Global Economic History 2025-26

Seminar 8: The Socialist (Soviet-type) Economy



Required readings:

- Allen, R. (2001), The Rise and Decline of the Soviet Economy, Canadian Journal of Economics, 34(4): 859-881
- Kornai, J., E. Maskin, and G. Roland (2003), Understanding the Soft Budget Constraint, Journal of Economic Literature, 41(4): 1095-1136 [*read* ***sections 1 and 2 only*** *- until p. 1106 included*]

1. The Soviet economy: success, failure, or both?

The task below is designed for you to prepare for ***a group debate session*** during the seminar. You will be assigned to one of two positions on the day (regardless of your personal views) so you must prepare arguments for both sides in advance.

The key debate question will be: "**Can we call the Soviet economy an economic miracle at any stage, and was its eventual failure predetermined?**" In other words, we will discuss whether the Soviet economy was a success before 1970 but a systemic failure thereafter.

Read carefully the paper by Robert Allen and critically evaluate his key points. Based on your reading, develop *a list of supporting arguments* (no less than 3-4) **for each** of the two debate positions:

Position 1 (The planned economy advocates). The Soviet economy had a lot of relatively successful features, and its collapse was not inevitable but the result of wrong policy choices.

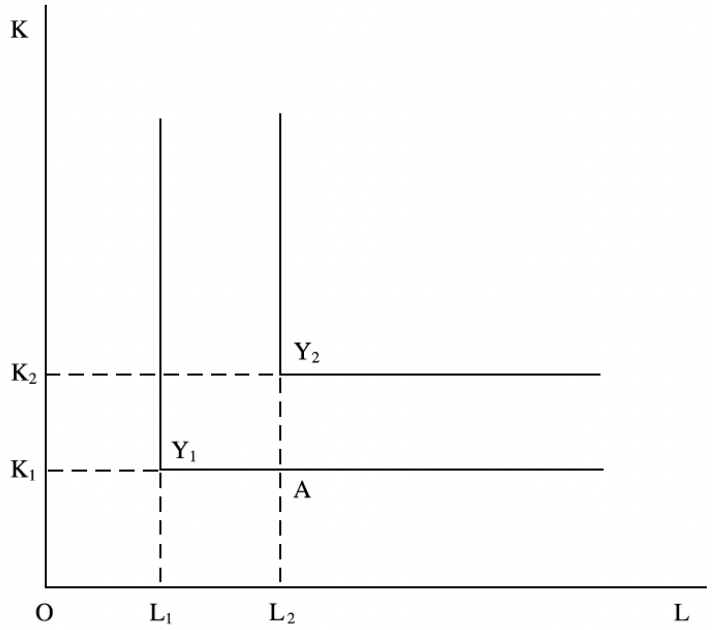
Position 2 (The planned economy critics). The Soviet economy was fundamentally flawed, and its failure was not the result of avoidable mistakes, but an expression of deep structural deficiencies that made long-run success impossible.

Please be prepared to argue from the evidence, not from instinct. You will be sharing your arguments with your groupmates and should anticipate the strong objection from the other side, so make sure you are ready for rebuttal.

2. True-false statements: the Weitzman growth model.

Define if each of the following statements is ***true of false*** and prove your conclusion. To support your answer, you can use any arguments based on the readings you've done.

Consider the diagram of the Weitzman model (fig. 2 in the Allen's article):



- The L-shape of the isoquants indicates that capital and labour are perfect substitutes, meaning Soviet planners could easily replace missing workers with new machinery.
- Point A in the diagram represents a situation where the Soviet economy in 1928 had too much capital relative to labour, meaning capital was the surplus input and labour was the binding constraint on output.
- Once the Soviet economy reaches the corner of Y_2 at (L_2, K_2), further capital accumulation continues to generate proportional increases in output.
- Robert Allen suggests that the Soviet economy did not just move along an isoquant in 1970s but actually performed off the curve because of huge malinvestment in places like Siberia.
- Allen argues that Japan's sustained growth despite a rising capital-labour ratio demonstrates that a low elasticity of substitution is not an inevitable feature of industrialising economies at a similar stage of development.

3. Soft budget constraints in the socialist economy (based on Kornai et al. 2003, sections 1 and 2)

3.1. Define the soft budget constraint syndrome. Who are the BC-organisations and S-organisations in this relationship, and why is the expectation of a bailout central to the concept?

3.2. Explain the ex ante / ex post distinction in the context of soft budget constraints.

3.3. Discuss how the soft budget constraint syndrome can be measured and what its primary consequences are for the functioning of the socialist economy.