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The Soviet Economy. A Closer Look at the Debate and the Reality


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Parity Hurts, But Can Reagan Break It?
THE U.S. NUCLEAR DILEMMA
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Has the economy of the Soviet Union deteriorated to the point of near collapse, sparking massive internal unrest and opening the prospects for U.S. economic leverage to attain imperialism’s foreign policy objectives?

Or is it actually doing quite well, with the future outlook positive regardless of U.S. economic sanctions or boycotts?

A raging debate along these lines has broken out in, of all places, the U.S. ruling class.

On one side are those like Richard Pipes, the National Security Council’s “expert” on the Soviet Union, who says, “We are now at one of those junctures in Russian history, the others being 1921 (a year of great famine and death) and the death of Stalin, where things are so bad that something has to be done.”

Arrayed against this view are a number of professional Soviet-watchers who have now been unexpectedly joined by the CIA which asserts that the USSR, “far from being on the verge of economic collapse, has experienced major growth. In fact,” says the agency, “we do not consider an economic ’collapse’–a sudden and sustained decline in GNP (gross national product)–even a remote possibility.”

Obviously both sides in this ruling class debate are pursuing this question as more than an academic exercise. U.S. perceptions of Soviet reality impact Washington’s strategic policy decisions on a wide range of issues: trade, finance and military questions. With the Reagan administration undertaking a concerted drive to regain nuclear superiority over Moscow, and with Soviet leader Yuri Andropov vowing to match Washington’s buildup “missile for missile,” the crucial question confronting the White House is: can the Soviets do it?

The view that the Soviet economy is not up to such a test is central to the Reagan administration's scenario for regaining the worldwide initiative against the forces of socialism and national liberation. Ideologically, a central justification for the U.S. military buildup is that the Soviet Union is an expansionist, avaricious power which has deliberately distorted its economy in favor of a massive escalation of its military capacity so that it may embark on a plan of world conquest. (A variation on this theme is that because of the inherently counterproductive nature of socialism, the Soviet Union can only make its economy function through military domination of other countries it is then able to exploit.) Either way, the bottom line is the same: the very weakness of the Soviet economy "proves" the menacing character of the Soviet Union.

But more than obligatory anticommunist ideology is involved. Fundamental weakness in the Soviet economy is a strategic assumption of the Reagan administration's plan to reassert U.S. military dominance. According to this view, a concerted U.S. nuclear arms buildup would put the Soviet Union in an untenable position confronting two unsatisfactory alternatives.

On the one hand, the Soviet leadership might realize that an attempt to match the U.S. buildup would be futile and could place unacceptable strains on an already fragile Soviet economy; it might, therefore, acquiesce to the renewed role of the U.S. as world gendarme, again wielding the weapon of nuclear blackmail. But should the Soviets attempt to match the U.S. military buildup, their already precarious economy would bankrupt itself and plunge the system into massive social and political upheavals. Either way, the U.S. would still regain military superiority over the Soviets.

DANGEROUS ILLUSIONS

Others in the U.S. ruling class hold that this scenario is a serious–and dangerous–misreading of Soviet reality.

George Kennan, Robert McNamara, McGeorge Bundy and Gerald Smith, all highly respected spokespersons for U.S. finance capital, have warned that a renewed U.S. drive for nuclear superiority will only have disastrous results–for the U.S. and not the Soviets.

In their view, denigrating the Soviet economy is fine for ideological and propaganda purposes. But believing one's own propaganda and basing serious national strategy on it, especially a nuclear arms drive, is a serious mistake. These prestigious ruling class figures argue that the Soviet economy, while experiencing difficulties in recent years, is in fact quite capable of matching any U.S. arms drive. The period of the U.S. nuclear weapons monopoly is gone, they say, and it "cannot be recaptured."

As Kennan and his associates see it, the political fallout from the Reagan strategy would also adversely affect Washington's political relations with Western Europe. The anti-Soviet Atlantic Alliance would be subject to serious strain as the capitalist countries of Europe would become the main battleground in Washington's nuclear war scenario. Massive anti-nuclear weapons movements have already shaken these governments in the wake of the Reagan administration's plans to deploy Pershing and cruise missiles against the Soviets.

Finally, the tremendous cost of financing the military drive worries this sector of the ruling class. The U.S. economy, still feeling the effects of the inflationary guns-and-butter spending of the Vietnam War period, has yet to break out of its most serious recession since the Great Depression. Massive amounts of defense spending can only sustain high interest rates, thus hampering even a minimal business recovery. In addition, the cuts shouldered by the lower sectors of the working class will eventually lead to increased social and political unrest. Even more dangerous is the possible alienation of the historically loyal and pro-imperialist labor movement which has consistently supported Washington's foreign policy ventures.

With these as the political stakes, the debate over the health and stability of the Soviet economy has become a major preoccupation of leading bourgeois figures in government and out Of course, those who see the Soviet economy as a basket case have a wealth of literary tradition to draw upon. After all, the market for tracts explaining the illogic of the Soviet Union's socialist economy and predicting its imminent demise has been a lively one ever since November 8, 1917, the day after the Bolsheviks seized power.

Undaunted by the fact that for more than 60 years such analyses have consistently proved to be wishful thinking, the bourgeoisie's ideologists still perservere. Hardly a week goes by that some distinguished publication doesn't announce that "The stalled Soviet economy (is) bogged down by planning" (*Business Week*, Oct 19,1981) or that the Soviet economy is "A System That Doesn't Work" (*Newsweek*, April 12, 1982).

The ultimate stuff that bourgeois dreams are made of is supplied by Sovietologists like Marshall Goldman, associate director of the Harvard University Russian Research Center, who says (U.S. News & World Report, Nov. 22, 1982) that the Soviet economic situation is so bad–"the most serious since Stalin"– that "you can't tell what's going to happen. The workers are unpredictable. They were unpredictable in 1905, they were unpredictable in 1917, and they could be unpredictable now. So there is a chance that the whole thing could explode."

WISHING WON'T MAKE IT SO

Increasingly, however, other voices in the U.S. bourgeoisie–concerned that policy is now being based on fairy tales that tickle the capitalist palate but bear little resemblance to reality–have taken to speaking out in opposition. Typical of this breed of capitalist is Thomas J. Watson, former head of IBM and U.S. Ambassador to the Soviet Union in the Carter administration, who declared shortly after leaving his post:

During my tenure as Ambassador, we heard frequent reports of alleged food shortages, work stoppages and die like. On occasion, I sensed that various wishful thinkers back home were ready to seize on such reports as evidence that the Soviet system could not long survive in its present form. In my judgment, nothing could be further from the truth, nor more likely to lead the U.S. toward unwise policy decisions... In no case have we found evidence of public unrest or any serious challenge to the established authority. The Soviet economy has made good progress since World War II and does provide the Soviet people with much more than they had earlier. (*N.Y. Times*, Jan. 19, 1981.)

More recently, hard-nosed businessmen like Watson have been joined by an unexpected and powerful ally–the CIA. Asked some months ago by a Senate subcommittee to come up with "a realistic and balanced assessment" of the Soviet economy, the intelligence agency produced a 400-page document which has had eyes popping all over Capital Hill, both because of what was said and who was saying it.

THE CIA'S DILEMMA

What comes through loud and clear in the CIA study is the agency's ideological dilemma. On the one hand, it does not want to portray the Soviet Union's socialist economy as a success since such an admission would run against the grain of its stock-in-trade anti-communist propaganda. On the other hand, the report's authors obviously want to warn U.S. policy-makers off a course whose logic rests in the assumption of fundamental weakness in the Soviet economy.

As a result, the inconsistencies between different sections of the report are sometimes striking. When speaking at the level of generalities, the report can piously repeat standard aspersions on socialism, such as the view that because of centralized planning and management, "The Soviet economy is peculiarly ill-suited to promote efficiency and technological progress." At another point, the CIA feels obliged to modify this statement, conceding that, "The highly centralized, rigid system of administering the economy – while perhaps the Soviet Union's major economic millstone–has had its advantages in enabling the leadership to mobilize resources in crash programs to achieve priority objectives."

The agency's argument, of course, is that this is what accounts for the Soviet military buildup–although how a highly modernized, technically proficient military apparatus could be built on a fundamentally inefficient economic base is not explained.

DAMAGING ADMISSIONS

In fact, the CIA's ideological point is completely undermined in another section of the report which probably contains the most damaging–from the bourgeoisie's point of view–admissions about the basic health of the Soviet economy. After identifying the scale of the Soviet economy and the size of the population base as basic strengths, the study notes:

Another of the strengths of the Soviet economy is the tremendous accumulation of capital assets that has occured since World War II. The value of gross fixed capital assets–buildings machinery, equipment, and the like–amounted to over 1.74 trillion rubles in 1980 according to Soviet published data. The value of Soviet capital assets expressed in constant prices increased almost 11-fold between 1950 and 1980 and about 4.4-fold from 1960 through 1980–long after the USSR had recovered from wartime devastation.

This phenomenal expansion reflects the allocation of a large and, until recently, rising share of Soviet resources to capital investment The rapid growth of capital assets has resulted in a more than three-fold increase in the amount of capital per worker. The rise was almost 3.5-fold in industry and over five-fold on state and collective farms."

The report goes on to note that the bulk of capital assets "is concentrated in industry, agriculture, transportation and communications, and construction," with only some 15 percent in housing and public services.

The statistical reflection of this aspect of the Soviet economy is found elsewhere in the report when the CIA notes the marked rise in investment as a percentage of the Soviet GNP, from 14 percent in 1950 to 33 percent of a much larger GNP in 1980. By contrast, investment as a percentage of GNP in the U.S. dropped from 17.5 percent in 1950 to 13.8 percent in 1980.

But what accounts for this ability of the Soviet economy to concentrate its resources in such a way that it can make a spectacular advance in its capital base in a relatively short time period if it is not the "rigid" system of centralized planning?

Other widely held prejudices about the Soviet economy are similarly handled by the CIA report which, after taking great pains to underscore its rejection of the basic assumptions of the socialist system, is nevertheless obliged to undermine many of the stock anti-Soviet arguments current both in bourgeois circles and sections of the left.

ECONOMIC STRENGTHS

There is, for instance, the widely held view that the Soviet GNP is declining. Not so, says the CIA. The Soviet economy "grew at an average annual rate of 4.6 percent from 1950 through 1981," says the report, noting that "during the same period, U.S. GNP increased by 3.4% per year." What has happened, says the CIA, is that the rate of growth of the Soviet economy has slowed down to roughly two percent in the past three years. This drop in the rate of growth– largely due to four consecutive years of extremely unfavorable weather conditions which led to poor harvests–is what has been seized upon by some as evidence of Soviet socialism's final downturn.

The report also notes that the Soviet economy is the second largest in the world and that its GNP quadrupled over the past 30 years, attaining an output valued at $ 1.6 trillion in 1982. Industrial output during this period went up 700 percent while the value of fixed capital–buildings, machinery, equipment, etc.–increased by 11 percent.

Another misrepresentation about the Soviet economy widely popularized by anticommunist ideologists is that the Soviet standard of living is abysmally low, as a result of which the masses of people are either in a state of near-starvation or on the verge of revolt Again the CIA finds the reality to be just the opposite. As the *New York Times* notes in summarizing the CIA report: “The Soviet standard of living has increased rapidly over the last 30 years, with real consumption per capita–rising at an annual rate of 3.5 percent–tripling in that period. But gains have been smaller in recent years, reflecting the drop in the overall growth rate.... The greatest benefits for consumers have been in durables and soft goods. The major shortcomings have been in the housing sector.... The growth in food supplies has been low, but the quality of the diet has nonetheless improved greatly, shifting toward a pattern of less reliance on bread and potatoes and more reliance on meat and dairy products.... This shift has slowed in recent years.”

Despite the horror stories of a food-short Soviet economy, the CIA concludes that “the Soviet Union remains basically self-sufficient with respect to food.”

In a similar vein, the conservative British journal, *The Economist*, notes (March 5, 1983) that “It is getting harder to pick out foreigners among the fur-hatted, warmly clad crowds on the Moscow metro. Oranges from Egypt and Greece, woolies from Bulgaria, consumer goods from Hungary and Czechoslovakia have all broadened the horizon of the Soviet shopper.” (*The Economist* also suggests that the recent slide in the Soviet GNP may be in the process of reversing, noting that “industrial output is said to have jumped from an average of 2.8 percent growth in 1982 to 6.3 percent in January of this year.”)

Another basic strength of the Soviet economy according to the CIA is its “self-sufficiency”–no small matter given the Reagan administration’s plan for waging economic warfare against the USSR The report points out that the Soviet Union is richly endowed with an abundance of natural resources– enough coal for 200 years, iron ore reserves at 40 percent of the world’s total, one-fifth of the world’s forest resources, and the world’s largest reserves of strategic and precious metals.

Combined with a large and highly educated labor force–estimated at 147 million–the CIA asserts that “the ability of the Soviet economy to remain viable in the absence of imports is much greater than that of most, possibly all, other industrialized economies.”

While the CIA report is a remarkable admission of the basic health and stability of the Soviet economy, it should be kept in mind that the study, if anything, downplays Soviet strength. As the *New York Times* pointed out, the agency’s “estimates are far below those claimed in Moscow’s raw statistics and significantly lower than those calculated by leading American scholars in the past.”

(The common prejudice which tends to airily dismiss the Soviet Union’s own statistical reports as self-serving is actually quite shortsighted. The modern Soviet economy is a highly complex organism with tens of thousands of decision-makers who require reliable economic and statistical information. Unless one wants to postulate a hidden second set of books–whose existence could hardly be kept a secret for long–the official statistics available to Western scholars are basically the same ones on which the Soviet planners base their work.)

EXPLOITERS OF EAST EUROPE?

A fallback thesis advanced by many detractors of the Soviet Union–ranging from the far right of the U.S. ruling class to the ultra-left Maoists–argues that the Soviet economy is kept afloat only through the economic exploitation of the East European countries. This view runs something like: Soviet imperialism exports unfinished raw materials to its Comecon trading partners and is able to import manufactured goods from those countries at a very small cost. East Europe, on the other hand, is forced to borrow heavily from the West in order to purchase the machinery, technology and other raw materials necessary to produce those goods. Based on the exploitation of the East European worker, the Soviets have managed to build a burgeoning military machine.

Such a scenario, however, is patently false. “The problem with the theory,” note two eminent bourgeois scholars, Jan Vanous and Michael Marrese, writing in the *Wall Street Journal* (Jan. 15, 1982), "is that its key premise–that the Soviet Union exploits Eastern Europe through the imposition of discriminatory terms of trade–is not supported by the facts.... In recent years the Soviet Union has granted Eastern Europe large trade subsidies, averaging $5.8 billion during 1974-79, rising to $10.4 billion in 1979, and a staggering $21.7 billion in 1980."

Another study, this one by the Defense Intelligence Agency, noted that "Soviet aid of all kinds to other Communist regimes rose from nearly $2 billion in 1971 to nearly $24 billion in 1980." These are hardly the symptoms of an economy in distress.

Perhaps the most surprising aspect of such studies as those provided by the CIA and various bourgeois scholars is that their grudging acknowledgement of the strengths of the Soviet economic system should be seen as major revelations. The spectacular achievements of the Soviet economy from 1917 on are a matter of historical record.

The dramatic transformation of backward Russia into a modern industrial state in the course of a single decade in the 1930s is undoubtedly one of die most remarkable economic achievements in world history. Equally impressive was the Soviet Union's capacity to recover from the devastation of World War II–much greater in the USSR than in any other country–and to rebuild and expand its entire economic infrastructure within a matter of years. That this was achieved while the USSR was fostering the growth of socialism in Eastern Europe and developing its own nuclear capacity to match that of the U.S. further underscores the vitality and resiliency of that economy.

The fact of the matter is that the Soviet Union today is an economic powerhouse. Not only does it sustain a vast population at full employment and a rising living standard, it provides that population with the most extensive, all-encompassing system of social services –education, healthcare, vacations, etc.–in the world. In addition, the Soviet economy anchors a growing socialist system which, by and large, remains invulnerable to the vicissitudes of the capitalist economic cycle.

This same Soviet economy is likewise the principal source of extensive material aid to newly liberated countries and to revolutionary movements throughout the world. For the bourgeoisie to imagine, in the face of such evidence, that the Soviet Union is in grave economic difficulties is a fool's paradise.

SOVIET PROBLEMS

Of course, the Soviet economy is not without its problems. The decline in the rate of GNP is certainly troubling, although a certain leveling off from the spectacular gains of the earlier period was only to be expected. Clearly the enormous logistical problems of managing the economy of a vast terrain with no convenient sea link from one end of the country to the other and with major portions of the country functioning under unfavorable climatic conditions take their toll.

The Soviet economy also suffers from a chronic labor shortage, a problem which reflects the fact that the dramatic potential unleashed by centralized socialist planning frequently outstrips the available labor power.

Ironically, the problem most frequently cited by bourgeois critics of the Soviet Union–a decline in labor productivity–is itself a reflection of the protections afforded the working class in a socialist country, since a system of guaranteed employment on-the-job protections and a rising (and also guaranteed) social wage frequently leads to difficulties in overcoming inefficient practices in the production process or in disciplining low-performance workers.

While much is usually made of instances of misappropriation of state funds, bribery and other forms of corruption, the extent of such practices seems to be highly exaggerated in the Western world. It is doubtful that they take place on a scale that could have any significant impact on the functioning of the Soviet economy as a whole.

The current Soviet leadership under Yuri Andropov is certainly aware of these difficulties and appears to have launched a major campaign to overcome such problems–particularly cracking down on abuses of the vast protections enjoyed by the laboring masses and on violations of socialist economic norms by corrupt administrators.

Inaccurate assessments of the Soviet economy have led many political forces to disastrous conclusions. Hitler found this out in World War II, a lesson which has not gone unnoticed in the ranks of the CIA where there seems to be a growing anxiety that U.S. policy with relation to the Soviet Union is being made on the basis of fantasy rather than fact.

Recent policy decisions have only aggravated this concern. As the gas pipeline embargo last year demonstrated, a policy of economic sanctions against the Soviet Union will largely be futile and will unnecessarily antagonize U.S. allies. Efforts at an agricultural boycott, such as Carter's grain embargo, also had little effect. The Soviets merely turned to the international market and obtained grain from Argentina at the expense of U.S. agribusiness.

Most importantly, though, the strength of the Soviet economy undercuts Reagan's strategy of economically destabilizing the Soviet Union through a concerted nuclear arms race. Instead of the Soviets experiencing serious strain, warns a sector of the U.S. ruling class, it will be the U.S. economy which is likely to encounter strains with the potential for widespread political and social upheaval.
