The lessons of the Bolshevik Revolution

Last week marked the 100th anniversary of the Bolshevik Revolution. On this centenary, the main cause for celebration is that most parts of the world are rid of communism—one of the worst, most dangerous ideas in political economy.

In November 1917, the Bolsheviks and Vladimir Lenin led a revolution, inspired by Karl Marx's theory of class struggle. Once in control, they set about implementing a new economic system. The crux of Marx's theory in the *Communist Manifesto*was the abolition of private property. And so, Russia's Communist Party began its great tasks—replacing private property with collective ownership, and replacing markets and the price system with planning.

Lenin created a new planning establishment called the Supreme Economic Council, which brought firms, banks, foreign trade, and labour committees to run firms, etc., all under state control. Soon after came the abolition of private trade and exchange. By August 1918, the council decreed the abolition of money and required all transactions to be carried out using accounting operations.

The lack of a price system to coordinate economic plans resulted in disarray. To use Leon Trotsky's famous metaphor, "Each factory resembled a telephone whose wires had been cut." The result was a dramatic drop in industrial output, food shortage, chaos, and famine in the countryside. The food shortages were followed by famine, mass exodus from the cities, workers' strikes and soldier rebellion.

At the time, Ludwig von Mises, a revered economist from the Austrian tradition, issued a fundamental challenge to the Soviet planners. In 1920, he argued that the planners had not addressed a basic problem imposed by scarcity—choosing how to combine resources to produce goods economically. Without the institution of private property, individuals don't have the incentives to economize resources. Without the system of market exchange, market prices which reflect the relative scarcity of these goods cannot emerge. And without market prices (reflecting the relative scarcity of resources), planners cannot calculate profit and loss, and therefore cannot rationally allocate goods. He broadly summed up this problem as the impossibility of socialist calculation.

The consequences of the impossibility of socialist calculation were felt immediately by Lenin's government. In response, Lenin's New Economic Policy of 1921 stopped the collectivization of property in the countryside and re-allowed market exchange, allowing peasants to sell their produce. Controls on smaller businesses and trade were relaxed and private trading and market transactions were allowed once again. However, the Policy retained control of the commanding heights—banking, foreign trade and large firms were still within the state planning machinery.

The task of replacing private property and market transactions with a fully planned economy was so difficult that Lenin retreated, and allowed the country to split into dual economies. The farming sector was allowed to largely operate in a decentralized way with quasi markets. The industrial sector and the major cities were brought under complete socialization of property and planning.

While Lenin retreated, Joseph Stalin was not as easily deterred from his goal. In 1928, he started eradicating any remnants of capitalism from the Soviet Union. This could only be accomplished with Stalin's ruthless will and utter disregard for human life. Stephen Kotkin in *Stalin, Waiting For Hitler, 1929-1941* details the mass murder, mass deportation, and the famine that followed Stalin's famous decision to unify the economy. The famine resulting from forced collectivization killed between five million and seven million people. Another five million kulaks (rich peasants) were arrested, deported or murdered.

While Stalin was a political opportunist, it is important to remember that everything he did was consistent with his intention of bringing the Soviet Union into a singular economy and eradicating capitalism. The level of control and coercion required to execute the Marxist dream of abolishing private property and the market system is part of the Communist ideology. This is not the error of a few tyrants, but integral to this flawed economic idea and dangerous political ideology.

F.A. Hayek, who joined Mises in demonstrating the impossibility of socialist calculation, also foretold this terrible consequence of socialism. He warned that there would be no social and political freedom within a system where the economy was completely controlled. After the revolution, power rarely transfers to the people, and is instead concentrated in the state—because such vast power and discretion is required for economic planning.

This was not just a Soviet malady. A similar pattern has emerged in every Communist regime, big and small. In 1958, Mao Tse-Tung attempted to collectivize property in the Chinese countryside on a much larger scale, triggering a famine that killed around 30 million people. This was repeated in Cambodia in the 1970s, and yet again in North Korea today.

Collectivizing property and replacing a decentralized system of exchange with central economic planning requires more than a revolution. It requires coercion of the most extreme kind, to bend the will of an entire nation to fit the plan. It is this level of violence, economic and social coercion that has become the lasting legacy of communism. Communism was represented by the colour red for those who died in the revolution. After a hundred years, it is still coloured red for those it killed to keep communism alive.

Shruti Rajagopalan is an assistant professor of economics at Purchase College, State University of New York, and a fellow at the Classical Liberal Institute, New York University School of Law.

Comments are welcome at views@livemint.com

END