
A Legacy of Lies and Lost Souls

The Russian Revolution at One Hundred Years

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On November 7, 2017, we will acknowledge the one hundredth anniversary of the Russian Revolution. Russia was still using the Julian calendar at the time, so period references show the date as October 25 and thus the historical designation “October Revolution.” Regardless, on November 7, 1917, Vladimir Lenin and the Bolsheviks toppled the Provisional Government and set out to implement full socialism. As John Reed reported soon thereafter in *Ten Days That Shook the World*, Lenin took the podium, stared out into the cheering crowd, and simply said, “Now, we will construct socialism” ([1919] 1985, 117). And indeed he tried.

The Soviet experience with socialism from 1917 to 1992 is one of death and destruction. And it must be understood in this way. Socialism didn’t fail because of poor circumstances or because of unfortunate selection of leaders but because it is a system that cannot work. In attempting to abolish private property and the market economy, the socialist experiment condemned itself to failure, and this is true wherever and whenever it is tried. In theory, the abolition of private property in the means of production renders rational economic calculation impossible (Mises [1920] 1975; see also Boettke 1998). In practice, the “abolition” of private property means only that

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decision rights get transferred to state officials and that decisions are made based not on rational *economic* calculations but on *political* criteria (Boettke 1995). Socialism's original aspiration of ushering in a transition from the "Kingdom of Necessity" to the "Kingdom of Freedom" through a burst of productivity due to the rationalization of production is abandoned, and political survival of a new class of elites becomes the objective. Tools of repression and oppression emerge to bring about the "New Freedom."

Soviet history is a record of economic deprivation and political tyranny, as I have described in my books *The Political Economy of Soviet Socialism: The Formative Years, 1918–1928* (1990) and *Why Perestroika Failed: The Politics and Economics of Socialist Transformation* (1993). Western analysts failed to see this for the longest time because of the ideological and methodological blinders they wore. In a now classic paper by Sovietologist Alain Besancon, the intellectual blind spots are explained:

The Soviet economy is the subject of a considerable volume of scholarly work which occupies numerous study centres in Europe and the United States and which provides materials for a vast literature and various academic journals. But those born in the Soviet Union or those who approach Soviet society through history, literature, travel, or through listening to what the emigres have to say, find that they cannot recognize what the economists describe. There seems to be an unbridgeable gap between this system, conceived through measurements or figures, and the other system, without measurement or figures, which they have come to know through intuition and their own actual experience. It is an astonishing feature of the world of Soviet affairs that a certain kind of economic approach to Soviet reality, no matter how well-informed, honest and sophisticated, is met with such absolute scepticism and total disbelief by those who have a different approach that they do not even want to offer any criticism—it being impossible to know where to begin. (1980, 143)

The standard analysis of Soviet economic performance, with its emphasis on growth rates, output figures, and measures of economic efficiency, was incapable of understanding the system and its history. As David Levy and Sandra Peart (2015) note in their discussion of G. Warren Nutter's "Traveler's Tale of the Soviet Economy," the witness of the actual world can question what we learn from the expert's model world. And this misunderstanding of the Soviet economy was played out in economic textbooks well into the late 1980s (Levy and Peart 2011).

A student of G. Warren Nutter and the author of some of the most penetrating analysis of the real-world economic reality of the Soviet system, Paul Craig Roberts later wrote: "Academics have amassed much detailed information about the Soviet system, but they lack a paradigm for interpreting it." As a result, "they can never tell a grand tale." But there is a grand tale to be told. "The grand tale," Roberts explained, "is the

utter superiority of private property. Revolutions that attempted to achieve socialist economic organization that would be superior productively and morally to private property have now demonstrated that no such outcome is possible” (1988, 57).

Earlier in his study *The Growth of Industrial Production in the Soviet Union* (1962), Nutter had started to question the standard measures of Soviet economic performance and growth. He had two basic points to get across. First, in accounting for economic growth in the Soviet Union, the standard models were practicing mis-measurement because they were focusing on the value of inputs, not outputs because there was no market value being produced. Second, Nutter stressed that in models of socialist planning that relied on “prices” to help guide decision making, prices without property were a grand illusion (see also Nutter 1968). Administered prices are *not* true prices reflecting the opportunity cost of scarce resources. Even in Western market economies, the problem with national income accounting for public policy is one of “measurement without theory,” but in the socialist economies of eastern and central Europe and the former Soviet Union the problem was compounded not only by measurement without theory but also by measurement without any market valuation.

Western economists knew of the dangers associated with working with falsified official statistics on the Soviet economy, but the techniques developed to account for this systemic falsification nevertheless were preoccupied with aggregate measures of performance rather than encouraging more on-the-ground microeconomic analysis of the operation of the Soviet-type economy and its political economy. So misleading statistics in the West substituted for falsified statistics from the Soviets, and in both cases the performance of the Soviet economy was overestimated, and the distortions, perversities, and vulnerabilities of the system were overlooked.

By the late 1970s and 1980s, alternative accounts of Soviet economic performance started to emerge that either moved the analysis away from the preoccupations of recalculating growth rates based on microeconomic aggregates or recalculated in a more aggressive manner based on more on-the-ground and accurate measures. Igor Birman (1985, 1988), an émigré economist, for example, identified a serious problem in Soviet public finances. There was, he explained, an unsustainable gap between expenditures and revenues, and the Soviet economy was in fact in a state of crisis.

Gregory Grossman and Vladimir Treml (1987) stressed the extent of underground economic activity that was essential to Soviet economic life. Not only was consumer frustration addressed through black-market dealings, but misallocations in the production process were also addressed through extraplan dealings. The Soviet economy was a classic prohibition economy with bribes, special privileges, and extralegal enforcement.

Finally, in the 1980s Soviet economists Vasily Selyunin and Grigory Khanin challenged both official Soviet statistics and U.S. Central Intelligence Agency (CIA) estimates. The official statistics claimed that the average annual rate of growth of national income in the Soviet economy from 1928 to 1985 was 8.8 percent per year,

and the CIA estimated it at 4.3 percent, but Selyunin and Khanin reported it as only at 3.3 percent (1987, 11). But the real issue was Soviet decline starting in the 1970s, which both official and CIA estimates concealed. Selyunin and Khanin estimated that the Soviet growth rate fell to 2 percent in the 1970s and that the growth rate between 1980 and 1985 fell even farther, to 0.59 percent (Ericson 1990, 77, using data given in Selyunin and Khanin 1987; see also Boettke 1993, 22–23). This decline in the growth rate, Birman (1985, 1988) argued, exacerbated the crisis in public finance and precipitated the system’s demise in the late 1980s.

Soviet economic growth, as Selyunin and Khanin explained, was an illusion and was “achieved” only through committing the error that Nutter identified—measuring the value of inputs and not the value of outputs. “In almost all periods of our history,” they argued, “the use of material resources and fixed assets grew more rapidly than did national income. From 1928 through 1985, material-intensiveness increased by 60% and return on assets fell 30%” (1987, 10). Measured increases in labor productivity throughout Soviet history were only modest at best. The Soviet method of economic management was made possible only because of the abundance of resources at the regime’s disposal, but “the price was high: Living standards fell for decades” (Selyunin and Khanin 1987, 10). Soviet per capita income in the 1980s was only about 25 percent of that in the United States. The Soviet Union provided a standard of living for its citizens that was at best roughly equivalent to the high end of the less-developed economies. Not much of an achievement.

The Soviet political system performed just as miserably as the economic system. If you look just at figures associated with citizen death at the hands of the government or by forced starvation, according to a variety of sources the Soviet total ranges somewhere from 20 million to around 60 million in the period from 1917 to 1991. These figures do not include losses due to war. The astonishing number of deaths was revealed once the Soviet archives were opened after the collapse of communism and can be found in works such as *The Black Book of Communism* (Courtois et al. 1999) and *Death by Government* (Rummel 1994). No matter how you look at it, the Soviet regime was one of terror, repression, and murder. I have not even addressed the impact of such a system on those who did not meet this untimely fate in terms of their religious and civil liberties, their intellectual and personal freedom, and their relationships at work and at home. The consequences are staggering to contemplate when you consider even the impact of simple things in life such as one’s kitchen.

After the revolution, most inhabitants of Moscow lived in communal apartments housing five, six, or seven families. As industrialization took place, more people moved from the countryside to the city, reinforcing the communal-apartment arrangement. Critical to this arrangement was the replacement of the private kitchen and private dining with the communal kitchen and public dining. The “[c]ommunal kitchen was a war zone,” says Alexander Genis, Russian writer and radio journalist. “During the Stalin era [1928–53] it was the most dangerous place to be—in the kitchen” (qtd. in Nelson and Silva 2014).

Edward Shenderovich agrees: “Communal kitchens were not places where you would bring your friends. I think that was one of the ideas for creating a communal kitchen. There would be a watchful eye of society over every communal apartment. People would report on each other. You would never know who would be reporting” (qtd. in Nelson and Silva 2014). This was all part of the environment that produced “living the lie,” and the impact of this environment on civil discourse and political life is detailed in Timur Kuran’s brilliant book *Private Truths, Public Lies* (1995). As the mid-twentieth-century astute political observer and philosopher Hannah Arendt argued, the attempt to make everything public forced individuals into a more atomistic existence and destroyed civil society as a bulwark against state abuse of power. This is how totalitarian systems grow and oppress and repress the unfortunates who find themselves living under them.

So what is the lesson to be learned from the seventy-plus-year experience with Soviet socialism, and what must we never forget on this occasion of acknowledging the one hundredth anniversary of the Bolshevik Revolution? Socialism is incapable of delivering on its promises either in economics or in politics. There is no delivery from the “Kingdom of Necessity” to the “Kingdom of Freedom” but instead only a “road to serfdom,” as F. A. Hayek (1944) explained. Socialism is a philosophy not of our highest ideals, as philosophers and priests too often try to communicate to us, but instead of our basest instincts to rule over others and to treat others not with dignity and respect but as mere means to whatever ends we desire. Soviet history is one of death and destruction. The evidence is clear on this point. And, despite the hot-button nature of this topic, it is not a matter of perspective or of normative assessment but of the logical analysis of the institutional arrangements. Yet socialism still animates many among the intelligentsia and youth of today. This problem must be addressed if we are going to learn from the one hundredth anniversary what this history has to teach us.

In his recent book *The End of Socialism* (2014), James Otteson makes an important point about the political economist’s project:

Some scholars have mistakenly suggested that [Adam] Smith’s concern for the poor means he must have been on the political left. That is to misunderstand his project—and, I would argue, the project of economics generally, including the project of this book. Smith’s goal—like that of economics, and of my own work—is first to understand how human social institutions work, and then to make recommendations accordingly in the hopes of helping reduce human misery and to promote human prosperity. This is not a partisan project; it is not an ideological project; it is not even overtly a political project. It is a humane project. And, again, certainly a moral one. (92)

That the socialist project is inhumane and results in suffering and death must be understood. By institutional design, it cannot engage in rational economic calculation,

meaning that it cannot deliver on its economic promises. And, again, by institutional design, this project rests upon power in the hands of a few, and its economic failures mean that this concentration of power gets reinforced. Decisions must be made, and the scope of topics tackled expands far beyond the ability of democratic processes to produce agreement, so democratic procedures are put aside. Power is once more concentrated, and with concentrated power comes increased scope and scale of abuse. It is by this mechanism that the results of socialism whenever and wherever implemented have produced economic deprivation and political tyranny.

The lost souls of the Soviet experience with socialism will be honored only if we learn this lesson. What a tragedy. But when we refuse to learn the lesson, this tragedy is compounded. We must in this sense never forget and never stop teaching our students about how the Soviet failure is the perfect illustration of the logical consequences of the socialist philosophy applied.

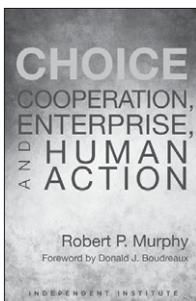
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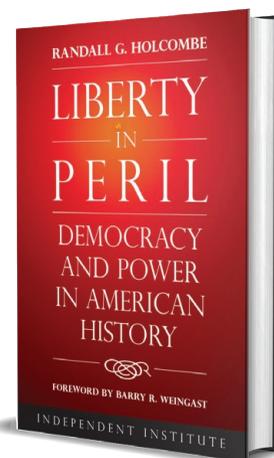
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