SECTION I

THE POLITICAL ECONOMY
OF STATE SOCIALISM
The purpose of this chapter is to introduce the economic system of the Communist period, showing how this was inseparably bound up with a particular political system. These rose and fell together, political changes often preceding economic ones. Nevertheless, the economic failures referred to in later chapters were also important in undermining the foundations of political power.

**POLITICAL POWER**

It was initially political change that brought the state Socialist system into existence, and it was political change that led to its downfall. The analysis, therefore, starts with the structure of political power that developed in the years after the Russian revolution of 1917 and was then imposed across the countries of Central and Eastern Europe that were incorporated into the Soviet bloc after 1945. Box 1.1 discusses concepts used to characterize the nature of the system.

The dominant common feature was the effective monopoly of power for one party. There are many descriptions of how the system worked, albeit with a bias toward following the Soviet Union rather than other countries, which, in some cases, had less monolithic power structures. Good descriptive accounts that also link political power to social and economic structures can be found in Lane (1978, 1985). The ruling party was usually, but not always, called a Communist party; that name will be used throughout this work. Its position was guaranteed with a constitutional provision for the “leading role” of the party.

This first appeared in the Soviet Union’s constitution in 1936 and was later followed by the other members of the Soviet bloc. Its practical meaning was to rule out any opposition to the ruling party. This stood alongside constitutional guarantees of democratic rights, such as universal suffrage and the supremacy of elected bodies, but in reality, the party dominated, able to select candidates and determine the outcome of elections. At all levels, party bodies had supremacy over government and administrative bodies, able to arbitrate over important decisions and, above all, able
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to dictate important appointments. This was cemented in the so-called *nomenklatura*
system, under which key appointments required approval from a relevant party body.¹

The ruling parties grew rapidly in terms of membership (Berend 1996, 48–50),
with a bias toward those in managerial and professional occupations. Membership
tended to increase with economic and social development as the proportion of these
occupations increased. In the last years of the USSR, membership was roughly
equivalent to 7 percent of the total population, albeit with a much lower percentage
among non-Slavonic nationalities and in less-developed republics of Central Asia.
Thus, Uzbeks constituted 4.7 percent of the population but only 2.3 percent of
party members in 1981 (Lane 1985, 228–29). Such differences could reflect both
economic and social development and the extent of commitment to the system.
For Czechoslovakia, a country at a higher economic level, the equivalent figure was
11 percent, while for Poland, it was 8 percent in 1980 prior to the political crisis at
the start of that decade, after which it fell to about 6 percent.

Joining the party meant refraining from actively opposing the leadership or its
aims. It did not need to mean much political conviction, although there was some
committed support in all countries. It was a great help with, and even a precondition
for, a range of careers. It implied little real political influence, as the party itself,
despite formally democratic structures, was firmly controlled from above. Here,
the merging of state and party were important, as state repression could be used
to eliminate inner-party opposition. However, this was not all a one-way process.
Party organizations could lobby for resources, as discussed later under the planning
process, and there was scope for debate on themes allowed by the leadership, which
sometimes included reforming the economic system.

The party was formally the bearer of an ideology, and members were expected
to give verbal backing to this and to support efforts to encourage commitment and
work effort from the rest of the population. They were expected to play the role of
a support base for the leadership but often proved unreliable at times of crisis. In
practice, official ideology was important for what it ruled out rather than for what
it encouraged. It enabled the leadership to restrict the bounds of public debate,
meaning, for example, that economic thinking was to be restricted within a Marxist
framework, or it at least could not develop in open opposition to that framework. It
ruled out much reliance on the private sector in the economy, although small-scale
private activity was accepted pragmatically in many countries. It made contacts
with capitalist countries much more difficult, leading to intellectual and economic
isolation, and it stood as a barrier to relaxing central controls on the economy.

Members of society were encouraged to join organizations for social and sporting
activities and for interest representation. However, these were firmly controlled
from above and constituted a structure of “transmission belts,” notionally carrying the

¹The term *nomenklatura* originally referred only to the appointment system whereby key posts were filled
by direct party appointment, or with the approval of the relevant party committee. In some, but not all
cases, party membership was also a precondition for appointment. The term has also been used, less
accurately, to refer to the social elite that benefited from the *nomenklatura* system. However, this differed
from the elite in a capitalist society. The fact that elite status depended on appointment by a higher
authority, rather than ownership of wealth or market power, meant that members of this elite had less
freedom to pursue their own interests. They faced continual insecurity and had to accept subordination to
those above them in the hierarchy.
leadership’s thinking to the mass of the population. That did not rule out all autonomy, but it did rule out playing an independent, still less an oppositional, role. Indeed, these were societies with substantial voluntary involvement from activists at various levels. The largest mass organizations were trade unions, with near universal membership of employees and formally democratic structures. They played important roles in supporting individual members and in providing social and recreational facilities. They were expected to encourage work effort and commitment and did not undertake genuine collective bargaining with employers. That would have threatened the central control over the economy. The logic of this role within a planned economy, and how it marked out trade unions from those in market economies, is covered by Deutscher (1950), Ruble (1981), and Lane (1985, 25–37).

This characterization of political power leads to two questions relevant to post-Communist change. The first concerns how far political power and the ruling party were linked to material privilege, and the second concerns the nature of “civil society.”

The nature and extent of privilege was different under state Socialism from developed capitalism. Information on the living standards of those at the top is fragmentary, but the highest earned incomes were not particularly high in relative terms, and there was no formal property income to widen the gap. The open atmosphere in Poland in 1981 led to publication of the salaries of the top party and government figures. They stood at five times the average pay, and only 0.1 percent of earners received over four times the average (Myant 1981, 62–63). Privilege depended more on goods and services acquired illegally thanks to positions of power or distributed informally or in special shops. It was not openly discussed in state Socialist societies but was studied by Mervyn Matthews (1978), using information from Soviet émigrés. Fragmentary evidence exists on CEECs (e.g., Mlynár 1980, 128–31), and some dramatic cases of personal corruption were exposed in Poland in 1980. All point to a very narrow group able to bypass shortages of high-quality goods and services.

There were benefits lower down the chain from political loyalty, such as priority in some recreational facilities, but this certainly did not turn all party members into a privileged elite. Nor did it give them a good start in the new system. Those with power, expertise, and contacts in some cases did have assets that could be converted into wealth under new conditions, but that describes only a minority of party members.

The nature of “civil society” under state Socialism was also different from its equivalent in societies with firm democratic institutions. The term has been used in different ways in the study of politics and societies. To the Italian Marxist Antonio Gramsci, it was a sphere distinct from the state in which a ruling class could nevertheless gain popular consent for the system’s survival in periods of political crisis (1971). To much of political science, it represents a network of organizations ranging across the clearly nonpolitical to pressure groups and representatives of social interests. Society is thereby organized independently of the state, and this, so it is argued, provides a foundation for democratic politics.

In terms of the actual organizational forms implied, these two apparently very different conceptions had a great deal in common. However, the system of transmission belts and rigid control from above, over both party and nonparty bodies, meant that civil society was weak in either sense. Indeed, during periods of major crisis, the system seemed unable to survive without the use or threat of force from
outside the country—most obviously, East Germany in 1953, Hungary in 1956, Czechoslovakia in 1968, and Poland in 1981.

Many members of society had experience within organizations, and this provided a basis for formal, organized activity in the post-Communist period. However, the system did not foster independent activities or initiatives, and there was no heritage of independent media that could help develop an informed, critical, and thinking public. Credit went to conformity with those in authority. Thus, in some views, civil society in any meaningful sense existed only in dissident circles made up largely of intellectuals who sacrificed careers, and hence access to information and the ability to publish, to develop their thinking independently. These individuals gained international prestige, but their numbers were very small. Overall, then, the dominant impact of the power structure and its ideology was to stunt independent thought and to isolate thinking in state Socialist countries from development elsewhere in the world. That was the background against which ideas on economic change were to develop after 1989.

Box 1.1 Totalitarian or state Socialist?

The system embodied one-party rule, an economy based overwhelmingly on state ownership and, at least in theory, central state direction. In the official ideology, it was a Socialist system, ensuring greater rationality than the capitalist alternative and providing a more equitable, stable, and prosperous future. Particularly from the 1970s, the terms “real” or “existing” Socialism were used as part of the effort by those in power to rule out discussion of alternative models of Socialism.

More critical perspectives have used a variety of terms that imply differing analyses of the system’s strengths and weaknesses. “Communist” is an obvious term, taking the usual title for the ruling party and emphasizing the uniqueness of the system. It conveniently points to the subsequent period as “post-Communist.” However, the term implies an exclusive emphasis on political power and on the system’s uniqueness.

The term “totalitarian” is often used, albeit often rather loosely. Here, the focus is on the regime’s use of repression—at times, very harsh—and on its efforts to control the population and its thinking through every aspect of social activity and to check on individuals’ activities and opinions with the help of networks of informers. These were an important part of the system, which contributed to its longevity and stability over much of its existence. However, it has proved difficult to give it rigorous theoretical meaning.

The classic study claimed to produce only “a general descriptive theory of a novel form of government” (Friedrich and Brzezinski 1956, vii), showing common features of countries under Communist and Nazi power. This underplays the importance of the regimes’ particular ideologies. Communist parties could gain some popular support, and even more acquiescence, thanks to their promises of development, security, and greater equality. This, too, was important to the system’s longevity, and its demise followed, as, in its final years, those promises looked increasingly unconvincing. Theories of totalitarianism also exaggerate the
forces for change

The authorities confronted three linked pressures for change. The first was the weakness of their social support base. The second was their inability to fulfill promises of economic performance. The third was pressure to make the system more
effective—in other words, for its reform—from within the regime’s own support base, meaning the specialists and intellectuals whom it believed it could rely on. In all of these, the system’s official Socialist ideology was important, as there was a visible failure to live up to promises of superiority over the alternative capitalist system, a point that encouraged disillusionment and new thinking among committed supporters. The last of these three is taken up in more detail in Chapter 3, which deals with thinking on reforms to the economic system. The effects of the first two were felt increasingly acutely as the system experienced gradual economic stagnation.

The social support base was never fully secure in any country. In only a few cases was Communist power established with substantial popular backing. Generally, it was established with minority, or even minimal, public backing. A substantial account of Russian history (Hosking 2006) shows a continuing gap between thinking in the population and the regime’s aims and ideologies. This was never a regime that could count on public trust, and the distance between regime and population appeared greater in other Soviet republics. Regimes in some Central European countries enjoyed some support at the start, possibly even a majority in Czechoslovakia at the time of the Communist takeover in 1948, but it was continually tested by economic disappointments and by repressive and discriminatory policies toward much of the population. These included imprisonment for public dissent and discrimination in employment or access to education on grounds such as class origin of parents, past political affiliations, or family contacts with countries outside the Soviet bloc.

There are no accurate means to monitor changing popular attitudes toward regimes, but there was a clear shift in the dominant rhetoric of the regimes’ critics. The Socialist tradition, and accusations that the regime had not been true to its principles, were important in the early years and most obviously in the Czechoslovak reform movement of 1968. That kind of thinking had largely faded by the late 1980s.

The rigid monopoly of power and strict control of any sources of potential opposition could be seen as rational reactions to a likely lack of public support. This is also consistent with the speed with which commitment to a Communist cause disappeared after the regimes’ downfalls. Communist parties survived in only a couple of countries and then with substantially different programs and aims. Indeed, the Russian Communist Party, founded in 1990 and commanding considerable electoral backing, dropped much of traditional Marxist thinking and adopted much of the symbolism of Russian nationalism (Hosking 2006, 396–97; March 2003, 122–25). The Czech Communists also retained their party’s name and electoral support for more than 20 years after their fall from power from 10 to 13 percent of the population. Other former ruling parties shed much of their membership, changed their names, and claimed adherence to social democratic values; in Hungary and Poland, these parties, often referred to as “post-Communist,” returned to government in the 1990s.

Political evolution in the Soviet Union was very clear from the terror of the Stalin period to less-arbitrary authoritarianism of later years. Indeed, the period under Brezhnev’s pragmatic and rather colorless leadership, starting in 1964, is often characterized as establishing a welcome security for those in higher positions (Colton 1986, Chapter 1). The regime could allow itself a more relaxed approach, albeit only somewhat more relaxed, toward possible alternative ideologies, such as Russian nationalism (cf. Hosking 2006), that could make contact with more of the population. It has also been argued that this period saw a failure of, and hence a shift away from,
extreme repression in other parts of the Soviet Union, meaning a greater dependence on forms of power relation derived from the pre-Communist period. In Central Asia, it meant implicitly allying with traditional clans that could rule under the Communist name and implement some of Communist economic and social thinking, linking this to more traditional forms of power and patronage (Collins 2006).

The regimes’ weakness was most exposed when they could not satisfy employees’ material expectations. Whenever possible, strikes and protest actions were not reported in the media, and leading participants were victimized. However, in some cases, they reached such a scale as to force concessions. They were in all cases a warning to the authorities that economic policy had to pay attention to consumers, and this held in check—and then ultimately ended—the high levels of investment and military spending of the industrialization drives of the 1930s and early 1950s.

Mass protests over living standards were most frequent in Poland, where they erupted in 1956, 1970, and 1980, and each one shifted the nature of the political regime and its economic policy. The first contributed to greater liberalization, attempts at decentralization, and employee involvement in planning and ended thoughts of collectivization of agriculture. The second led to a reorientation toward investment and consumption growth, financed in part by foreign borrowing. The third followed the failure of the previous strategy, which led to debts that could not be repaid and forced a massive cut in imports, hitting living standards and industrial production. Strikes led to the emergence of the independent union Solidarity, suppressed by military rule in December 1981. The Polish regime by then could seek legitimacy only by promising that it was aiming to reform the system. This, it signal failed to do. It appeared trapped between a recognition of the system’s failure and a realization that the Soviet authorities would not tolerate abandoning the “leading role” of the party or allegiance to the Soviet bloc.

Mass protest in Poland was important to the weakening and breakdown of state Socialism as a whole. The country was the largest within Eastern Europe. It was incorporated into the Soviet bloc in the late 1940s but with a strong base for opposition and for alternative ideologies around Polish nationalism and the Catholic Church. This pluralism within society was met by a more liberal and tolerant attitude from the authorities toward public discussion than was usual in neighboring countries. Opposition also depended on workers’ militancy in key periods. As indicated in the following text, the failure either to satisfy or to confront opposition led to economic paralysis in the 1980s, as covered by Myant (1982, 1989b) and Nuti (1981).

The decisive break for state Socialism as a whole came with the arrival of Mikhail Gorbachev as the Soviet party leader in 1985. His individual role was undoubtedly very important (cf. A. Brown 1996), but his arrival also reflected a view in the Soviet power structure that the system was failing to deliver and needed opening to new ideas and reform in order to achieve the desired modernization. Reform in the Soviet Union included loosening the grip on Eastern Europe, and this was followed by the regimes in Hungary and Poland—the two countries in which disillusionment with the system had penetrated the furthest into the power structure—initiating roundtable talks with opponents. They were soon relaxing power and allowing genuinely contested elections, opening the way for former oppositional groups to come to power. Communist power fell in some countries (East Germany and Czechoslovakia) when mass protests, inspired by events in their neighboring
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countries, were not suppressed. In Romania, a more determined attempt to use force failed in December 1989. A number of Soviet republics sought to break free from the USSR, and attempts at repression in Baltic republics—countries forced into the USSR after the Second World War—proved ineffective. Politics in the Soviet Union entered a chaotic phase, which, as indicated next, had important implications for the economic situation. The country definitively ceased to exist in December 1991 and was succeeded by 15 independent republics.

Thus, the transformations of political power took different forms. In all cases, the old regime ultimately yielded. In some (Poland and Hungary), it was effectively disintegrating with the lack of belief that the state Socialist system had anything more to offer. The old leaders lacked the ability or will to mobilize repression, and they could not offer much contest in free elections. In some, those in power were able to recycle themselves as new leaders, but commitment to democracy was often purely formal. In several former Soviet republics, the old leaders dropped any talk of socialism, but remained as autocratic rulers.

A spectrum emerged, as discussed in Chapter 8, with countries at one end adopting political democracy in forms familiar in Western Europe (Central Europe). In the midrange were regimes that some have considered close to an authoritarian model (Linz 2000; Way 2005), such as those of Russia and Ukraine, but others have preferred to classify these as “competitive authoritarianism” (Levitsky and Way 2002); they applied the basic rules of formal democracy, but those rules were routinely manipulated, and oppositional figures, seen as a significant challenge to the regime, were routinely bullied and harassed into cooperative behavior. At the furthest extreme were countries characterized by more clearly authoritarian regimes. Uzbekistan and Turkmenistan have also been characterized as “sultanist,” meaning a rationalized form of traditional domination using the state apparatus (Linz and Stepan 1996, 51–54).

These differences in political regimes corresponded to countries’ geographical locations, meaning their proximity to Western Europe, and to their pre-Communist political traditions. Multiparty systems had existed with varying degrees of embeddedness in Central Europe. Such a system had never taken root in Russia, and its basis was even weaker in Central Asia. The differences were to prove important for subsequent economic strategies but not in a simple equation between the extent of democracy and the extent of market-oriented reform.