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Economic theory

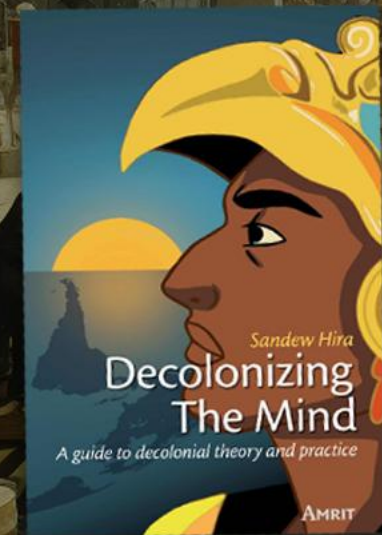
Theories and practices about the production, distribution and financing of goods and services



Decolonial economic theory: the experience of Russia



Decolonizing The Mind,
the final frontier of colonialism
with Sandew Hira



#041

06-05-2024

Liberal view on central planned economy

- ❑ Austrian liberal economists: Carl Menger, Ludwig von Mises, Friedrich Hayek, Eugen von Böhm-Bawerk, Joseph Schumpeter
- ❑ Arguments against central planning
 - ❑ Abolishing the market as an instrument of achieving efficient allocation of resources deprives society of improving the economy. Market prices give you information about efficiency and how to allocate scarce resources. Counterargument Rafael Correa president of Ecuador 2007-2017: *“Markets are a very good servant, but a terrible master.”*
 - ❑ There is no incentive for innovation
 - ❑ Marxism is only a critique of capitalism, not an alternative economic system

Communist manifesto - 1

1. Abolition of property in land and application of all rents of land to public purposes.
2. A heavy progressive or graduated income tax.
3. Abolition of all rights of inheritance.
4. Confiscation of the property of all emigrants and rebels.
5. Centralization of credit in the hands of the state, by means of a national bank with state capital and an exclusive monopoly.
6. Centralization of the means of communication and transport in the hands of the State.

Communist manifesto - 2

7. Extension of factories and instruments of production owned by the state; the bringing into cultivation of waste land, and the improvement of the soil generally in accordance with a common plan.
8. Equal liability of all to work. Establishment of industrial armies, especially for agriculture.
9. Combination of agriculture with manufacturing industries; gradual abolition of all the distinctions between town and country by a more equable distribution of the populace over the country.
10. Free education for all children in public schools. Abolition of children's factory labor in its present form. Combination of education with industrial production.

Paris Commune

- ❑ Revolution of working classes: soldiers of the National Guard seized control of Paris and establish revolutionary government from 18 March to 28 May 1871.
- ❑ French army suppresses the revolution: 20.000 communards killed

Paris Commune policies - 1

1. Elections for the government of the Commune
2. Abolition of conscription and the standing army, replaced by people army (all able bodied carry weapons)
3. Foreigners elected to the Commune were confirmed in office, because “the flag of the Commune is the flag of the World Republic”: abolition of nation-state
4. Maximum salary for every employee of the Commune
5. Decree on the separation of the church from the state, the abolition of all state payments for religious purposes and the transformation of all church property into national property;

Paris Commune policies - 2

1. Exclusion from the schools of all religious symbols, pictures, dogmas, prayers.
2. April 16: design of plans for the operation of factories by the workers formerly employed in them, who were to be organised in co-operative societies, and also plans for the organisation of these co-operatives in one great union.
3. The socialist state is a democratic state. All posts (administrative, judicial and educational) are filled by election on the basis of universal suffrage and subject to the right of recall at any time by the same electors. And, in the second place, all officials, high or low, were paid only the wages received by other workers.

Timeline Russia

- ❑ 1861: Tsar Alexander II abolished feudalism in Russia.
- ❑ 1917: Russian revolution
- ❑ 1918-1923: civil war, white terror: 1-2 million deaths.
- ❑ 1921: the State General Planning Commission Gosplan
- ❑ 1921-1928: the New Economic Policy
- ❑ 1924: Lenin dies
- ❑ 1929: first five-year plan which had a planning period of 1928-1932

Social and cultural revolution

- ❑ Church weddings were abolished and civil partnership was introduced. Divorce was a matter of choice. Abortion was legalized.
- ❑ Homosexuality was decriminalized and gay marriage was legalized. All of that implied a total liberation of family and sexual relations.
- ❑ Oppressed nationalities in the Russian empire had the right to set up their own state.
- ❑ The Communists saw their revolution as the start of a world revolution that would bring revolutionary governments to power, especially in the highly developed capitalist countries. They established the Communist International (the Third International) in 1919 to coordinate their actions.

Socialism under conditions of war

- ❑ Brest Litovsk Treaty on March 3, 1918 ended Russia's participation in World War I
- ❑ Counterrevolution: white terror directly after the October Revolution until June 1923. White armies of reactionary tsarist forces supported by the West started a civil war that led to an estimated 1-2 million deaths.

New Economic Policy 1921-1928

- ❑ The civil war had damaged the economy severely. Factory production was halted. Transportation did not function. A famine in 1921 killed an estimated five million people. A lack of food and coal and heating oil drove many workers to the country side, where peasants traded their produce through barter.
- ❑ The NEP allowed private property, private enterprise, and private profit in socialist Russia with the hope that this would lead to an increase in production. And it did.
- ❑ Lenin died in 1924 and Stalin took over. In 1928 he abandoned the NEP in favor of forced collectivization in agriculture and rapid industrialization.

Central planning - 1

1. The means of production are in the hands of the state. The state is led by the Communist Party.
2. The prices of goods and services are determined by the central plan.
3. The state-owned firms have an account at the central bank. There is no free flow of money. Money designed to buy materials and semifinished products cannot be used to pay wages; money for wages cannot be used for materials.
4. Because there are no markets where firms sell their products, there is no competition between firms. The planning agency determines the prices and quantity of the goods in the shops.

Central planning - 2

- 5. Planning agency decides on where, how and how much to invest.
- 6. In central planning there is full employment. The educational system and the job market are integrated, so people who get an education are sure that they get a job. The state determines the wages.

Results of central planning - 1

János Kornai, a critic of central planning admits that *“particularly in the early decades, the countries under the classical socialist system managed to grow faster than a long list of capitalist countries. Classical socialism certainly took many countries from a state of severe backwardness at least to a medium level of development.”*

Results of central planning - 2

Michael Ellman, another critic of central planning: *“The socialist planning system had a number of important achievements to its credit. It introduced mass production into Soviet industry. It greatly increased the output of a number of key industrial sectors, such as oil and steel. It produced a huge number of weapons necessary to emerge victorious from World War II. It provided full employment. It produced the world’s first earth satellite. It invested heavily in human capital. Its educational system (except in the social sciences) was good by international standards, and produced large numbers of qualified people. During the 1950s the USSR enjoyed a golden age with growth rates much in excess of those in the USA or UK.”*

Question

If the results were so positive, then why did the system collapse in 1991?

The collapse of the Soviet system - 1

- ❑ 1980s: Long shopping lines, empty store windows, broken-down cars, deteriorating living standards became part and parcel of the life of an average Soviet citizen.
- ❑ March 1985, Mikhail Gorbachev was elected as general secretary of the Communist Party of the Soviet Union
- ❑ Discussion in elites: Should central planning be abandoned in favor of decentralized management of the economy? Should prices, profit, credits and other market instruments be introduced into the economy? Should workers participation in the management of firms be introduced?
- ❑ Perestroika: restructuring of the economy and society

The collapse of the Soviet system - 2

- ❑ Glasnost: opening up society up to public discussion and political participation
- ❑ 1979: Soviet Union invades Afghanistan
- ❑ 1989: Soviet Union withdraws from Afghanistan
- ❑ 1987: End of the Cold War. INF treaty for the elimination of intermediate range and shorter-range missiles
- ❑ Soviet Union withdraws support for Cuba and the Nicaraguan Sandinistas and for the liberation movements in Angola and Ethiopia.

Glasnost - 1

- ❑ Mikhail Gorbachev: *“Much of what happened afterward and much of what is going on in Russia today has roots in the Stalin era.”*
- ❑ Glasnost opened the door to questioning the whole legacy of the Russian revolution, including its theoretical foundation: Marxism. It started with new revelations from below from the family of the victims of Stalinism.
- ❑ 1987: All kinds of organizations began to rise, independent of the party, that brought important discussion into the public domain: ecology, democratization, political reform. Some people began to argue for the establishment of political parties outside the Communist Party. A new civil society arose.

Glasnost - 1

- ❑ 1 July 1988: separation of party from the state - a new supreme legislative body called the Congress of People's Deputies of the Soviet Union was established
- ❑ March 26, 1989: elections were held with 5,074 candidates, of which 85% were from the Communist Party.
- ❑ 25 May – 9 June 1989: first session of the Congress televised live and nationwide

Peoples voices

“As the days went by, speaker after speaker attacked one or another vice of the system: the inefficiency of the economy; the widespread poverty of the country; the corruption of the Party; the scandal of hospitals without running hot water and health care without medicines; the inadequacies of education; the misconduct of the army in Afghanistan and Georgia; and finally, in one astounding outburst, the role of the KGB as an “underground empire” exercising “comprehensive control over society.... When the twelve days of the Congress were finished, the Soviet Union was a new country. The work of desacralizing the system, begun by glasnost, was now completed. Millions of people had heard their private thoughts uttered in public; individuals saw that the evils they had observed in their own little corner of the system were common to the whole Union. And everyone now knew it was possible to say the boldest things without fear of retribution. So intense was the public’s interest in the Congress that industrial production dropped 20 percent during the televised coverage of the proceedings.”

Independence

The Soviet Union was a Federal Union consisting of fifteen Soviet Republics: Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldavia, Russia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan. Initially, these ethnic republics had the right to secession from the Soviet Union, but under Stalin nationalist sentiments were ruthlessly suppressed. The sentiments aroused by *glasnost* unleashed new demands for independence. In 1991, the USSR would dissolve into fifteen separate states.

Revolution in the Soviet bloc

- ❑ November 9, 1989, thousands of demonstrators in East Germany brought down the Berlin Wall. The Soviet Army did nothing. On March 18, 1990, elections took place in East Germany allowing every party to compete. The Communists won just 66 of the 400 seats. On October 3, 1990, East and West Germany were reunited as one state.
- ❑ 1989: Hungary experienced a popular revolution for change. The change resulted in free elections in May 1990 that brought conservatives to power.
- ❑ November 17, 1989: popular demonstrations in Czechoslovakia against the communist government began that lasted for two weeks and led to the downfall of the government. June 1990, the first multiparty elections were held and formally dismantled central planning and the one-party system.

Revolution in the Soviet Union - 1

- June 1989: a month after the first session of the Congress workers in different parts of the country went on strike to protest their economic conditions, but soon added political demands: the end of the leading role of the Communist Party.
- In the Congress a group of 250 liberal deputies led by Boris Yeltsin formed a caucus with a concrete program: end the leading role of the Communist Party and introduce a multiparty system, private property, and a market economy. Yeltsin had resigned from the party's Politburo in 1987 and had increasingly become a voice for the opposition against the Party.

Revolution in the Soviet Union - 2

- ❑ 1990: Outside Congress, many groups gathered together under the banner of “democracy”. They formed a coalition to contest the elections in February and March 1990 for the local and regional soviets. They won in many major cities. Throughout the Soviet Union they controlled one third of the seats of the local soviets. In Moscow Yeltsin was elected with 90% of the votes.
- ❑ May 29, 1990: Yeltsin was elected chairman of the Supreme Soviet of the Russian Soviet Federative Socialist Republic (RSFSR) despite the opposition of Gorbachev,

Revolution in the Soviet Union - 3

- ❑ June 12, 1991 Yeltsin wins with 57% of the popular vote in the presidential elections for the Russian republic, the largest republic of the Soviet Union, with 57% of the votes. He immediately declared Russia's sovereignty and limited the application of Soviet laws on Russian territory, in particular the laws concerning finance and the economy.
- ❑ August 18, 1991: a failed military coup against Yeltsin and Gorbachev.
- ❑ November 6, 1991: Yeltsin issued a decree banning all Communist Party activities on Russian soil.

Revolution in the Soviet Union - 4

- ❑ December 1991: Russia, Ukraine and Belarus declared that the Soviet Union no longer existed.
- ❑ December 18: Gorbachev resigned.
- ❑ December 16, 1991, the Supreme Soviet officially declared that the Soviet Union had ceased to exist.

The privatization of the Russian economy

When Yeltsin's government freed prices, it unleashed hyperinflation, which instantly impoverished the majority of the population. The introduction of the free market did not produce a more efficient economy - it produced relentless economic decline. Privatization enriched only a small number of insiders. The country was being looted and destroyed by the new property owners. Perestroika ended in catastroika.

Yeltsin barely won the 1996 presidential elections. In 1999, he stepped down as president after a corruption investigation and appointed Vladimir Putin as his successor.

Why did the Soviet Union collapse

- ❑ Does the system deliver a better life for them? A better life means welfare, well being, freedom. If the system delivers, they will support it regardless of whether it is capitalist, socialist, Islamic or any other system.
- ❑ Does the system provide a vision for the future which they can relate to and which motivates them to be part of the system? Human beings are not animals. They have a culture, norms and values. They don't just live for bread and shelter. They have a motivation to create a better future for themselves, their children and grandchildren.

Putin's: Communist experiment is a detour from world civilization

“For almost three-fourths of the outgoing century Russia lived under the sign of the implementation of the communist doctrine. It would be a mistake not to see and, even more so, to deny the unquestionable achievements of those times. But it would be an even bigger mistake not to realize the outrageous price our country and its people had to pay for that Bolshevik experiment. What is more, [it would be a mistake] not to understand its historic futility. Communism and the power of Soviets did not make Russia a prosperous country with a dynamically developing society and free people. Communism vividly demonstrated its inaptitude for sound self-development, dooming our country to a steady lag behind economically advanced countries. It was a road to a blind alley, which is far away from the mainstream of civilization.”

Putin's economic philosophy

- ❑ The Russian state must be an efficient coordinator of the country's economic and social forces that balances out their interests, optimizes the aims and parameters of social development and creates conditions and mechanisms of their attainment.
- ❑ The state must be where it is needed and as it is needed; freedom must be where it is needed and as it is required.

The role of Russian capitalists

- ❑ The image of the West as a safe haven for capital was a mirage. Those who failed to understand this in time, who saw Russia only as a source of income and planned to live mostly abroad, have lost a lot. They just got robbed there and saw even their legitimate money taken away.
- ❑ There is another option: to stay with your Motherland, to work for your compatriots, not only to open new businesses but also to change life around you in cities, towns and throughout your country. We have quite a few businesspeople like this, real fighters in our business community, and we associate the future of our business with them. Everyone must know that the sources of their prosperity and their future can only be here, in their native country Russia.

A new international economic order: BRICS

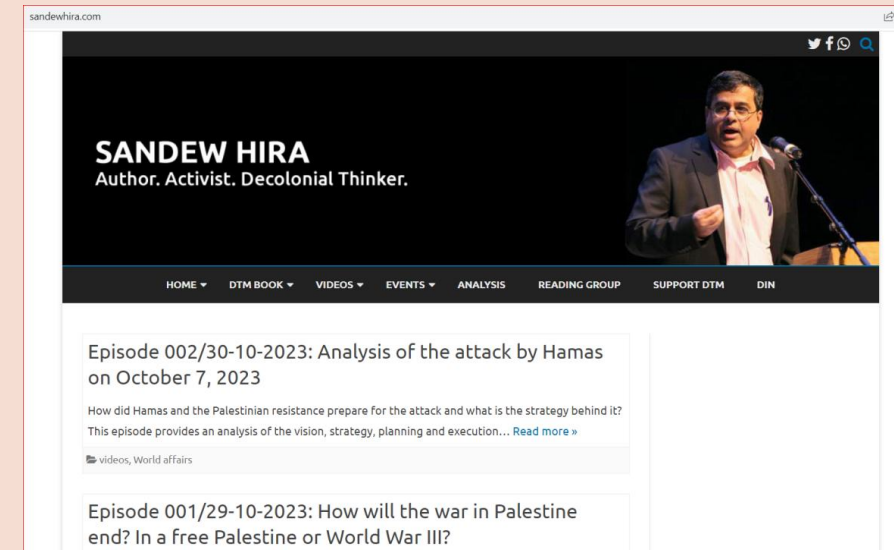
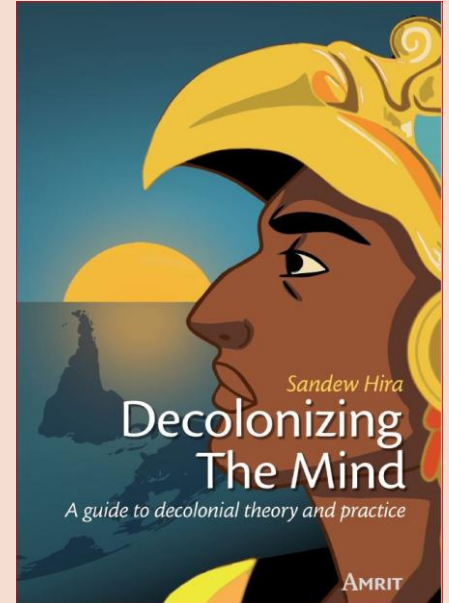
- ❑ Trade routes: shift from Global North to Global South
- ❑ De-dollarization: trade in other currencies
- ❑ A new financial order: New banks with authorized capital: New Development Bank (BRICS (US\$ 100 bln)), Islamic Development Bank (US\$ 70 bln), Asian Infrastructure Investment Bank (US\$ 100 bln).
- ❑ Russia is playing a leading role.

Key economic data

	GDP/PPP (billion)			GDP/capita			Population (million)		
Country	1990	2022	% growth	1990	2022	% growth	1990	2022	% growth
Russian	1.187,86	5.081,84	328%	8.027,75	34.637,76	331%	147,97	144,24	-3%
China	1.114,09	30.337,14	2623%	981,42	21.482,56	2089%	1.135,19	1.412,18	24%
India	1.048,24	11.904,80	1036%	1.204,24	8.400,38	598%	870,45	1.417,17	63%
United States	5.963,14	25.439,70	327%	23.888,60	76.329,58	220%	249,62	333,29	34%

Source in the DTM book

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