? Would the authority that it grants to all significant interest groups serve as an obstacle to innovation, given the tendency of innovation to harm some existing interests?

It is incumbent on the advocates of this model to provide answers to such questions. Some efforts have been made to do so but a more convincing case must be made if democratic, participatory socialism is to achieve widespread acceptance on the left. Using what is known about human organizational and decision-making capabilities and the capabilities of contemporary information-handling technologies, a case must be made that such a system could render timely and appropriate decisions at reasonable social cost.

The second problem is whether a democratic participatory socialism would run into problems

of unequal political power. Would one or more interest groups come to capture the decision-making boards of the system, replacing negotiation and compromise by dictatorial authority and seizure of disproportionate economic benefits? Would a class of professional planners – people who are skilled at operating on boards and who enjoy doing it – emerge as the new ruling elite of such a system, which would eventually press to eliminate the egalitarian and participatory features of the system? The only bar to such a degeneration of democratic socialism would be the development of well-entrenched values of participation and egalitarianism. However, we can say that a democratic, participatory model of socialism would have a great advantage in this regard over both capitalism and state socialism, whose basic institutions guarantee domination by a privileged elite.

Marxists have always insisted that their ultimate aim is to change the world, not just analyze it or paint pictures of pleasant but unattainable alternatives. Is there a route by which a system of democratic participatory socialism could actually develop from capitalism as we know it today? Contemporary capitalism increasingly subordinates all human needs to the requirements of capital accumulation. People's needs increasingly clash with what is deemed possible in our economy -- needs for a decent living standard, for economic security, for meaningful work, for a safe and healthy environment, for equitable treatment regardless of race or sex, for safe and effective consumer products, for good schools, for access to high-quality health care, for a balance between paid work and child raising, and for the time and the means to engage in satisfying leisure pursuits. If the popular movements that have grown up around these issues come to see a common source of the problems they are fighting against, in the anti-social appetites of capital accumulation, perhaps they will at some point coalesce into a movement for democratic socialism.

As these individual movements seek redress of their grievances, they are driven to challenge the way capitalism makes decisions about the allocation of resources and to assert some say over such decisions. This represents in embryo a demand for democratic participatory planning, as a

means to achieve production for use rather than for profit. These groups represent the set of interests that should be represented on the decision-making boards of a future socialism.

However, it does not seem possible that such a process of struggle for the reform of capitalism, by according greater say to popular groups in economic decision-making, could by itself lead gradually to a democratic socialist system. As long as private ownership of the means of production remains the basis of the economic system, the drive to accumulate capital will remain a central feature of the system. Forced at times to accept restrictions by successful popular struggles, capital will always lie in wait for the opportunity to reverse the process and reclaim its freedom of action. Democratic socialism will require a revolutionary break at some point, with private ownership replaced by public ownership and with allocation of resources based on the market-driven pursuit of private profit replaced by the institutionalization of a system of democratic participatory planning. Only after such a radical transformation of existing property and power relations can a society dominated by the anti-social imperatives of the capital accumulation drive give way to one in which people can shape their economic life based on their own needs.

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## Notes

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1. The socialist movement has had a profound influence elsewhere than in countries adopting the Soviet model. The European social democracies are perhaps the best example. However, European social democracy modified capitalism, rather than transcending it.
  2. Marxists traditionally view commodity production and the wage-labor relation (whereby capitalists hire free wage laborers) as the defining features of capitalism, which underlie the specifically capitalist mode of extraction of surplus. It can be argued that neither of those features, in the Marxian understanding of them, was found in the Soviet model. One can also argue that the long list of derivative features of capitalism, such as competition among capitals, a certain kind of accumulation drive, recurrent economic crises, and a particular kind of imperialism, also failed to correspond to the experience of the Soviet model.
  3. This definition of socialism does not exclude some use of markets, as long as economic planning plays a major role in guiding economic activity.
  4. The official name of the Russian unit within the Soviet Union was the Russian Soviet Federated Socialist Republic, which was one of fifteen constituent republics of the Soviet Union. We will refer to it as the Russian Republic here.
  5. Analysts disagree over whether Gorbachev was genuinely committed to building a reformed and democratic socialism. Kotz and Weir (1997, ch. 8) offer evidence that Gorbachev did indeed pursue that goal.
  6. While the Soviet planned economy did not collapse, Gorbachev's perestroika did not succeed in rescuing it from its relative stagnation dating from the mid 1970s. Whether it might have succeeded in doing so is impossible to determine, since Gorbachev's socialist reform project only ran for a few years, before being replaced by Yeltsin's project of building capitalism during 1990-91.
  7. *The Pulse of Europe*, p. 50.
  8. Kullberg, 1994, pp. 940-946. Kullberg's focus groups included some individuals who were not members of the Soviet party-state elite as defined in Kotz and Weir, 1997.
  9. Preservation of the Union was favored by 76.4% of voters in the referendum.
  10. See also Kotz and Weir, 1997, pp. 112-113.
  11. Other supporters of capitalism included illegal shadow economy operators, who had long worked around the edges of the Soviet planned economy, and a small but wealthy group of new semi-legal capitalists that developed rapidly after 1986 when economic reforms made private business legal in certain fields, including banking and trade.
  12. The process that led the Soviet intelligentsia in this direction is analyzed in Kotz and Weir, 1997, ch. 4.